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The document is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration under the US Securities Act of 1933, as amended (the "Securities Act") and the rules and regulations thereunder. The securities have not been and will not be registered under the Securities Act. AFI Development PLC does not intend to register the securities in the United States or to make a public offering of its securities in the United States.

The document may not be forwarded or distributed other than as provided below and may not be reproduced in any manner whatsoever. The document may not be taken or transmitted into the United States or any of its territories or possessions or to US persons or distributed, directly or indirectly, in or into the United States except in accordance with Rule 144A of the Securities Act ("Rule 144A") to persons reasonably believed to be qualified institutional buyers ("QIBs") as defined in Rule 144A under the Securities Act. Any forwarding, distribution or reproduction of the document in whole or in part is unauthorised. Failure to comply with this notice may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

**Confirmation of your representation:** In order to be eligible to view the document or make an investment decision with respect to the securities, you must be (1) a person that is outside the United States or (2) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing the document, you shall be deemed to have represented to us that you are outside the United States or that you are a QIB and that you consent to delivery of such document by electronic transmission. You are reminded that the document has been delivered to you on the basis that you are a person into whose possession the document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters, as named in the document, or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of AFI Development PLC in such jurisdiction. Under no circumstances shall the document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the document who intend to purchase the securities are reminded that any purchase may only be made on the basis of the information contained in the prospectus.

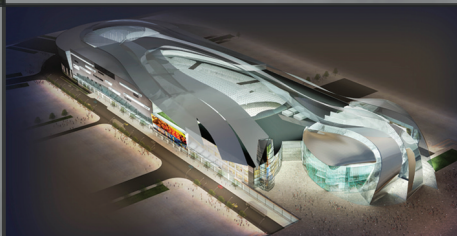
The document and the offering are only addressed to and directed at residents in the Canadian Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec and Prince Edward Island (the "Private Placement Provinces") that are acting as a principal for their own account or are deemed to be acting as a principal for their own account in accordance with the applicable provincial securities laws of the Private Placement Provinces and are "accredited investors" as such term is defined in National Instrument 45-106 - Prospectus and Registration Exemptions. In all other Provinces or Territories of Canada, the document appears as a matter of record only and such document does not constitute an offering of the securities described herein, or an offering memorandum related to such securities under the securities legislation of any jurisdiction in Canada other than in the Private Placement Provinces if and when an offering of

such securities is made. The attached document is not and is not to be construed as a prospectus, advertisement or public offering of the securities described therein in Canada.

The document is not a public offer or advertisement of securities in the Russian Federation, and is not an offer to sell, or an invitation to make offers to purchase, any securities in the Russian Federation. Neither the securities mentioned in the document nor any prospectus or other document relating to them have been, or are intended to be registered with the Federal Service for the Financial Markets of the Russian Federation.

In the State of Israel the document shall be distributed only to, and may only be directed at, Israeli investors listed in the First Supplement to the Israeli Securities Law 5728 1968, primarily institutional-type investors ("Institutional Investors"). As a prerequisite to the receipt of a copy of the document, each of the recipients shall be required to submit written confirmation to us and the underwriters that: (a) if it is an Institutional Investor, it qualifies as an investor listed in the First Supplement; (b) if it acquires the GDRs, it is acquiring the GDRs for its own account or, if applicable, for investment for clients who are institutional investors and in any event not as a nominee, market maker or agent and not with a view to, or for the resale in connection with, any distribution thereof; and (c) it has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of this investment in us. Except as referred to above, the document may not be viewed by investors in the State of Israel. The offer of GDRs does not constitute an offer made to the public in the State of Israel within the meaning of Section 15 of the Israeli securities law and the document was not reviewed or approved by the Israel Securities Authority.

The document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the underwriters, as named in the document, nor any person who controls a underwriters nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from Deutsche Bank AG, London Branch, Goldman Sachs International, Morgan Stanley & Co. International plc and Citigroup Global Markets Limited.



 AFI Development

Initial Public Offering  
May 2007

# Moscow and the Moscow Region



# Russian Federation





## Offering of 100,000,000 Global Depositary Receipts

We are AFI Development PLC, or AFI Development, a leading property development company incorporated in Cyprus and engaged in real estate development and management in Russia. We are offering up to 100,000,000 global depositary receipts, or GDRs, each representing one ordinary share. The GDRs are being offered in (i) the United States only to qualified institutional buyers, or QIBs, as defined in, and in reliance on Rule 144A, or Rule 144A, under the US Securities Act of 1933, as amended, or the Securities Act, or another exemption from, or in a transaction not subject to, registration under the Securities Act and (ii) outside the United States in offshore transactions in reliance on Regulation S, or Regulation S, under the Securities Act.

We have granted to the underwriters an option exercisable within 30 days after the announcement of the offer price, to purchase, in whole or in part, up to an additional 10,000,000 ordinary shares in the form of GDRs at the offer price, solely to cover over-allotments in this offering.

This document, upon approval by the UK Financial Services Authority, or the FSA, comprises a prospectus relating to us prepared in accordance with the Prospectus Rules of the FSA made under Section 73A of the Financial Services and Markets Act 2000, or FSMA. Application has been made (1) to the FSA, in its capacity as competent authority under FSMA for a listing of up to 533,847,027 GDRs, consisting of up to 110,000,000 GDRs to be issued on or about 11 May 2007, or the closing date, and up to 423,847,027 additional GDRs to be issued from time to time against the deposit of shares (to the extent permitted by law) with The Bank of New York, as depositary, or the Depositary, to be admitted to the official list of the FSA, or the Official List, and (2) to the London Stock Exchange plc, or the London Stock Exchange, for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities and in particular the regulated market segment of the International Order Book, or the IOB. The IOB is a regulated market for purposes of the Markets in Financial Instruments Directive (2004/39/EC). Conditional trading in the GDRs on the London Stock Exchange is expected to commence on a "when and if" issued basis on or about 3 May 2007. Admission to the Official List and to trading on the regulated market is expected to take place on or about 11 May 2007. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if admission does not take place and will be at the sole risk of the parties concerned.**

**Investing in the GDRs involves certain risks. See "Risk Factors" beginning on page 6 to read about factors you should carefully consider before buying the GDRs. The GDRs are specialised investments and should only be bought and traded by investors who are particularly knowledgeable in investment matters.**

This offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, or another exemption from, or in a transaction not subject to, registration under the Securities Act or outside the United States to certain persons in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on sales and transfers of the GDRs, see "Terms and Conditions of the Global Depositary Receipts" and "Selling and Transfer Restrictions".

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### OFFER PRICE: US\$14.00 PER GDR

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The GDRs are offered by the underwriters when, as and if delivered to and accepted by the underwriters and subject to their right to reject orders in whole or in part. The GDRs will be evidenced by a Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for The Depositary Trust Company, or DTC, and a Master Regulation S GDR Certificate registered in the name of a nominee for The Bank of New York, London office, as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, société anonyme, or Clearstream. It is expected that delivery of the GDRs will be made against payment therefore in US Dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about 11 May 2007. See "Settlement and Delivery".

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*Joint Global Coordinators*

**Deutsche Bank**

**Morgan Stanley**

*Joint Bookrunners*

**Deutsche Bank**

**Goldman Sachs International**

**Morgan Stanley**

*Co-Lead Manager*

**Citi**

Prospectus dated 3 May 2007



## IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

Each prospective investor, by accepting delivery of this prospectus, will be deemed to have agreed to the following. This prospectus is being furnished by us solely for the purpose of enabling a prospective investor to consider the purchase of the GDRs. Any reproduction or distribution of this prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the underwriters makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any information in this prospectus. This prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by either us or the underwriters that any recipient of this prospectus should subscribe for or purchase the GDRs. Each potential subscriber or purchaser of GDRs should determine for itself the relevance of the information contained in this prospectus and its subscription or purchase of GDRs should be based upon such investigation as it deems necessary.

This prospectus, including the financial information included herein, is in compliance with the Prospectus Rules made by the FSA which are compliant with the provisions of Directive 2003/71/EC, or the Prospectus Directive, for the purpose of giving information with regard to us and our GDRs.

We and our directors accept responsibility for the information contained in this prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of our and our directors' knowledge, in accordance with the facts and contains no omissions likely to affect its import.

In making an investment decision regarding the GDRs, you must rely on your own examination of us and the terms of this offering, including the merits and risks involved. You should rely only on the information contained in this prospectus. Neither we nor the underwriters have authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus is accurate as of its date. Our business, financial condition, results of operations, prospects and the information set forth in this prospectus may have changed since the date of this prospectus.

We have included our own estimates, assessments, adjustments and judgements in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. While we believe that our own estimates, assessments, adjustments and judgements are reasonable and that the market information prepared by us accurately reflects the industry and the markets in which we operate, there is no assurance that our own estimates, assessments, adjustments and judgements are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

You should not consider any information in this prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisers for legal, tax, business, financial and related advice regarding purchasing the GDRs. We are not, and the underwriters are not, making any representation to any offeree or purchaser of the GDRs regarding the legality of an investment in the GDRs by such offeree or purchaser under appropriate investment or similar laws.

Deutsche Bank AG, Morgan Stanley & Co. International plc, Goldman Sachs International and Citigroup Global Markets Limited are acting exclusively for us and no one else in connection with this offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to this offering.

We may withdraw this offering at any time, and we and the underwriters reserve the right to reject any offer to purchase GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the GDRs sought by such investor. The underwriters and certain related entities may acquire a portion of the GDRs for their own accounts.

In connection with this offering, the underwriters and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any of our other securities or other related investments in connection with this offering or otherwise. Accordingly,

references in this prospectus to the GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the underwriters or any of them and any of their affiliates acting as an investor for its or their own account(s). The underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The distribution of this prospectus and the offer and sale of the GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See “Terms and Conditions of the Global Depositary Receipts”, “Subscription” and “Selling and Transfer Restrictions” elsewhere in this prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the GDRs or possess or distribute this prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the underwriters are making an offer to sell the GDRs or a solicitation of an offer to buy any of the GDRs to any person in any jurisdiction where such an offer or solicitation is unlawful.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE US**

Each purchaser of the GDRs in the United States will be deemed to have made the representations described in “Selling and Transfer Restrictions” and is hereby notified that the offer and sale of the GDRs to it is being made in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, until 40 days after the commencement of this offering, an offer or sale of any of the GDRs within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act.

THE GDRS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE US SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OF THE GDRS OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UK AND EEA**

This prospectus and this offering are only addressed to and directed at persons in member states of the European Economic Area, or the EEA, who are “Qualified Investors” within the meaning of Article 2(1)(e) of the Prospectus Directive. In addition, in the United Kingdom, this prospectus is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or the Order, or high net worth entities falling within Article 49(2)(a)-(d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “Relevant Persons”). The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, Relevant Persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not Relevant Persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This prospectus has been prepared on the basis that all offers of GDRs other than the offers contemplated in this prospectus in the United Kingdom, once it has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive, will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the EEA, from the requirement to produce a prospectus for an offer of GDRs. Accordingly any person making or intending to make any offer of GDRs within the EEA should only do so in circumstances in which no obligation arises for us or any of the underwriters to produce a prospectus for such offer. Neither we nor the underwriters have authorised nor do they authorise the making of any offer of GDRs through any financial intermediary, other than offers made by the underwriters which constitute the final placement of GDRs contemplated in this prospectus.

Each person in a Member State of the EEA which has implemented the Prospectus Directive (each, a Relevant Member State) who receives any communication in respect of, or who acquires any GDRs to

whom any offer is made under this offering will be deemed to have represented, acknowledged and agreed that it is a “Qualified Investor” within the meaning of Article 2(1)(e) of the Prospectus Directive; and in the case of any GDRs acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the GDRs acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than Qualified Investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Global Coordinators has been given to the offer or resale; or where GDRs have been acquired by it on behalf of persons in any Relevant Member State other than Qualified Investors, the offer of those GDRs to it is not treated under the Prospectus Directive as having been made to such persons. We, the underwriters and their affiliates, and others will rely (and we acknowledge that the underwriters and their affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a Qualified Investor and who has notified the Joint Global Coordinators of such fact in writing may, with the consent of the Joint Global Coordinators, be permitted to subscribe for or purchase GDRs.

The underwriters may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this provision, the expression an “offer of GDRs to the public” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the GDRs to be offered so as to enable an investor to decide to purchase or subscribe the GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

#### **PROVISION OF INFORMATION**

We have agreed that, for so long as any GDRs are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or 15(d) under the US Securities Exchange Act of 1934, or the Exchange Act, nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such GDRs or to any prospective purchaser of such GDRs designated by such holder or beneficial owner, on the request of such holder, beneficial owner or prospective purchaser, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

Recipients of this prospectus in the United States are hereby notified that this document has been furnished to them on a confidential basis and is not to be reproduced, retransmitted or otherwise redistributed, in whole or in part, under any circumstances. Furthermore, recipients are authorised to use it solely for the purpose of considering a purchase of the GDRs in this offering and may not disclose any of the contents of this prospectus or use any information herein for any other purpose. The information contained in this document has been provided by us and other sources identified herein. This prospectus is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the GDRs. Such recipients of this prospectus agree to the foregoing by

accepting delivery of this prospectus. This agreement shall be relied upon by us, the underwriters and their respective affiliates and agents, as well as persons acting on their behalf.

#### **NOTICE TO PROSPECTIVE INVESTORS IN ISRAEL**

In the State of Israel this prospectus shall be distributed only to, and may only be directed at, Israeli investors listed in the First Supplement to the Israeli Securities Law 5728-1968, primarily institutional-type investors (each an “Institutional Investor” and collectively “Institutional Investors”). In addition, certain numbered copies of this prospectus may be distributed and directed at no more than 35 investors who are not institutional investors and who are specifically identified and approved by the underwriters and are listed in their records as such. As a prerequisite to the receipt of a copy of this document, each of the recipients shall be required to submit written confirmation to us and the underwriters that: (a) if it is an institutional investor, it qualifies as an investor listed in the First Supplement; (b) it is acquiring the GDRs being offered to it under the offer for investment for its own account or, if applicable, for investment for clients who are institutional investors and in any event not as a nominee, market maker or agent and not with a view to, or for the resale in connection with, any distribution thereof; and (c) it has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of this investment in us. Except as referred to above, we shall not distribute or direct this document to investors in the State of Israel. The offer of GDRs does not constitute an offer made to the public in the State of Israel within the meaning of Section 15 of the Israeli securities law and this prospectus was not reviewed or approved by the Israel Securities Authority.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE RUSSIAN FEDERATION**

Neither the GDRs nor this document have been, or are intended to be, registered with the Russian Federal Service for the Financial Markets or any other state bodies that may from time to time be responsible for such registration. This document does not constitute a public offer or advertisement for the GDRs in the Russian Federation, and is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer the GDRs to an unlimited group of persons in the Russian Federation.

#### **STABILISATION**

IN CONNECTION WITH THIS OFFERING, MORGAN STANLEY & CO. INTERNATIONAL PLC (OR ANY AGENT OR OTHER PERSON ACTING FOR MORGAN STANLEY & CO. INTERNATIONAL PLC), AS STABILISING MANAGER, MAY OVER-ALLOT OR EFFECT TRANSACTIONS INTENDED TO ENABLE IT TO SATISFY ANY OVER-ALLOCATIONS OR WHICH STABILISE, MAINTAIN, SUPPORT OR OTHERWISE AFFECT THE MARKET PRICE OF THE GDRS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY COMMENCE ON OR AFTER THE ANNOUNCEMENT OF THE OFFER PRICE AND MAY BE DISCONTINUED AT ANY TIME, BUT IN ANY EVENT WILL END NO LATER THAN 30 DAYS THEREAFTER. SUCH TRANSACTIONS MAY BE EFFECTED ON THE LONDON STOCK EXCHANGE AND ANY OTHER SECURITIES MARKET, OVER THE COUNTER MARKET, STOCK EXCHANGE OR OTHERWISE. THERE IS NO ASSURANCE THAT SUCH TRANSACTIONS WILL BE UNDERTAKEN AND, EXCEPT AS REQUIRED BY LAW, MORGAN STANLEY & CO. INTERNATIONAL PLC DOES NOT INTEND TO DISCLOSE THE EXTENT OF ALLOTMENTS AND/OR STABILISATION TRANSACTIONS UNDER THIS OFFERING.

#### **CERTAIN ERISA CONSIDERATIONS**

The US Employee Retirement Income Security Act of 1974, as amended, or ERISA, and Section 4975 of the United States Internal Revenue Code, or the Code, impose certain restrictions on (a) employee benefit plans (as defined in Section 3(3) of ERISA) that are subject to Title I of ERISA, (b) plans (as defined in Section 4975(e)(1) of the Code) that are subject to Section 4975 of the Code, including individual retirement accounts or Keogh plans, (c) any entities whose underlying assets include plan assets by reason of a plan’s investment in such entities (each of (a), (b) and (c), a “Plan”) and (d) persons who have certain specified relationships to Plans (“Parties in Interest” under ERISA and “Disqualified Persons” under the Code).

Under a regulation issued by the US Department of Labor, as modified by section 3(42) of ERISA, or the Plan Assets Regulation, if a Plan invests in an “equity interest” of an entity that is neither a “publicly

offered security” nor a security issued by an investment company registered under the US Investment Company Act of 1940, the Plan’s assets are deemed to include both the equity interest itself and an undivided interest in each of the entity’s underlying assets, unless it is established that the entity is an “operating company” or that equity participation by “benefit plan investors” is not “significant”.

The GDRs are “equity interests” for purposes of the Plan Assets Regulation; we will not be registered under the US Investment Company Act of 1940; the GDRs will not be registered under US securities laws and we do not intend to monitor whether equity participation by “benefit plan investors” is “significant”.

For purposes of ERISA, an “operating company” includes an entity which is a “real estate operating company.” An entity is a “real estate operating company” if: (i) on its “initial valuation date” and on at least one day within each “annual valuation period” at least 50 per cent. of the entity’s assets, valued at cost, are invested in real estate which is managed or developed and with respect to which such entity has the right to substantially participate directly in the management or development activities; and (ii) each year, such entity in the ordinary course of its business actually engages in real estate management or development activities. The “initial valuation date” is the date on which an entity first makes an investment that is not a short-term investment of funds pending long-term commitment. The “annual valuation period” is a pre-established period not exceeding ninety days, which begins no later than the first anniversary of the initial valuation date.

We have the right to, and in the ordinary course of our business will annually, substantially participate directly in development and management activities with respect to our real estate properties. Accordingly, we believe that we are a “real estate operating company” and therefore are not subject to the fiduciary requirements of ERISA with respect to our assets. We intend to take steps as may be reasonably appropriate to continue to enable us to qualify as a “real estate operating company”.

## **PRESENTATION OF FINANCIAL INFORMATION AND OTHER INFORMATION**

Unless otherwise indicated, financial information in this prospectus has been prepared in accordance with International Financial Reporting Standards, or IFRS. IFRS differs in certain significant respects from United States Generally Accepted Accounting Principles, or US GAAP, and United Kingdom Generally Accepted Accounting Principles, or UK GAAP, as they relate to us.

We have prepared our consolidated financial statements included in this prospectus, or our consolidated financial statements, in US Dollars. Unless otherwise indicated, all references in this prospectus to: “US\$” or “US Dollars” are to the lawful currency of the United States of America, “RUB” or “Roubles” are to the lawful currency of the Russian Federation, “£” or “GBP” are to the lawful currency of the United Kingdom, “CYP” are to the lawful currency of Cyprus, “NIS” are to the lawful currency of the State of Israel and “€” or “Euros” are to the lawful currency of a member state of the European Union participating in the European Monetary Union.

All data provided by Jones Lang LaSalle LLC, or JLL, relating to the valuation of our portfolio were derived from the valuation report prepared by JLL attached as Annex A to this prospectus. JLL’s valuations of the projects in our portfolio were made on the basis of “Market Value” in accordance with both the current Practice Standards and the United Kingdom Practice Statements contained within the RICS Appraisal and Valuation Standards, 5<sup>th</sup> Edition, which is an internationally accepted basis of valuation. However, in determining these valuations, JLL made a number of assumptions and used forecasts of certain data, which may ultimately prove to be inaccurate. For further information about these assumptions and forecasts, see “Risk Factors—Risks Relating to Our Business—The valuation of our properties is inherently uncertain and may be inaccurate” and “Annex A—Valuation Report of Jones Lang LaSalle”.

Some numerical figures included in this prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

References in this prospectus to the “our fully diluted share capital” includes the potential dilution of the issue of GDRs reserved for issuance under the AFI Development Share Option Plan.

## EXCHANGE RATES

The following table sets forth, for the periods indicated, the high, low, average and year end official rates set by the Central Bank of Russia, or CBR, in each case for the purchase of Roubles, all expressed per US Dollar. This information is based on the CBR's exchange rates, which use a composite pricing source. Fluctuations in the exchange rate between the Rouble and the US Dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates should not be construed as representations that Rouble amounts actually represent such US Dollar amounts or could be converted into US Dollars at the rate indicated as of any of the dates mentioned in this document or at all. These rates may also differ from the actual rates used in the preparation of our consolidated financial statements included in this prospectus and other financial data appearing in this prospectus.

The official rate of the CBR at 3 May 2007 was RUB 25.76 to US\$1.00.

<u>Year ended 31 December</u>	<u>High</u>	<u>Low</u>	<u>Average<sup>(1)</sup></u>	<u>Year End</u>
			(RUB per US\$)	
2000 .....	28.87	26.90	28.13	28.16
2001 .....	30.30	28.16	29.22	30.14
2002 .....	31.86	30.13	31.39	31.78
2003 .....	31.88	29.25	30.61	29.45
2004 .....	29.45	27.75	28.73	27.75
2005 .....	29.00	27.46	28.32	28.78
2006 .....	28.48	26.18	27.09	26.33

(1) The average of the exchange rates on the last business day of each month for the relevant annual period.

<u>Month ended</u>	<u>High</u>	<u>Low</u>
	(RUB per US\$)	
31 January 2007 .....	26.58	26.45
28 February 2007 .....	26.55	26.16
31 March 2007 .....	26.24	25.97
30 April 2007 .....	26.01	25.69

The Rouble is generally not convertible outside of Russia. A market exists within Russia for the conversion of Roubles into other currencies, but the limited availability of other currencies may inflate their value relative to the Rouble. See "Risk Factors—Risks Relating to Our Business—We may be subject to foreign exchange risk, which may increase our US Dollar costs and affect our US Dollar measured results".

## **FORWARD-LOOKING STATEMENTS**

This prospectus includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places throughout this prospectus and include statements regarding our intentions, beliefs or current expectations concerning, amongst other things, our investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects, and dividend policy and the markets in which we, directly and indirectly, will invest. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. Our actual investment performance, results of operations, financial condition, liquidity, dividend policy and the development of our financing strategies may differ materially from the impression created by the forward-looking statements contained in this prospectus. In addition, even if our investment performance, results of operations, financial condition, liquidity and dividend policy and the development of our financing strategies are consistent with the forward-looking statements contained in this prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Prospective investors are advised to read this document in its entirety, and, in particular, the Section headed “Risk Factors” for a further discussion of the factors that could affect our future performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this prospectus may not occur.

These forward-looking statements speak only as at the date of this document. Subject to our legal and regulatory obligations we expressly disclaim any obligation to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

## **INDUSTRY AND MARKET DATA**

The official data published by Russian federal, regional and local government agencies is substantially less complete or researched than those of other countries. Official statistics may also be produced on bases different than those used in other countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. Additionally, we rely on and refer to information and statistics from various third party sources (as set out in “Industry Overview”) and our own internal estimates. We believe that these sources are reliable, but have not independently verified them. To the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they will be subject to the same uncertainty. We confirm that this third party information has been accurately reproduced and that as far as we are aware and able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## **COPIES OF THIS DOCUMENT**

Copies of this document are available for collection, free of charge, from the closing date and for one month thereafter during normal business hours from the White & Case LLP, 5 Old Broad Street, London EC2N 1DW, United Kingdom.

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We were incorporated as a limited liability company limited by shares and registered in Cyprus on 13 February 2001 under the name Donkamill Holdings Limited, by the filing of our original Memorandum and Articles of Association with the Cyprus Registrar of Companies. We are domiciled in Cyprus. The principal legislation under which we operate (and under which our ordinary shares are created) is the Companies Law, Cap. 113 of Cyprus. We recently resolved to become a public company and to change our name to AFI Development PLC. Our registered number is HE 118198 and our registered office and principal place of business is 25 Olympion St., Omiros & Araouzos Tower, 3035 Limassol, Cyprus. The telephone number of our registered office is +357 25 839 777. Information posted on the website of our controlling shareholder, Africa Israel Investments Ltd. ([www.africa-israel.com](http://www.africa-israel.com)), does not constitute a part of this prospectus.

Unless the context otherwise requires, references to AFI Development refer to AFI Development PLC and none of its subsidiaries while references in this prospectus to “we,” “our,” “us” and the “group” refer collectively to AFI Development and its direct and indirect subsidiaries, including their branches and representative offices. References in this prospectus to “Moscow” are to the City of Moscow, which is one of the 86 regions of Russia. References to the “Moscow Region” are to the Russian region immediately surrounding Moscow which is one of the 86 regions of Russia. Unless the context otherwise requires, references to “properties” refer to real properties as well as to development projects where we may not currently have rights to the related real property. Unless the context otherwise requires, references to “shares” refer to our ordinary shares.

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## SUMMARY

*This summary should be read as an introduction to the full text of this prospectus. Any decision to invest in the GDRs should be based on the consideration of this prospectus as a whole by the investor and not just this summary. Where a claim relating to the information contained in this prospectus is brought before a court, the plaintiff investor might, under the national legislation of the EEA, be required to bear the costs of translating this prospectus before the legal proceedings are initiated. Under the Prospectus Directive (Directive 2003/71/EEC) in each member state of the EEA, civil liability attaches to those persons who are responsible for the summary, including any translations of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus.*

### Our Business

We are one of the leading real estate development companies operating in Russia. Our controlling shareholder is Africa Israel Investments Ltd., or Africa Israel, an international real estate investment and development group based in Israel with over 70 years' experience in real estate development. Incorporated in Cyprus in 2001, we are currently one of the few developers in Russia that build large scale, integrated and high profile commercial and residential properties to international standards. We offer an attractive portfolio of existing Russian development projects, a substantial pipeline of other real estate investment opportunities across Russia and a strong management team, comprising local professionals and international real estate experts.

We focus on developing and redeveloping high quality commercial and residential real estate assets in Moscow, the Moscow Region and other major Russian cities such as St. Petersburg, Perm and Volgograd. Our strategy is to sell the residential properties we develop and to either lease the commercial properties we develop or sell them if we are able to achieve a favourable return.

### Our Portfolio

We have an existing portfolio of 21 development projects in 12 locations in Russia expected to comprise over 3.2 million square metres of gross lettable area and gross sellable area, including commercial, residential and mixed-use projects in Moscow, the Moscow Region and other major Russian cities. Our existing commercial projects focus on offices, shopping centres, hotels and mixed-use properties. Our existing residential projects focus on upscale apartment buildings in prime locations in Moscow and on the development of residential districts in the Moscow Region aimed at the upper middle class segment of the market.

Our beneficial interests in the projects in our current portfolio in their existing state of development were valued by Jones Lang LaSalle LLC, or JLL, an independent international real estate appraiser and one of the leading valuers in Russia, at approximately US\$3.69 billion, as at 31 March 2007, subject to the assumptions set out in the valuation report attached as Annex A to this prospectus.

In addition to our portfolio of existing projects, as at 31 March 2007 we had a pipeline of 12 projects located in Moscow, the Moscow Region and in other cities in Russia. Our pipeline projects are in varying stages of negotiation.

Going forward, we intend to invest in other Russian real estate development projects which match our objectives. We will select projects based on our assessment of economic conditions, location and potential for value creation, while seeking to maintain our diversification objective with regard to property type. It is also our intention that our portfolio retains a spread of properties at various stages of development.

### Our Competitive Strengths

We believe that we benefit from the following competitive strengths:

- A unique portfolio of large-scale, integrated projects, which we expect to generate significant net asset value growth and future cash flow;
- A proven track record and market recognition;
- A large and experienced local team with a broad network of relationships;
- The benefit of the real estate experience and expertise of our controlling shareholder; and
- Strong business and financial processes, controls and reporting standards.

## **Our Business Strategy**

We aim to maximise value for our shareholders by pursuing the following strategies:

- Build on our current market position and differentiate ourselves from many of our competitors by maintaining our strategy of proactively developing integrated large-scale and complex projects in attractive locations;
- Focus on the successful execution of our current development projects while seeking attractive investment opportunities for future development;
- Target selective geographical expansion across major cities in Russia;
- Form alliances with strong partners;
- Generate shareholder value through a flexible approach to managing our portfolio;
- Maintain a diversified property portfolio to maximise investment opportunities and reduce risks;
- Optimise our capital structure through a conservative level of debt financing; and
- Expand our property management capabilities.

## **Risk Factors**

An investment in the GDRs involves a high degree of risk, including but not limited to risks associated with the following matters:

- The success of our development projects;
- The fact that our portfolio consists of a relatively small number of large projects;
- The valuation of our property and property related assets;
- Failure to obtain the required construction permits and commercial or residential zoning approvals or classifications;
- Failure to enter into the necessary investment contracts and land leases;
- The availability, cost and quality of general contractors, subcontractors and qualified employees;
- Failure to register our rights to our projects;
- Challenges to our actions and the actions of the predecessors-in-title to some of our properties based on non-compliance with applicable legal requirements;
- A downturn in general economic conditions in Russia and/or Moscow;
- A downturn in the real estate market in Russia and/or Moscow;
- Failure to realise our expected rate of return on our projects due to saturation in the Moscow real estate market;
- The loss of ownership interests in buildings or lease interests in property that we acquired in connection with the development of certain projects;
- The termination or cancellation of land leases and/or investment contracts relating to rights held by us;
- Our ability to sell and/or let our completed projects;
- Construction and development risks;
- Facing claims for defective construction and adverse publicity;
- Unwillingness of owners of properties located at our development sites to sell their properties at a reasonable price or at all and/or unwillingness of tenants to relocate away from a development;
- Shortages of qualified employees and other skilled professionals;
- The lack of sufficient local infrastructure and utilities;
- Refusal by the City of Moscow to sell us on commercially reasonable terms or at all their partial ownership interest in our projects under the investment contracts;
- The adequacy of our insurance including the relative infancy of the insurance industry in Russia;
- Environmental liabilities and compliance costs;

- Foreign exchange rates, interest rates and inflation;
- The limited geographical diversification of our projects;
- The loss of certain key management personnel;
- Our dependency on our controlling shareholder, Africa Israel;
- Our joint ventures;
- Fluctuating financial results and the lack of steady cash flow;
- Our geographical expansion and our relative lack of market knowledge outside of Moscow;
- Our ability to manage growth;
- Our ability to obtain additional land in areas adjacent to our projects;
- Competition, including our ability to compete with other real estate companies and developers for properties, development projects, contractors, tenants and purchasers;
- The use of debt financing, including the availability, structure and terms of our financing arrangements;
- Our subsidiaries having negative net assets or net assets lower than the amount of their respective charter capitals;
- Our relationships with governmental authorities;
- The infrastructure in Russia;
- Political, governmental and economic instability in Russia;
- Adverse events in other emerging markets;
- Weakness in the Russian banking system;
- Unlawful, selective or arbitrary government action;
- Weakness relating to the Russian legal system and the Russian law;
- Conflicts among federal, regional and local authorities;
- The unfavourable opinion of the Russian state authorities of listings outside of Russia of the securities of non-Russian companies with Russian assets;
- Foreign investment restrictions in Russia;
- Expropriation and re-nationalisation under Russian legislation;
- Liquidation orders by Russian Courts against our subsidiaries;
- Social and labour unrest in Russia;
- Business crime and corruption in Russia;
- US taxation;
- Russian taxation;
- Potential tax implications relating to our corporate structure;
- Rights associated with the GDRs; and
- The price of the GDRs.

### **Summary of this Offering**

We are offering 100,000,000 newly issued shares in the form of GDRs, with each GDR representing one share, at a price of US\$14.00 per GDR. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A, or another exemption from, or in a transaction not subject to, registration under the Securities Act and outside the United States in reliance on Regulation S under the Securities Act.

We have granted the underwriters in this offering an option to purchase 10,000,000 additional ordinary shares in the form of GDRs at the offer price, exercisable within 30 days after the announcement of the offer price, in whole or in part, solely to cover over-allotments in this offering.

Application has been made to (i) the FSA for a listing of 533,847,027 GDRs and (ii) the London Stock Exchange for the GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on a "when and if issued" basis on or about 3 May 2007 and on an unconditional basis on or about 11 May 2007. Admission to the Official List and to trading on the London Stock Exchange's regulated market for listed securities are expected to take place on or about 11 May 2007.

The GDRs will trade on the London Stock Exchange under the symbol "AFID".

### **Dividend Policy**

To date, we have never declared or paid any dividends on our ordinary shares. In accordance with our strategy, as we expect to invest the majority of our cash flow into our current development portfolio and building our project pipeline, we do not currently intend to declare any dividend payments on our ordinary shares.

In the future, we may consider making dividend payments on our ordinary shares, when and if commercially prudent, after taking into account our profits, cash flow and capital investment requirements.

### **Use of Proceeds**

The net proceeds received from this offering, after deducting underwriting commissions, fees and expenses incurred in connection with this offering, are approximately US\$1.34 billion assuming no exercise of the over-allotment option and assuming payment of the maximum additional fee of one per cent. of the gross proceeds of the offering to the underwriters. Such additional fee is payable at our discretion.

We intend to use the proceeds from this offering to fund our current development portfolio and to acquire new pipeline projects in Moscow, the Moscow Region and other major cities in Russia.

### **Corporate Governance and Management**

Following this offering, we intend to comply with certain of the provisions of the UK Combined Code on Corporate Governance, or Combined Code. We currently have seven directors, two of whom are independent directors, and we intend to appoint a third independent director to our Board of Directors. We consider this to be a satisfactory balance for the purposes of decision-making at the level of the Board of Directors. In line with the Combined Code, we have established three committees: an audit committee, a nomination committee and a remuneration committee. The members of these committees are appointed principally from among our independent directors.

### **Controlling Shareholders**

Prior to this offering, Africa Israel indirectly owned 88.0 per cent., and Nirro Group S.A., or Nirro Group, owned 12.0 per cent. of our outstanding share capital and Africa Israel will retain a controlling interest in us following this offering. Africa Israel and Nirro Group have entered into a shareholders' agreement that governs certain aspects of their holdings in our shares, including the grant of certain pre-emptive rights, tag-along rights and drag-along rights. We have also entered into a relationship agreement with Africa Israel under which Africa Israel undertook that it will, among other things, allow us to carry on our business independently and in our best interests as a whole and use its best endeavours to prevent it and its subsidiaries from prejudicing our ability to carry on our business independently. We have also entered into an activity demarcation agreement with Africa Israel, delineating the scope of Africa Israel's real estate activities in Russia.

Africa Israel was established in 1934 and is listed on the Tel Aviv Stock Exchange with a market capitalisation of approximately US\$5.5 billion as at 12 April 2007, based on the Bank of Israel's official NIS-US Dollar exchange rate as of the same date, making it one of Israel's largest public companies. Africa Israel is involved in a broad range of activities, including investment in Israeli and international real estate (both commercial and residential projects), energy, fashion, telecommunications and media, infrastructure and industry.

In 1997, Lev Leviev, who is the chairman of the board of directors of Africa Israel, acquired a controlling interest in that company and as at the date of this prospectus holds a 75.7 per cent. stake in Africa Israel. Mr. Leviev is well known and highly regarded in the international property development sector, particularly in Israel and Russia.

Nirro Group is controlled by Alexander Khaldey, who serves as a member of our Board of Directors and the chief executive officer of Stroyinkom-K, our Russian operating subsidiary which manages our development projects.

## SUMMARY FINANCIAL INFORMATION

The table below shows certain of our financial information as of and for the years ended 31 December 2004, 2005 and 2006. The financial information for the years ended 31 December 2004, 2005 and 2006 has been derived from our consolidated financial statements included in this prospectus. The following summary financial information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in this prospectus.

	Years ended 31 December		
	2004	2005	2006
	(US\$ in thousands)		
<b>Income Statement Data</b>			
<b>Revenue</b>			
Construction consulting/management fees . . . . .	643	838	2,505
Rental income . . . . .	808	577	1,358
	1,451	1,415	3,863
Other income . . . . .	—	340	39
Operating expenses . . . . .	(463)	(354)	(1,684)
Administrative expenses . . . . .	(1,148)	(1,067)	(3,913)
	(160)	334	(1,695)
Profit on disposal of investment in subsidiaries . . . . .	9,672	43,149	119,345
<b>Operating profit before net financial costs . . . . .</b>	<b>9,512</b>	<b>43,483</b>	<b>117,650</b>
Finance income . . . . .	435	303	3,288
Finance expenses . . . . .	(1,401)	(1,422)	(7,648)
Net finance costs . . . . .	(966)	(1,119)	(4,360)
<b>Profit before tax . . . . .</b>	<b>8,546</b>	<b>42,364</b>	<b>113,290</b>
Income tax expense . . . . .	42	(230)	(1,223)
<b>Profit from continuing operations . . . . .</b>	<b>8,588</b>	<b>42,134</b>	<b>112,067</b>
Loss from discontinued operations (net of income tax) . . . . .	—	—	(83)
<b>Profit for the year . . . . .</b>	<b>8,588</b>	<b>42,134</b>	<b>111,984</b>

	As at 31 December		
	2004	2005	2006
	(US\$ in thousands)		
<b>Balance Sheet Data</b>			
Investment property under development . . . . .	80,406	185,073	363,708
Trading properties under construction . . . . .	5,346	26,806	79,044
Total assets . . . . .	134,057	257,703	687,129
Long term loans and borrowings . . . . .	103,587	182,660	61,746
Short term loans and borrowings . . . . .	241	8,225	14,786
Total liabilities . . . . .	110,461	193,288	83,588
Total equity . . . . .	23,596	64,415	603,541

	Years ended 31 December		
	2004	2005	2006
	(US\$ in thousands)		
<b>Statement of Cash Flow Data</b>			
Net cash used in operating activities . . . . .	(5,785)	(25,363)	(3,256)
Net cash used in investing activities . . . . .	(42,547)	(38,364)	(268,586)
Net cash flow from financing activities . . . . .	48,453	71,945	282,390

## **RISK FACTORS**

*An investment in the GDRs involves a high degree of risk. Prospective investors should carefully consider the risks set forth below and the other information contained in this prospectus prior to making an investment decision with respect to the GDRs. The risks set forth below could have a material adverse effect on our business, financial condition, results of operations or the price of the GDRs.*

*In addition, the description of the risks set forth below does not purport to be exhaustive. Additional risks and uncertainties that are presently unknown to us, or that our management currently deems immaterial, could also have a material adverse effect on our business, financial condition, results of operations or the price of the GDRs.*

### **Risks Relating to Our Business**

***Our large-scale, integrated projects may not be successful due to their relative scale and complexity.***

Our strategy is to focus on large-scale, integrated, mixed-use projects rather than single buildings. The complexity and scale of our projects may increase the risks of failing to complete our projects on the timetable we currently assume compared to projects that are less complex, or at all. If we are unable to complete our projects as planned or at all, we may not realise our expected rates of return on our projects, which would have a material adverse effect on our business, financial condition and results of operations.

***Our portfolio consists of a small number of large-scale projects, the failure of any of which may negatively impact our financial results.***

We focus on large-scale projects and have a portfolio that comprises a small number of projects. Each of our large-scale projects individually represents a significant portion of our portfolio valuation and certain of these projects are at relatively preliminary stages of development. For example, our Moscow City Shopping Centre project accounts for 24.1 per cent. of our portfolio valuation by Jones Lang LaSalle, or JLL. Additionally, a limited number of our projects collectively account for a large portion of our portfolio valuation. As at 31 March 2007, our Moscow City Shopping Centre, Tverskaya Zastava, Ozerkovskaya and Kuntsevo developments together accounted for 78.9 per cent. of our portfolio valuation. The failure to complete any one of these projects would have a material adverse effect on our business, financial condition and results of operations.

***We may not be able to complete the projects in our portfolio, a significant number of which are in the pre-construction stage.***

Our portfolio currently comprises 21 projects, a significant number of which are in the pre-construction stage. For instance, we have not yet obtained leasehold or freehold rights to the land plots underlying 11 of our projects. Moreover, a significant majority of our properties are not yielding. Our ability to complete these projects will be subject to a number of factors; some of which may be outside of our direct control, including, but not limited to, our ability to obtain the requisite permits, source the requisite financing and engage quality contractors. If we should fail to obtain the requisite permits or financing, or fail to engage quality contractors, our ability to complete these projects on time, if at all, will be impaired, which could have a material adverse effect on our business, financial condition and results of operations.

***The valuation of our properties is inherently uncertain and may be inaccurate.***

JLL, an independent real estate appraiser, has prepared a valuation of the projects in our portfolio as of 31 March 2007, attached as Annex A to this prospectus, or the valuation report, on the basis of certain forecasts and assumptions regarding the Russian real estate market and the projects in our portfolio. There is no assurance that the valuation report accurately reflects the market value of these properties or that the value of the properties has not changed since the date of the valuation report.

Forecasts may prove inaccurate as a result of the limited amount and quality of publicly available data and research regarding the real estate markets in which we operate compared to mature markets. JLL has assessed construction costs in accordance with standard rates in the market that a third party developer/purchaser would expect to pay in the course of development of each project. These costs are based on current prices and future price forecasts and are therefore subject to changes in the market.

Examples of assumptions and considerations that could prove to be inaccurate, include, amongst others:

- JLL has valued each property based upon its opinion of market value in accordance with the appropriate sections of both the current Practice Statements and United Kingdom Practice Statements contained within the RICS Appraisal and Valuation Standards, 5th Edition;
- Although JLL has taken our development assumptions for each property into account in arriving at their opinions of market value, where considered appropriate, JLL has made its own assumptions in terms of floor areas which may differ substantially from the actual floor area of the completed project;
- JLL has assumed that all necessary planning and other consents in relation to our projects have been obtained or will be received within a reasonably acceptable timeframe;
- The valuation report does not consider any effect of multiple properties being developed concurrently or released to the market at the same time;
- The valuation report assumes that title to our projects is marketable and free from encumbrances, mortgages and charges;
- The valuation report assumes full completion of all of the projects in our portfolio; and
- The valuation report assumes completion of each project on a timetable that may not be realised.

If the forecasts and assumptions on which JLL's valuation of the projects in our portfolio is based prove inaccurate, the actual value of the projects in our portfolio may differ materially from JLL's valuation of the projects in our portfolio, which could have a material adverse effect on the price of our GDRs.

***We do not have any approvals from the Moscow Government to construct the Kuntsevo project.***

We do not have any formal approvals from the Moscow Government permitting us to construct the Kuntsevo project. As of the date of this prospectus, the relevant Moscow City authorities have not yet issued resolutions specifically granting us the right to develop the project. As such, we currently have no formal land lease rights in respect of this project and no formal pronouncement from the relevant authorities that we will be able to obtain such rights. There can be no assurance that the Moscow Government will issue such resolutions or conclude a land lease agreement with us.

As of 31 March 2007, our Kuntsevo project accounted for 17.6 per cent. of JLL's valuation of our portfolio and as such this project is material to the overall valuation of our portfolio. If the Moscow Government does not grant a resolution entitling us to carry out construction of this project or enter into an investment agreement or lease agreement with us, this would have a material adverse effect on the valuation of our assets as described in the valuation report and our business, financial condition and results of operations.

***Our Dinamo project is at a preliminary stage and we have not yet completed our due diligence review of the rights required to develop the project site as planned.***

Our Dinamo project is at the pre-renovation stage and renovation has not yet commenced. In February 2007, we entered into a framework agreement regarding OOO "Milinar", or Milinar, a Russian limited liability company which owns certain buildings and premises at the project site. We expect to enter into a share purchase agreement for the acquisition of Milinar; however, in relation to some of the buildings identified in the framework agreement, we have not yet been able to confirm Milinar's ownership rights. We have not yet completed our due diligence review in relation to all of the buildings purportedly owned by Milinar. In addition, our due diligence review has revealed that there may be certain defects in the ownership certificates which may affect Milinar's ownership rights in such buildings and therefore its ability to transfer title to those premises. If we are unable to confirm that Milinar has ownership rights in the relevant buildings or if those ownership rights have been impaired and not cured, we may not be able to develop the project as planned, or at all, which would affect the current valuation of the Dinamo project. Any reduction in the valuation of the Dinamo project would result in a reduction in the overall valuation of our portfolio, which could have a material adverse effect on the price of our GDRs.

***Our Berezhkovskaya project is at a preliminary stage and we have not yet acquired the rights required to develop the project site as planned.***

Our Berezhkovskaya project is at the pre-renovation stage and renovation has not yet commenced. In March 2007, we entered into a share purchase agreement to acquire a 50.0 per cent. participatory interest in OOO “Bizar” or Bizar, a Russian limited liability company which is expected to own certain buildings located at the project site. Senco Limited, or Senco, a Seychelles Islands company, is scheduled to transfer to Bizar its ownership interests in two additional buildings, after which, pursuant to a sale and purchase agreement which we have entered into with Senco, we intend to purchase an additional 24.0 per cent. participatory interest in Bizar. If Bizar does not secure ownership rights to the buildings scheduled to comprise the project, or the ownership rights which it obtains are impaired or unperfected, we may not be able to develop the project as planned, or at all, which would affect the current valuation of the Berezhkovskaya project. Any reduction in the valuation of the Berezhkovskaya project would result in a reduction in the overall valuation of our portfolio, which could have a material adverse effect on the price of our GDRs.

***Failure to obtain the required construction permits, commercial or residential zoning approvals or classifications, approvals for renovations or any other approvals in a timely manner or at all may delay or prevent the development of our projects.***

For each of our projects, we must obtain the required construction permits and commercial or residential zoning approvals, or apply for the required classifications in instances where the existing planning is not suitable or has not yet been determined. In respect of certain of our projects, local residents or others may oppose our planned developments or certain aspects of them. In respect of certain of our projects, the absence of approvals for renovations issued by the relevant authorities could result in administrative fines and court claims brought by the relevant authorities to reconstruct the relevant premises to restore them to their pre-renovation state. As a result, we may not be able to obtain the required permits and approvals in a timely manner. In addition, the procedures for re-zoning are complex and extensive and the approval process may in some instances be arbitrary as a result of the bureaucratic procedures in Russia which are occasionally cumbersome and inefficient. For example, the land plots at our Ruza development will need to be re-zoned from agricultural to residential use. If we cannot obtain these required permits and approvals in a timely manner or at all, our projects will be delayed or cancelled, which could have a material adverse effect on our business, financial condition and results of operations.

***Failure to enter into an investment contract and/or a land lease agreement with the City of Moscow or any other relevant authority in a timely manner, or at all, may delay or prevent the development of our projects.***

Our portfolio includes 10 projects in respect of which we have not entered into an investment contract and/or a land lease agreement or otherwise secured rights to the underlying land. Under Moscow law, the winner of a tender for, or an auction of, a land plot must conclude either an investment agreement for construction or a long term land lease agreement with the City of Moscow prior to the commencement of construction. Such agreements are entered into with the Moscow Government and set out, among other things, the terms upon which the developer will carry out construction and each party’s share of the development upon completion of the project. Similar requirements to enter into long term land lease agreements for properties outside of Moscow also exist. If we fail to enter into an investment contract or a land lease agreement with respect to any of our projects in a timely manner, or at all, our projects will be delayed or cancelled, which could have a material adverse effect on our business, financial condition and results of operations.

***We may be subject to increased costs or project delays or cancellations if we are unable to hire general contractors to build our projects on commercially reasonable terms, or at all, or if the general contractors we hire fail to build our projects to international standards.***

We outsource the construction of our projects to general contractors. The successful construction of our projects depends on our ability to hire general contractors to build our projects to international standards of quality and safety on commercially reasonable terms. We may not be able to hire general contractors on commercially reasonable terms or at all for a variety of reasons. For example, the competition for the services of high quality general contractors and subcontractors may make it difficult to enter into contracting arrangements on commercially acceptable terms, within the required timeframe, or at all.

In addition, our reliance on general contractors and subcontractors exposes us to the risks associated with the poor performance or work ethic of such contractors and their subcontractors and employees, construction defects and the financial stability of the contractors and their subcontractors. Our failure to hire general contractors on commercially reasonable terms would result in increased costs. Failure to hire general contractors at all could result in project delays or cancellations. Failure of general contractors to meet international standards of high quality and safety could result in increased costs and may result in project delays and cancellations and could affect the marketability of the completed property. If we are unable to enter into contracting arrangements with quality general contractors or subcontractors or their performance is substandard, our projects may be delayed or cancelled, which could have a material adverse effect on our business, financial condition and results of operations.

***Failure to register our rights to our projects could result in the loss of such rights.***

In order to perfect our rights in relation to our projects such as leasehold rights and, upon completion, ownership rights in our buildings, we must register those rights with the relevant authorities. The registration of these rights is subject to several conditions. Failure to fulfil these conditions may result in our not being able to register these rights and may result in the possible loss of these rights altogether. Any loss of our rights could have a material adverse effect on our business, financial condition and results of operations.

***Our actions, as well as those of the predecessors-in-title to some of our properties, may be challenged on the basis of non-compliance with applicable legal requirements.***

We have acquired a number of our properties either from or through the purchase of private third parties who may have undertaken to carry out certain actions relating to share acquisitions and disposals, interested party transactions, certain transactions which exceed defined thresholds under Russian law and other corporate matters relating to such properties.

The applicable provisions of Russian law may be subject to several different interpretations. If the aforementioned actions of the third parties are challenged we may not be able to defend such challenges successfully. Such actions, if successfully challenged, could result in the invalidation of such transactions or the imposition of liabilities on us. In addition, execution of a transaction by an unauthorised person may lead to invalidation of any such transactions or actions or imposition of any such liability could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

***A downturn in general economic conditions in Russia and/or Moscow may reduce demand for our projects.***

The willingness and ability of our customers to purchase or lease our properties are influenced to a certain extent by general economic conditions in Russia and/or Moscow. For example, a customer's willingness and ability to purchase or lease a particular property may depend on the general level of consumer confidence and the presence of favourable market conditions and the customers' ability to secure favourable terms for debt financing.

Factors that may contribute to a downturn in general economic conditions in Russia and/or Moscow include but are not limited to:

- increases in interest rates and inflation;
- decreases in the price of oil, gas and other natural resources, which have contributed to the recent growth in the Russian economy; and
- decreases in foreign investment.

A downturn in general economic conditions in Russia and/or Moscow would adversely affect the willingness and ability of customers to purchase or lease property. If demand is lower than expected, we may have to sell or let our projects at a loss or may not be able to sell or let our projects at all, which would have a material adverse effect on our business, financial condition and results of operations.

***A downturn in the real estate market in Russia and/or Moscow may have an adverse effect on our business.***

Our ability to sell or lease our projects at favourable rates is influenced by the condition of the real estate market in Russia and/or Moscow. A number of factors may cause a downturn in the condition of the real estate market, including but not limited to:

- changes in customer preferences;
- a decrease in customer purchasing power;
- an increased supply of newly developed commercial or residential real estate in Russia and/or Moscow; and
- changes in laws and governmental regulations in relation to real estate, including those relating to taxes and governmental charges.

A downturn in the condition of the real estate market in Russia and/or Moscow could adversely affect our ability to sell or let our completed projects at their expected rates of return. If a downturn in the real estate market in Russia and/or Moscow occurs, we may be required to sell or let our projects at a loss or we may not be able to sell or let our projects at all, which would have a material adverse effect on our business, financial condition and results of operations.

***We may not be able to realise our expected rates of return on our projects if the Moscow real estate market becomes saturated.***

Over the past few years, the Moscow real estate market has been characterised by a continued increase in investment activity from both domestic and international investors and in the number of planned projects. The Moscow real estate market may reach saturation if the supply of residential and commercial properties exceeds demand. Saturation in the Moscow real estate market would result in an increase in vacancy rates and/or a decrease in market rental rates and sale prices. As the Moscow commercial real estate market is characterised predominantly by short term leases, we would expect that rental rates would decrease promptly in response to a perceived oversupply of lettable commercial space in the Moscow market. If vacancy rates rise and/or market rental rates decrease, we may not be able to realise our expected rates of return on our projects or may be unable to let or sell our properties at all, which could have a material adverse effect on our business, financial condition and results of operations.

***Our projects may be delayed or cancelled if we lose the ownership interests in buildings or lease interests in property that we acquired in connection with the development of those projects.***

We acquire ownership interests in buildings or lease interests in property in Moscow, the Moscow Region and other parts of Russia in order to develop our projects. Russian law is unclear with respect to our ownership interests in buildings and lease interests in property. For example, it is not always clear which state bodies are authorised to enter into land leases as counterparties with respect to particular land plots.

Our ownership interests in buildings and lease interests in property may be successfully challenged by government authorities and third parties. Under Russian law, transactions involving real estate may be challenged on many grounds, including where the seller or assignor of rights to real estate did not have the right to dispose of such real estate, breach of internal corporate approval requirements by a counterparty and failure to register the transfer of title in the unified state register. Further, under Russian law, certain encumbrances over real estate (including leases of less than one year, free of charge use agreements, easements, rights of way and other similar statutory or contractual encumbrances) do not need to be registered in the unified state register in order to validly encumber the property. In addition, Russian law contains no time limits within which any registrable encumbrances must be registered. There is, therefore, a risk that the government or third parties may successfully register or claim existence of encumbrances (of which we had no prior knowledge) over real estate owned or leased by us at any point in time. If our ownership interests in buildings and lease interests in property are successfully challenged, our projects to which those interests relate would be delayed or cancelled, which could have a material adverse effect on our business, financial condition and results of operations.

***Land leases and/or investment contracts relating to rights held by us may be subject to early termination and land leases may not be renewed.***

To develop our projects, we may acquire properties where we have only a leasehold interest, or an interest pursuant to an investment contract, in the land. Where there are no structures owned by us on the land or where the land is still in development, the land lease or right in the land held under an investment contract may be terminated early in various circumstances; for example, in the event of a breach of our obligations under the land lease or investment contract or in other circumstances provided for in the relevant agreement. A number of our projects are subject to short term leases, which will need to be renewed prior to the completion of the projects to which they relate. In addition, certain of our land leases may not contain renewal rights. Any early termination of an investment contract or failure to secure renewal of a land lease on a timely basis or at all due to, for example, changes in the commercial feasibility of the project, adverse market conditions or the position of our counterparties, may result in delay or cancellation of such projects, which could have a material adverse effect on our business, financial condition and results of operations.

***A number of factors may hinder our ability to sell our properties on a timely basis.***

There may be circumstances under which it would be beneficial for us to be able to sell one or more of our projects quickly; for example if we believe that market conditions are optimal for selling or if we are approached by a party interested in purchasing a particular property on commercially attractive terms. However, the real estate market in Russia has historically been relatively illiquid compared to real estate markets in certain other mature markets. Furthermore, real estate investments generally cannot be sold quickly due to the relatively cumbersome bureaucratic processes that must be adhered to. Our properties may become subject to financing covenants which may further restrict their transferability. In addition, some of our real estate assets are held through joint ventures with third parties and may be subject to legal and/or contractual limitations on transferability. These limitations on transferability could adversely affect our ability to generate cash as needed through timely sales of our properties at favourable prices or to vary our portfolio promptly in response to economic or other conditions. If we cannot sell a particular property within a reasonable time, we may not be able to generate the cashflow we may require to service our ongoing operations or enter into new projects, or we may be unable to take advantage of favourable economic conditions or mitigate against the impact of unfavourable economic conditions when they arise, which could have a material adverse effect on our business, financial condition and results of operations.

***We are subject to general construction risks which may increase costs and/or delay or prevent the construction of our projects.***

We outsource the construction of our projects to general contractors. We depend on our general contractors for the timely construction of our projects to international standards of quality and safety. The construction of our projects may be delayed or damaged by, among other things, the following factors:

- increased material, labour or other costs, which may make completion of the project uneconomical;
- acts of nature, such as harsh climate conditions in the winter, earthquakes and floods, that may damage or delay construction of properties;
- industrial accidents; and
- defective building methods or materials.

In addition, we may incur losses as a result of being required to engage contractors to repair defective work or pay damages to persons who have suffered loss as a result of such defective work. Furthermore, these losses and costs may not be covered by our professional liability insurance, the contractor or any relevant subcontractor. The inability to complete the construction of a project on schedule, on budget, or at all, for any of the above reasons may result in increased costs or cause the project to be delayed or cancelled, which could have a material adverse effect on our business, financial condition and results of operations.

***We are subject to general development risks which may increase costs and/or delay or prevent the development of our projects.***

We develop large-scale, integrated mixed-use projects. The development of such projects involves a large number of highly variable factors, and as a result such development is complex and inherently risky.

In addition to the risks described in more detail elsewhere in this section, our business may be affected by additional factors, including, but not limited to, the following:

- additional construction costs for a development project being incurred in excess of the original agreement with the general contractors;
- changes in existing legislation;
- potential liabilities relating to acquired land, properties or entities owning properties for which we may have limited or no recourse;
- obligations for the development of adjacent properties; and
- obligations relating to the preservation and protection of the environment and the historic and cultural heritage of Russia, as well as other social obligations.

Certain of these factors, including factors over which we have little or no control, may increase costs, give rise to liabilities or otherwise create difficulties or obstacles to the development of our projects. The inability to complete the construction of a property on schedule or at all for any of the above reasons may result in increased costs or cause the projects to be delayed or cancelled, which could have a material adverse effect on our business, financial condition and results of operations.

***We may face claims for defective construction and risk associated adverse publicity, which could have an adverse effect on our competitive position.***

The construction, lease and sale of properties is subject to a risk of claims for defective construction, corrective or other works and associated adverse publicity. There can be no assurance that such claims will not be asserted against us in the future, or that such corrective or other works will not be necessary. Further, any claim brought against us, and the surrounding negative publicity concerning the quality of our properties or projects, irrespective of whether the claim is proven, could also have a material adverse effect on how our business, properties and projects are perceived by target customers, tenants or investors. This could negatively affect our ability to market, lease and sell our properties and projects successfully in the future, which could have a material adverse effect on our business, financial condition and results of operations.

***We may be subject to the risk of owners of properties unwilling to sell at a reasonable price or at all and/or tenants unwilling to relocate away from a development, which may result in us incurring costs or delays in the development or the completion of certain of our projects.***

For certain of our projects, in particular Tverskaya Zastava Plazas I, II and II(a), Otradnoye, Perm, Volgograd and Kuntsevo, there are existing owners and/or tenants of properties on the project sites who will need to be relocated. There may be owners who are unwilling to sell their interests in such properties at a reasonable price or at all. In addition, there may be tenants who are unwilling to relocate away from such areas. These obstacles may delay or prevent the completion of a certain project and/or cause us excessive cost in having to purchase such interests, which could have a material adverse effect on our business, financial condition and results of operations.

***Shortages of qualified employees and other skilled professionals could delay the completion of our projects or increase our costs.***

We rely on employees and certain other skilled professionals, such as project managers, developers, mid-level managers, accountants and other financial professionals, lawyers, engineers and architects, in the development of our projects. If we are unable to successfully compete for the limited number of skilled professionals in Russia or to hire the necessary employees, staffing shortages may adversely affect our ability to adequately manage the completion of our projects or force us to pay increased salaries to attract skilled professionals or such employees. Our failure to complete our projects on time and within budget or increased costs resulting from the payment of premium salaries to attract skilled professionals and/or other employees may have a material adverse effect on our business, financial condition and results of operations.

***Without sufficient local infrastructure and utilities, the construction of our projects may be delayed or cancelled, or we may be unable to realise the full expected value of our completed projects.***

The construction of our projects and their viability, once completed, depend on the availability and sufficiency of local infrastructure and utilities. In order to be sufficient, local infrastructure and utilities may need to be improved, upgraded or replaced.

For example, we may from time to time experience shortages in the availability of energy and other utilities. In addition, our completed projects will rely on accessibility through the use of the public transport network including buses, trains and the Moscow metro as well as the viability and reliability of travel in and around Moscow by car. The existing infrastructure in Moscow in these respects is old and requires certain upgrades, improvements and in some cases the initiation and completion of new infrastructure projects. If the existing infrastructure in and around our projects is not improved by the date of completion of our projects, we may lack the ability to utilise these sites to their full intended capacity, either as a result of our inability to connect them with the necessary utilities or as a result of diminished accessibility. This may affect the value and marketability of our projects.

There can be no assurance that improvements to the infrastructure in and around our projects will occur prior to completion of the projects or that any such improvement will be sufficient to support our completed projects. For example, the success of the shopping mall at the Moscow City Centre depends, in part, on the construction of adequate public utilities and infrastructure, including the completion of major road and rail works, in order to link this newly developing part of Moscow to the airports and the rest of the city. If the required utilities and infrastructure are not developed or improved, our development ability and the commercial viability of our completed projects could be negatively impacted, which may have a material adverse effect on our business, financial condition and results of operations.

***Under the terms of our investment contracts with various city authorities in Moscow, the Moscow Region and other major Russian cities, we typically grant such governmental counterparties a partial ownership interest in our projects, which they may refuse to sell to us on commercially reasonable terms, or at all.***

Certain of our projects are subject to investment contracts with various city authorities in Moscow, the Moscow Region and other major Russian cities, which may or may not grant such governmental counterparties a partial ownership interest in the relevant project. Until an investment contract has been entered into, we may not know what such counterparty's partial ownership interest in the project may amount to. The amount of any such partial ownership interest is determined on a case-by-case basis and can be up to 50.0 per cent. of the completed project. In addition, such governmental counterparties may attempt to renegotiate the amount of this partial ownership interest.

Our strategy with respect to our current and future projects, which are subject to such investment contracts, is to purchase such counterparty's partial ownership interest in our projects at the relevant fair market value as of the date of the proposed purchase, which will be determined by a valuer chosen by such governmental counterparty. However, unless specified in the relevant investment contract, there can be no assurance that such governmental counterparty will sell its partial ownership interest in a project to us at its fair market value or at all.

If such governmental counterparty refused to sell its partial ownership interest in a project to us at its fair market value or at all, we may be forced to pay such counterparty a premium over the fair market value in order to secure the rights to such interest, we could lose the ability to realise any economic value from such interest and we may be required to undertake certain administrative burdens with respect to such interest on behalf of such governmental counterparty, any of which could have a material adverse effect on our business, financial condition and results of operations.

***Our insurance may be inadequate.***

Our insurance policies may not cover us for all losses and certain types of insurance are not available on commercially reasonable terms or at all in Russia, due to the fact that the insurance industry in Russia is at an early stage of development. Many forms of insurance common in mature markets are not yet available in Russia. As a result, our insurance may not fully compensate us for losses associated with damage to our real estate assets. In addition, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, that may be uninsurable or that are not economically insurable. Other factors might also result in insurance proceeds being insufficient to repair or replace a property if it is damaged or destroyed, such as inflation, changes in building codes and

ordinances and environmental considerations. We may incur significant losses or damage to our assets or business for which we may not be compensated fully or at all. In addition, our insurance policies may not cover the current aggregate market value of our portfolio, particularly as the market value of our portfolio increases. As a result, we may not have sufficient coverage against all losses that we may experience. Should an uninsured loss or a loss in excess of insured limits occur, we could lose capital invested in the affected property as well as anticipated future revenue from that property. In addition, we could be liable to repair damage caused by uninsured risks. We may also remain liable for any debt or other financial obligation related to that damaged property.

We may require additional funding or debt financing due to uncompensated losses or liability to repair damage to our assets or business without the benefit of adequate insurance proceeds, which we may be unable to obtain on commercially reasonable terms or at all. Additionally, no assurance can be given that material losses in excess of insurance coverage limits will not occur in the future. Any uninsured losses or losses in excess of insured limits could have a material adverse effect on our business, financial condition and results of operations.

***We may be exposed to certain environmental liabilities and compliance costs.***

The environmental laws of Russia impose actual and potential obligations to conduct remedial action on sites contaminated with hazardous or toxic substances. Such laws often impose liability without regard to whether the owner of such site knew of, or was responsible for, the presence of such contaminating substances. These obligations may relate to sites that we currently own or on which we are developing our projects.

In such circumstances, the owner's liability is generally not limited under such laws and the costs of any required removal, investigation or remediation can be substantial. The presence of such substances on, or in, any of our properties, or the liability for failure to remedy property contamination from such substances, could adversely affect our ability to sell or let such property or to borrow funds using such property as collateral, which could have an affect on our return on investment. In addition, the presence of hazardous or toxic substances on or in a property may prevent, delay or restrict the development or redevelopment of such property, negatively affecting the potential returns achievable on such property.

Furthermore, we may become involved in claims and lawsuits relating to environmental matters. An adverse outcome in any of these might have a significant negative impact on our operations. The imposition by the Russian Federation of stricter environmental, health and safety laws or enforcement policies could result in substantial costs and liabilities to us and could subject the real estate properties that we own or operate (or those formerly owned or operated by us) to more rigorous scrutiny than is currently the case. Consequently, compliance with these laws could result in substantial costs resulting from any required removal, investigation or remediation and the presence of such substances on our properties may restrict our ability to sell the property or use the property as collateral, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, we own and operate OAO "Moskovsky Kartonazhno-Poligrafichesky Kombinat", or MKPK, a company which owns commercial buildings and operates a manufacturing facility on the site of the Paveletskaya project. MKPK uses toxic materials in its manufacturing processes, and as a result of such use we are subject to regulations by the Russian authorities. If the Russian authorities discover violations of Russian environmental laws, we may be subject to fines and other penalties which could have a material adverse effect on our business, financial condition and results of operations.

***We may be subject to foreign exchange risk, which may increase our US Dollar costs and affect our US Dollar measured results.***

We present our financial results in US Dollars. A large majority of our expenses and expected revenues are, or will be, denominated and settled in Roubles. It is expected that for commercial purposes a significant proportion of such income and expenditure may be negotiated using US Dollars and paid in Roubles at the prevailing spot rate. In addition, as part of our strategy, we expect to seek to use alternative forms of debt financing, including, if deemed appropriate, Rouble-denominated debt funding. To the extent that we incur Rouble-denominated debt in the future, we may generate foreign exchange gains and losses to the extent that the Rouble depreciates or appreciates against the US Dollar, as our Rouble denominated liabilities and interest payments will decrease or increase with such currency fluctuations when translated into dollars. Accordingly, we are exposed to the risk of fluctuation of the Rouble in

relation to the US Dollar. Such fluctuations may adversely affect our US Dollar-measured results and have a material adverse effect on our business, financial condition and results of operations.

***We may be subject to interest rate risk.***

We currently have or intend to incur certain indebtedness under existing debt facilities which is subject to variable interest rates. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control. An increase in interest rates may increase our cost of borrowing which may have a material adverse effect on our business, financial condition and results of operations.

***We may be subject to risks associated with inflation, which may increase our costs.***

The Russian economy has been characterised by high rates of inflation. In 2006, according to estimates by the International Monetary Fund, or IMF, Russia experienced an increase in the consumer price index of 9.7 per cent. If we experience inflation-driven increases in our Rouble-denominated costs which are sensitive to rises in the general price level in Russia, our costs in US Dollar terms will rise, which could have a material adverse effect on our business, financial conditions and results of operations.

***A majority of our current projects and those in our pipeline are heavily concentrated in Moscow and the Moscow Region.***

A majority of our projects are located in Moscow and the Moscow Region, specifically at Tverskaya Zastava Square and at Moscow City. In terms of valuation, as of 31 March 2007, 99.1 per cent. of our portfolio was concentrated in Moscow and the Moscow Region. As a result of this geographic concentration, we are particularly sensitive to any change in the political or regulatory environment at the level of the City of Moscow as well as any weakness in the local real estate market. Furthermore, we are subject to risks associated with disruption of the development work taking place in the above locations, for any reason, including as a result of natural disaster, industrial accident, terrorist activity or change in national or local government policy. Any such changes or disruptions in Moscow or the Moscow Region could have a material adverse effect on our business, financial condition and results of operations.

***We rely on certain key management personnel within our company and our controlling shareholder, the loss of whom could have an adverse impact on our business.***

Our future growth and success depends, in part, upon the leadership and performance and continuing service of our directors and senior management team, some of whom have significant experience with our controlling shareholder, Africa Israel Investments Ltd., or Africa Israel, and us. Our current directors and senior managers possess property management, marketing and administrative skills and experience that are important to the operation of our business. Our ability to meet our operational requirements and our future growth and profitability is dependent upon, amongst other things, our directors and senior management personnel who, if they were to leave our employment would be free to compete with our business. In particular, we are highly dependent on the continued support of Mr. Leviev and Mr. Khaldey, whose contacts and business relationships are integral to our success. If either of them were unable to perform their duties, there may be an adverse effect on our ability to continue our activities within currently envisaged timeframes, or at all. If any key person resigns, a suitable replacement with the requisite skills, contacts and experience may not be found and we may experience negative market or industry perception, which could have a material adverse effect on our business, financial condition and results of operations.

***We are subject to joint venture risks as control of certain assets is shared with third parties.***

Some of our projects, representing approximately 17.9 per cent. of JLL's valuation of our portfolio in its existing state as at 31 March 2007 (unadjusted for minority interests), are held through joint venture arrangements with third parties that own or intend to own certain assets such as land rights or buildings relating to the development of the projects. Such arrangements may result in our sharing control of such assets with third parties. As a result, certain decisions relating to those assets in joint venture structures may depend upon the consent or approval of our joint venture partners. Disputes may arise between us and our joint venture partners, which could mean that we are not able to manage or deal with a particular

asset as we see fit. Specific risks arising from such joint venture arrangements which are not present with projects that are wholly-owned include but are not limited to:

- our joint venture partners may have different objectives from us, including with respect to the appropriate timing and pricing of any sale or refinancing of a development;
- our joint venture partner may take action contrary to our instructions or requests, policies or objectives, or frustrate our actions;
- our joint venture partners might become bankrupt or insolvent; and
- we may be required to provide additional financing to make up for any shortfall due to our joint venture partner failing to provide such finance or to furnish any required collateral to the financing banks.

Disputes or disagreements with any of our joint venture partners may result in significant delays and increased costs associated with the development of our properties. Even when we have, or will have, a controlling interest, certain major decisions (such as whether to sell, refinance or enter into a lease or contractor agreement and the terms on which to do so) may require the joint venture partner's or other third party's approval. Failure to reach or maintain agreement with our joint venture partners or other third parties on the matters relating to the financing and operation of the relevant projects may cause delays or cancellations of our projects or may impair our ability to complete our projects as planned, which could have a material adverse effect on our business, financial condition and results of operations.

***Fluctuations in our financial results from period to period may prevent steady earnings growth or affect our ability to plan our budget or business activities.***

We have had no significant rental or other revenue to date. Our profit has been derived primarily from the sale of interests in our property development subsidiaries, which has caused significant fluctuations in our profits from period to period. Significant fluctuations in our profit from period to period may have an impact on the price of the GDRs and may result in a cash flow deficit which may impair our ability to finance our existing operations and may impede our ability to take advantage of new projects as they present themselves, which could have a material adverse effect on our business, financial condition and results of operations.

***The further geographical expansion of our business to cities outside of Moscow may fail due to our more limited knowledge of those markets and control over local activities.***

Our strategy contemplates the selective geographical expansion of our business across other cities in Russia. We may not be as successful in the identification and development of future projects in these cities as we have been to date in Moscow due to our relative lack of experience, market knowledge and lack of control over local activities. Furthermore, we may face more uncertainties with respect to the operational and financial needs of these projects. Our failure to successfully execute our strategy of selective geographical expansion could have a material adverse effect on our business, financial condition and results of operations.

***We may not be able to successfully manage our growth due to the expected rapid expansion of our operations.***

Our operations are expected to expand significantly over a relatively short period of time, both in terms of size and geographical location. It is likely that the operational complexity and scale of our projects and the responsibilities of our management will increase as a result of this expected growth, placing significant strain on our management and other key personnel. We will need to continue to improve our operational and managerial controls and procedures to keep pace with this expected growth. If we fail to manage this expected growth effectively, we may not be able to execute our business plans, which could have a material adverse effect on our business, financial condition and results of operations.

***We may not be able to develop our projects as planned if we fail to obtain additional buildings or land in areas adjacent to our project sites.***

In order to develop large-scale, integrated projects, we must acquire land adjacent to our current projects. Part of our strategy is to acquire buildings or land adjacent to our development sites for the purpose of, among other things, expanding the scope of our projects. If we fail to acquire additional buildings or land in areas adjacent to our project sites, we may not be able to develop our projects as

planned, which would have a material adverse effect on our business, financial condition and results of operations.

***We may be unable to compete effectively with real estate companies and developers.***

There are a number of property developers in Moscow, the Moscow Region and the other cities in which we operate competing for the opportunity to develop a limited number of projects. These developers also compete for limited human and material resources, development sites and for tenants and purchasers. Such competition may affect our ability to expand our business or sell or acquire properties, which could have a material adverse effect on our business, financial condition and results of operations.

***We may incur substantial losses if we fail to meet the obligations and requirements of our debt financing and the restrictions imposed by our debt financing may prevent us from selling our projects.***

As of 31 December 2006, we had long term loan obligations of US\$61.7 million and short term loan obligations of US\$14.8 million. In order to secure the relevant loans, members of our group have in the past and/or may in the future, mortgage certain of our key assets, pledge participation interests in some of our subsidiaries, entered into guarantees and agree to negative pledges. In addition, our loans contain restrictions on our ability to dispose of certain key assets. Failure to make principal and/or interest payments due under our loans (if, for example, the value of our portfolio decreases) or breach of any of the covenants in our loans could result in the forfeiture of our mortgaged assets or the acceleration of our payment obligations, trigger cross-default clauses or make future borrowing difficult or impossible. We could also be forced to sell some of our assets to meet our loan obligations or the completion of our affected projects could be delayed or curtailed. Any of the events described above could have a material adverse effect on our business, financial condition and results of operations.

***We may be unable to secure suitable debt finance for the development of our projects.***

We currently intend to increase our use of financing from banks or other third party lenders to meet our expected substantial investment requirements for our current and potential future projects. We anticipate sourcing the majority of such debt from within Russia.

The borrowing market may not develop as we anticipate and we may encounter difficulties in sourcing our debt providers. This difficulty may be as a result of the unwillingness of local banks to provide such debt finance, the unwillingness of foreign banks to finance projects in Russia or the high interest rates imposed by banks making borrowing not financially viable. Such lack of viable debt finance for our development projects could have a material adverse effect on our business, financial condition and results of operations.

***A large number of our subsidiaries have negative net assets or net assets lower than the amount of their respective charter capitals and may be subject to an order to decrease their charter capital or be liquidated.***

Russian law requires a limited liability company or a joint stock company to reduce its charter capital if the value of its net assets is lower than its charter capital as of the end of the second year following incorporation. If such a company fails to comply with this requirement within a reasonable period of time, a court may order its liquidation. As of the date of this prospectus, five of our subsidiaries have and/or historically have had net assets lower than their respective charter capitals and seven of our subsidiaries have and/or historically have had negative net assets. There is a possibility that the Russian tax authorities, other authorities, and/or third parties could apply to order any of these subsidiaries to reduce their charter capital, in which case our shareholders could be liable to make further capital contributions to remedy the irregularity, or be put into liquidation. Liquidation of any of these subsidiaries could lead to the loss of our rights to our projects, which could have a material adverse effect on our business, financial condition and results of operations.

***Any deterioration of our relationships with governmental authorities may have a negative effect on our business.***

Our positive relationship with the relevant governmental authorities, both local and federal, is critical to the success of our current and future projects. In most regions in Russia, including Moscow, local governments have significant influence over the privatisation or leasing of land and approvals of real estate projects. A significant deterioration of our relationships with governmental authorities at either the local

or federal level could have a material adverse effect on our business, financial condition and results of operations.

### **Risks Relating to Investment in Russia**

*Failure of the infrastructure in Russia could harm the economy, cause additional costs or losses for businesses and disrupt normal business activities.*

The infrastructure in Russia, in particular utilities, communications and logistics networks, has not been adequately funded or maintained over past decades. As a result, the infrastructure is not dependable and may fail temporarily or completely at any time. Such disruptions may harm the economy, cause substantial additional costs or losses for businesses or generally interrupt normal business operations, which may have a material adverse effect on our business, financial condition and results of operations.

*Political and governmental instability in Russia could adversely affect the value of our business.*

The Russian political system may be vulnerable to popular dissatisfaction, including dissatisfaction with the results of the privatisations of the 1990s, as well as to demands for autonomy from certain regional and ethnic groups. The course of political and other reforms has in some respects been uneven and the composition of the Russian government has at times been unstable.

Possible future changes in the government, major policy shifts or a lack of consensus between the President, the government, Russia's parliament and powerful economic groups could lead to political instability. Political instability may disrupt day-to-day operations or discourage foreign investment in Russia which may make funding which we require for the development of our projects unavailable to us in the future.

With any investment in a foreign country, there exists the risk of adverse political or regulatory developments including, but not limited to, nationalisation, appropriation without fair compensation, terrorism, war or currency restrictions, which could have a material adverse effect on our business, financial condition and results of operations.

*Emerging markets such as the Russian Federation may be affected by adverse events in other emerging markets such as China and India.*

Investors in emerging markets such as Russia should be aware that these markets are subject to greater legal, economic and political risks than mature markets and are subject to rapid change. In general, investing in the securities of issuers with substantial operations in emerging markets like Russia involves a higher degree of risk than investing in the securities of issuers with substantial operations in the United States, the countries of the European Union or other similar jurisdictions. As is the case for the equity securities of many emerging market issuers, the market value of the GDRs may be subject to significant fluctuation, which may not necessarily be related to our financial performance. In addition, changes in economic and political situations in one emerging market country may have a negative related or unrelated consequential impact on the economic and political situation in other emerging market countries. Accordingly, investors should exercise particular care in evaluating the risks involved in making this investment. Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisers before making such an investment.

*Economic instability in Russia could adversely affect our business.*

The Russian economy has been subject to abrupt downturns in the recent past. Since the dissolution of the Soviet Union, the Russian economy has experienced, at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to enterprises in Russia;
- financial crises related to defaults on its sovereign debt obligations;

- high levels of loss-making enterprises that continue to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- a significant black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy; and
- significant increases in unemployment and underemployment.

A recession, economic downturn or financial crisis that affects the profitability of business and employment levels in Russia, the demand for properties and particularly office space for office and retail enterprises in the service sector, retail space in upscale shopping districts and deluxe residential properties may result in a decrease in the value of our properties and an increase in the number of tenant vacancies. Therefore, we may be forced to lower our rental rates and/or sales prices, and/or be forced to offer other economic incentives, which could have a material adverse effect on our business, financial condition and results of operations.

***The Russian banking system remains underdeveloped, and a banking crisis could place severe liquidity constraints on our business.***

Russia's banking and other financial systems are less developed and regulated in comparison with those of mature markets.

A robust domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate Rouble bonds in their portfolios, which is causing a deterioration of the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, the Central Bank of Russia has, from time to time, revoked the licenses of certain Russian banks, which resulted in market rumours about additional bank closures and many depositors withdrawing their savings. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that could occur during such a crisis.

The Russian banking sector suffered a near collapse in 1998 and further difficulties in 2004. Another banking crisis or the bankruptcy or insolvency of the banks that we deal with could affect our ability to continue to raise funding from Russian banks, which could have a material adverse effect on our business, financial condition and results of operations.

***Upcoming elections may lead to political instability.***

In late 2007, the Russian Federation is due to hold elections in the lower house of the legislature, the State Duma. In addition, local elections are due to take place, including for the office of Mayor of the City of Moscow. In addition, in 2008, a new President of Russia is expected to be elected.

Political changes as a result of these elections could lead to political instability in the Russian Federation and could cause the deterioration of our existing relationships with governmental authorities, which may have an adverse effect on our business, financial condition and results of operations.

***Unlawful, selective or arbitrary government action may impact our ability to secure the resolutions, agreements, contracts and permits required for us to develop our projects.***

Government authorities have a high degree of discretion in the Russian Federation and may not be subject to oversight by other authorities, requirements to provide a hearing or prior notice, or public scrutiny. Government authorities in Russia may exercise their discretion arbitrarily or selectively or in an unlawful manner and may be influenced by political or commercial considerations.

Government authorities may invalidate share issuances and registrations or void commercial transactions, withdraw licences, restrict the convertibility or repatriation of hard currency, impose sudden

tax audits (including tax audits involving raids by armed police), criminal prosecutions, civil actions and interference into affairs of private persons and organisations.

We may be subject to pressure by government authorities through selective implementation of regulations and legislation that may be politically or commercially motivated. Our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over us. Government actions of this kind could, if directed at us, have an adverse effect on our business, financial condition and results of operations.

***Conflicts among federal, regional and local authorities and other political conflicts could increase our costs and/or subject us to prosecution.***

The Russian political system is vulnerable to tensions and conflicts between and among federal, regional and local authorities over various matters such as land ownership, tax revenues, authority for regulatory matters and regional autonomy due to the lack of a clear delineation of authority. These conflicts make it difficult for us to conduct day to day operations by creating confusion arising from the need to deal with multiple governmental authorities in order to secure the approvals required for us to conduct our operations and the possibility that we may be subject to prosecution for failing to secure the necessary approvals from all regulatory authorities that claim jurisdiction. The aforementioned prosecution is costly and may damage our reputation, which could have a material adverse effect on our business, financial condition and results of operations. In addition, obtaining multiple approvals may increase costs and cause delays.

***Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity.***

The legal framework required by a market economy is still under development in Russia and large portions of this legal framework have only recently become effective.

The recent nature of much of Russian law and the rapid evolution of the Russian legal system places the enforceability and underlying constitutionality of laws in doubt. Ambiguities, lack of guidance and interpretation, gaps in regulatory structure and the inexperience of judges also make it difficult for us to determine whether we have adequate property rights.

For example, in Russia, the concept of an easement or servitude, such as right of way or access, is in its infancy. Accordingly, the rights relating to a property over another's land (e.g. for drainage, access, rights of light, cabling, structural support, etc.) are generally concepts that have not been clearly defined in legal terms. As a result, we may be uncertain as to our rights over adjoining land, and similarly, neighbours to our property may have ill-defined rights over our property. State encumbrances may not be registered and, as a consequence, may not be revealed when performing searches prior to the acquisition of real estate. Any such encumbrances may only be discovered on making the relevant planning applications following acquisition or once construction has commenced.

Among the risks of the current Russian legal system are:

- limited judicial and administrative guidance on interpretations of Russian law;
- gaps in the regulatory structure due to delay or absence of implementing legislation;
- discrepancies between federal and regional legislation, especially with regard to town planning, construction, zoning and land rights;
- the relative inexperience of certain judges in interpreting new principles of Russian law, particularly business and corporate law; and
- bankruptcy procedures that are still being developed.

The above risks could affect our ability or the ability of our investors to ascertain our or their specific rights or to seek or obtain effective redress in the Russian courts, which could have a material adverse effect on our business, financial condition and results of operations.

***The unfavourable opinion of the Russian state authorities regarding listings outside of Russia of the securities of non-Russian companies with Russian assets may result in government action against us or our Russian subsidiaries.***

The Russian Federal Service for Financial Markets, or FSFM, has publicly expressed its disapproval of non-Russian listings of securities of non-Russian companies if the main assets of those companies are Russian. There can be no assurance that the FSFM will not attempt to take action against us or our Russian subsidiaries, such as pressuring or requiring us to establish a Russian depositary receipt, or RDR, facility and list RDRs on a Russian stock exchange as soon as the necessary FSFM, stock exchange and other implementing legislation has been adopted and become effective. It may not be possible or desirable for us to establish an RDR facility and list on a Russian stock exchange, which could damage our relations with the Russian authorities causing us difficulties in conducting business with the government which is integrally necessary for the conduct of our business and the development of our projects. Any such difficulties could have a material adverse effect on our business, financial condition and results of operations.

***Foreign investment restrictions are unpredictable.***

Laws and regulations, particularly involving taxation, foreign investment and trade, title to securities, and transfer of title that are applicable to our activities can change quickly and unpredictably (sometimes with retroactive effect) in a manner far more volatile than in developed market economies, which could have a material adverse effect on our business, financial condition and results of operations.

***An anti-privatisation lobby within the Russian parliament may cause the expropriation or re-nationalisation of companies in which we have an interest with little or no compensation to us.***

Russia has, since the early 1990's, undertaken a substantial programme of privatisation. However an anti-privatisation lobby still exists within the Russian parliament and there can be no assurance that certain assets will not be re-nationalised. Land may be subject to compulsory purchase by the state for its own needs or as a sanction for the inappropriate use of that land. It is not clear from Russian law how losses from re-nationalised assets will be calculated nor whether there is any way to seek to challenge (and therefore to prevent) the confiscation of such assets.

Losses from the expropriation or re-nationalisation of companies in which we have an interest, their assets or portions thereof, potentially with little or no compensation, would have a material adverse effect on our business, financial condition and results of operations.

***Russian courts may force a Russian legal entity into liquidation on the basis of formal non-compliance with certain requirements of Russian law.***

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation of such entity or during its operation. Russian companies in which we have an interest (or their subsidiaries) may have failed from time to time to fully comply with all applicable legal requirements such as the requirement to maintain a certain level of capitalisation. In particular, many of our Russian subsidiaries which are organised as limited liability companies have at times fallen below the required capitalisation threshold. Under Russian law, a court may order liquidation on this basis. The administrative liquidation of any of our Russian subsidiary companies as a result of undercapitalisation or for any other reason would have a material adverse effect on our business, financial condition and results of operations.

***Social and labour unrest could lead to increased support for renewed centralised authority and a rise in nationalism or violence could restrict our ability to conduct our business effectively.***

Social and labour unrest has arisen in the past and may arise in the future due to a failure of the Russian government and private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living and the elimination of many subsidised services. Social and labour unrest may cause other significant political, social and economic consequences, such as increased violence and support for renewed centralisation of authority, re-nationalisation or expropriation of property, or restrictions on foreign involvement in the economy of the Russian Federation.

Social and labour unrest could delay the construction of our projects or the development of new projects which would restrict our ability to conduct operations and could have a material adverse effect on our business, financial condition and results of operations.

***Crime and corruption could create a difficult business climate in Russia.***

The political and economic changes in Russia in recent years have resulted in decreases in authority resulting in an increase in organised crime in the economy, including high levels of corruption such as the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engage in selective investigations and prosecutions to further the commercial interests of government officials or certain individuals. Additionally, some members of the Russian media are alleged to regularly publish disparaging articles in return for payment.

The presence of organised or other crime, demands of corrupt officials or claims that we have been involved in official corruption could result in negative publicity or disrupt our ability to conduct our business effectively, which could have a material adverse effect on our business, financial condition and results of operations.

***Official data and statistics in Russia may be incomplete, unreliable or inaccurate.***

The official data published by Russian federal, regional and local government agencies is substantially less complete or researched than those in some mature markets. Official statistics may also be produced on different bases than those used in such economies. Any discussion of matters relating to Russia in this prospectus must therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

**Risks Relating to Taxation**

***We are exposed to risks relating to our tax status in countries other than Cyprus.***

Changes in our tax status or in tax legislation in Cyprus or Russia, or any country in which we invest or in which our interests are managed, could result in significant additional tax liabilities. Such changes could affect the value of assets held by us or affect our ability to achieve our investment objectives or provide favourable returns to shareholders. Any such changes could also adversely affect the net amount of any dividends payable to shareholders.

Currently, Russian tax legislation does not contain the concept of tax residency for legal entities as such. In the absence of a tax residency concept, the Russian tax authorities may only tax the business profits of a foreign company in Russia if the foreign company conducts activity in Russia through a permanent establishment.

Nevertheless, the Government has announced its intention to introduce changes to tax legislation with respect to the determination of the tax residency of legal entities in Russia. Currently, there is no draft law with respect to this and it cannot be predicted whether the aforementioned changes will be enacted, if at all, and what the provisions or effect on us may be. However, there is a possibility that we may soon face additional requirements to maintain our status as non-Russian tax resident.

If we were treated as having a permanent establishment in Russia or in any country in which we invest or in which our interests are managed, income attributable to or effectively connected with such permanent establishment or trade or business could be subject to tax. Our status as a Cypriot tax resident depends on the composition of the Board of Directors, the place of residence of the Board of Directors' individual members and the locations in which the Board of Directors and management make decisions. In order to maintain our non-Israeli tax resident status and avoid the creation of a permanent establishment in Russia, we are required to be controlled and managed outside Israel and Russia. While we are domiciled in Cyprus, continued attention must be paid to ensure that our decisions are not taken in these countries to avoid the risk that we may lose our non-Israel tax residence or that we might be deemed to have a permanent establishment in Russia.

Any change to these factors may lead to our being considered a tax resident of Israel or any other country in which we invest, or in which our interests are managed, or may lead to the creation of a permanent establishment in Russia, which could have an adverse material effect on our business, financial condition and results of operations.

To maintain our tax efficient status, continued attention must be paid to ensure that all relevant conditions are satisfied in all the jurisdictions in which we operate to avail us of the benefit of, for example, double tax treaties, EC Directives and local country requirements.

***We are exposed to risks of additional capital gains tax liability in case of the sale of real estate rather than shares in our property holding companies.***

Most of our real estate is held through property holding companies. It is our intention, wherever possible, to dispose of the property holding companies rather than the real estate itself. This is because, among other things, the sale and disposal of real estate in Russia, except for residential houses, premises and apartment blocks in residential apartment buildings, is subject to VAT at the rate of 18 per cent. If such VAT payments are levied, however, VAT paid to contractors or suppliers of other goods or services in connection with the capital construction of such real estate may be offset against VAT charged on the sale. Please also note that the Russian Tax Code is silent as to whether the sale of whole residential apartment buildings is subject to VAT.

Additionally if we were to dispose of the direct real estate interests held by those companies, rather than the companies themselves, our tax basis for the purposes of calculating any capital gains generated on the disposal of the real estate may be lower than the price paid by us for the property holding company, therefore increasing our capital gains tax liability on disposal. Therefore if we are required, in order to dispose of a property, to sell the underlying real estate rather than the holding company, this might increase our capital gains tax exposure, which could have a material adverse effect on our business, financial condition and results of operations.

***We may be treated as a passive foreign investment company for U.S. federal income tax purposes.***

Based on our income, assets and activities, we believe that we were and each subsidiary that is treated as a corporation for United States federal income tax purposes was a passive foreign investment company, or a PFIC, for the taxable year ended 31 December 2006 and that it is likely we will be a PFIC for the taxable year ending 31 December 2007.

Depending on our income, assets and activities in taxable years ending after 31 December 2007, it is also possible that we will continue to be a PFIC in future taxable years. Our classification as a PFIC may result in material adverse US federal income tax consequences to investors in GDRs that are US persons (as defined in the US Internal Revenue Code), including having gains realised on the sale of GDRs treated as ordinary income, rather than as capital gains, having potentially punitive interest charges apply to those gains, and, for certain non-corporate holders, the denial of the taxation of certain dividends paid by us at the lower rates applicable to long term capital gains. Similar risks could apply to distributions from and dispositions of Subsidiary PFICs (as defined in “Taxation—United States taxation—Passive Foreign Investment Company Considerations—Subsidiary PFICs”). If we are treated as a PFIC in any taxable year, an investor that is a US person may be able to make an election to “mark-to-market” GDRs and recognise ordinary income pursuant to such election each taxable year based upon the increase in the value of GDRs. For a more detailed discussion of the consequences of the Company being classified as a PFIC, see “Taxation—United States taxation—Passive Foreign Investment Company Considerations”.

Investors who are US persons are urged to consult with their own US tax advisers with respect to the US tax consequences of investing in GDRs.

***We will not provide investors that are US persons with information with respect to indirect distributions on, and dispositions of, shares in any Subsidiary PFICs.***

We will not provide holders that are US persons with information necessary for investors that are US persons to make required reporting with respect to distributions on, and dispositions of, shares in any Subsidiary PFICs (as defined in “Taxation—United States taxation—Passive Foreign Investment Company Considerations—Subsidiary PFICs”) and, thus, investors that are US persons may not be able to fully comply with their US federal income tax reporting obligations.

***Taxation in the Russian Federation is still developing and is subject to significant uncertainties which could result in significant additional tax liabilities payable by us.***

Generally, taxes payable by Russian companies are relatively substantial and include, *inter alia*, corporate profits tax, VAT, excise, property tax, unified social tax and personal income tax. Russian tax

laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent and selective enforcement. The law and legal practice in Russia are not as clearly established as those of mature markets and there are a number of uncertainties with respect to the application of tax legislation in practice. Some of these uncertainties are general, whereas others relate specifically to companies operating in the real estate sector. There is also a possibility that tax legislation may be changed with retroactive effect. Under applicable Russian tax legislation, however, such changes are prohibited from being enforced if they are detrimental to a taxpayer's position.

Despite the Russian government's steps to reduce the overall tax burden in recent years in line with its objectives, Russia's largely ineffective tax collection system and continuing budgetary funding requirements increase the likelihood that the Russian Federation will impose arbitrary or onerous taxes and penalties in the future, which could have a material impact on our business and financial performance. Additionally, taxation has been used as a tool for significant state intervention in certain key industries.

In October 2006, the Plenum of the Supreme Arbitration Court issued a ruling concerning judicial practice with respect to tax benefits accrued by taxpayers. In this context, a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction of the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate, and the receipt of a right to a refund (offset) or reimbursement of tax from the budget. The ruling provides that where the true economic intent of operations is inconsistent with the manner in which they have been taken into account for tax purposes, a tax benefit may be deemed to be unsubstantiated. The same conclusion may apply when an operation lacks a reasonable economic or business rationale. As a result, a tax benefit cannot be regarded as a business objective in its own right. On the other hand, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unsubstantiated. Moreover, there are no rules and little practice for distinguishing between lawful tax optimisation and tax avoidance. In practice, the Russian tax authorities can be expected to interpret tax laws in a manner that rarely favours taxpayers. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. In this regard, it is often difficult to predict in advance how the Russian tax authorities will apply tax legislation in practice due to the lack of consistent case law in this area. Tax declarations, together with other legal compliance areas including, for example, customs and currency control matters, are subject to review and investigation by a number of authorities, which are empowered by law to impose severe fines, penalties and interest charges.

In December 2006, the Russian Supreme Court issued a ruling concerning the application of the Criminal Code in courts in respect of tax crimes. The ruling clarifies the term "evasion from tax payment" to mean deliberate acts to avoid payment of taxes to the Russian government.

Evasion from tax payment could be made by deliberately including false information about tax deductions in tax returns or other obligatory documents or by being negligent in submitting tax returns or other obligatory documents. However, it is not clear what is considered false information. Future court practice is expected to clarify the meaning of this provision.

Potentially, a chief accountant of a company or other persons performing the responsibilities of a chief accountant could be liable for tax crimes if their actions are considered illegal in terms of constituting a gross evasion of tax payment. Additionally, other employees of a taxpayer who deliberately assist in the commitment of a tax crime (e.g. drafting primary supporting documents) could, under certain circumstances, be considered accomplices to a tax crime. Future court practice is expected to show how the ruling of the Russian Supreme Court will be interpreted in practice.

However criminal charges against individual employees in respect of tax crimes should not by itself directly affect the financial position of holders of GDRs of the company.

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions, potentially exposing us to significant fines and penalties as well as potentially severe enforcement measures despite our best efforts to comply. This may have a material adverse impact on our business, financial condition and results of operations.

It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising mechanisms. Although it is unclear how these measures would operate, the introduction of such measures could affect our overall tax efficiency and result in significant additional tax liabilities. Additional tax exposure could have a material adverse impact on our business, financial performance and future prospects.

***We may be subject to tax audits by Russian tax authorities.***

Taxpayers in Russia are subject to tax audits covering a period of three calendar years immediately preceding the year in which the audit commences. This provision of the Tax Code relates to the fact that the tax authorities are prohibited from carrying out repeat on-site tax audits in respect of the same taxes for a tax period which has already been audited (the exception is where such audit is carried out in connection with the restructuring/liquidation of a taxpayer or by a higher-instance tax authority for the purpose of checking the activities of lower-instance tax authorities). This limitation of the tax audit period is related to the statute of limitations on the commission of a tax offence, which is also limited to three years from the date on which a tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, based on current judicial interpretation, there may be cases where the limitation period may be extended beyond three years.

These tax audits may result in additional costs to us if the relevant authorities conclude that we did not satisfy our tax obligations in any given year. They may also impose additional burdens on us by diverting the attention of our management resources. The outcome of these audits may result in significant fines, penalties and enforcement measures which may have a material adverse impact on our business, financial condition and results of operations.

***Russian transfer pricing legislation may require pricing adjustments and impose additional tax liabilities in respect of all controlled transactions.***

Russian transfer pricing rules give Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions, where the transaction price differs from the market price by more than 20 per cent. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and any transactions with significant price fluctuations (i.e. if the price of such transactions differs from the prices on similar transactions by more than 20 per cent. within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities or derivatives. While the Russian Tax Code has no direct provisions on the application of transfer pricing rules to interest on loans, there has been at least one case in the recent Russian court practice in which the tax authorities succeeded in applying the transfer pricing rules to interest on loans.

The Russian transfer pricing rules are vaguely drafted and subject to differing interpretations by Russian tax authorities and courts. In addition, a draft law that may increase the scope of transfer pricing adjustments is currently being considered by the Russian government. Moreover, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment.

Furthermore, a draft law which is under discussion in the Russian government would tighten Russian transfer pricing rules. It is expected that they will become effective in 2008. Currently, it cannot be predicted when the aforementioned amendments will be enacted, and what effect the provisions may have on us. Imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on our business, financial condition and results of operations.

***We may encounter difficulties in recovering value added tax from the Russian tax authorities.***

The lease of commercial premises in Russia is generally subject to value-added tax, or VAT. An exemption from VAT is available under certain circumstances for property leased to foreign companies. This exemption may be granted if the respective foreign state establishes a reciprocal exemption for Russian citizens and companies in that foreign state.

If Russian operating companies use such properties in VAT-exempt operations, then VAT incurred and claimed for “offset/refund” in the course of construction of properties would be partially restored in accordance with a certain formula provided by the tax law. The restored amount would be paid and included in deductible costs for tax purposes. The general approach and formula for the calculation of VAT to be recovered under Russian tax legislation was adopted in January 2006. To date, no clarifications from the tax authorities have been issued and there has not yet been any relevant court guidance with respect to its interpretation and there may be some uncertainties with its practical application.

Moreover, even if Russian operating companies use such properties solely for operations that are subject to Russian VAT, they may face practical difficulties receiving reimbursement of the amount of VAT paid in the course of construction of premises, as historically, the Russian tax authorities have been reluctant to refund VAT.

The above conditions increase the risk that our calculations of VAT to be recovered may be subject to challenge by Russian tax authorities. Difficulties in recovering some or all of our calculated VAT receivable from Russian tax authorities or a challenge by Russian tax authorities to our interpretation of the applicable legislation may result in significant additional tax liabilities, fines or penalties which could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, in June 2005, the Supreme Court of Arbitration issued a resolution which stated, among other things, that reimbursement or offsetting input VAT should occur within three years from the date after completion of the corresponding tax period. In other words, failure to receive a reimbursement or offset of input VAT paid to subcontractors and other suppliers of goods and services in connection with capital construction within three years after completion of construction and acceptance of work from the general contractor may result in the loss of the right to receive reimbursement or offset such input VAT. As a consequence, we may face difficulties in receiving reimbursement for VAT payments we have previously made, which could have a material adverse effect on our business, financial condition and results of operations.

***Payments of dividends by Russian companies may be subject to Russian withholding tax***

In general, payments of dividends by a Russian entity to a non-resident are subject to Russian withholding income tax at a rate of 15 per cent. (30 per cent. in respect of individuals). Such Russian withholding tax may generally be subject to reduction pursuant to the terms of an applicable double taxation treaty between Russia and the country of the tax residence of a respective non-resident investor (provided such double tax treaty is available) to the extent such non-resident investor is otherwise entitled to benefit from this double tax treaty and the corresponding tax benefits provided by such treaty. Based on professional advice, we believe that the dividends received by us from our Russian subsidiaries should be subject to reduced withholding tax rate in Russia under Russia-Cyprus double tax treaty. However, there can be no assurance that double tax treaty relief will be available.

**Risks Relating to GDRs**

***Voting rights with respect to the ordinary shares represented by the GDRs are limited by the terms of the Deposit Agreement for the GDRs and relevant requirements of Cypriot law.***

GDR holders will have no direct voting rights with respect to the ordinary shares represented by the GDRs. GDR holders will be able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the Deposit Agreement and relevant requirements of Cypriot law. See “Terms and Conditions of the Global Depositary Receipts”. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. Holders of ordinary shares will receive notice directly from us and will be able to exercise their voting rights either personally or by proxy.

GDR holders, by comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreement, we will provide notice to the Depositary. The Depositary has undertaken, in turn, if requested by us in writing in a timely manner and at our expense, and provided that there are no US, UK or Cypriot legal prohibitions (including, without limitation, the Listing Rules And Prospectus Rules of the FSA and the admission and disclosure standards of the London Stock Exchange), to distribute to GDR holders notice of such meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by GDR holders.

In order to exercise their voting rights, GDR holders must then instruct the Depositary how to vote the ordinary shares represented by the GDRs they hold. As a result of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the shares, and we cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. Shares underlying GDRs for which the Depositary does not receive timely voting instructions will not be voted.

***The Depositary may sell some or all of the shares underlying the GDRs under certain circumstances.***

In the event that:

- (1) the Depositary receives notice that the existence or operation of the GDR facility or the Depositary's holdings of the deposited shares violates any Cypriot law or regulation or that the Depositary or the Custodian is required to make any filing or obtain any consent, approval or license to operate that facility or to own or exercise any rights with respect to the deposited shares; or
- (2) the Depositary receives advice that it reasonably could be subject to criminal or civil liabilities as a result of the existence or operation of the GDR facility or the holding by it or the exercise by it of any rights with respect to the deposited shares, then the Depositary may sell some or all of the deposited shares and convert a portion of GDR holdings pro-rata into a right only to receive the net proceeds of that sale.

Sales of deposited shares by the Depositary, or concern that the Depositary might sell deposited shares, could cause the market value of our GDRs to decline.

***Sales of the GDRs following this offering may result in a decline in the price of GDRs.***

The sales of a substantial number of GDRs following this offering, in particular by our controlling shareholders, Africa Israel and Nirro Group (a company controlled by Mr. Khaldey), or the possibility that these sales may occur, may result in a decline in the price of the GDRs, and investors may not be able to sell the GDRs they purchased in this offering at or above the offer price or at all. As a result, investors who purchase GDRs in this offering could lose all or part of their investment in the GDRs.

***Minority shareholders may have little protection or legal recourse if our controlling shareholders exert their influence to pursue interests that conflict with those of our minority shareholders.***

As of the date of this prospectus, Africa Israel indirectly holds an 88.0 per cent. interest in us, and Nirro Group holds the remaining 12.0 per cent. Following this offering, assuming no exercise of the over-allotment option, Africa Israel and Nirro Group will own 71.2 per cent. and 9.7 per cent., respectively, of our issued share capital. As such, Africa Israel, either alone or acting together with Mr. Khaldey, will be in a position to exercise significant control over us, such as in electing members to our board of directors, approving significant transactions, making payments of dividends and limiting and excluding pre-emption rights of our shareholders. Africa Israel, either alone or acting together with Mr. Khaldey, may pursue interests which are to the disadvantage of other shareholders.

***We are not subject to takeover protection laws.***

We are incorporated in Cyprus and are not subject to the UK's City Code on Takeovers and Mergers. Cypriot law does not contain provisions similar to those applicable to takeovers in the United Kingdom. As a result, a prospective bidder may gain control of us in circumstances in which some holders of our GDRs do not receive, or are not given the opportunity to receive, treatment equal to that received by our controlling shareholder.

***Fluctuations in our quarterly or yearly operating results or our failure to meet market expectations may cause volatility in the price of the GDRs.***

Our operating results may fluctuate significantly as a result of a variety of factors, some of which may be outside of our control. In addition, our operating results or financial performance may fall below the expectations of analysts and investors due to the circumstances described elsewhere in these risk factors or otherwise. Fluctuations in our operating results or failure to meet expectations of analysts or investors may cause the price of the GDRs to decline and investors may not be able to sell the GDRs they purchased in this offering at or above the offer price or at all. As a result, investors who purchase GDRs in this offering could lose all or part of their investment in the GDRs.

***You will experience immediate and substantial dilution.***

The offer price of the GDRs is substantially higher than the net book value per ordinary share underlying the GDRs. Investors in the GDRs contributed 71.03 per cent. of our total book value as of 31 December 2006 as adjusted for this offering, after taking into account the expenses of the offering, but

own only 20.6 per cent. of our total equity outstanding, assuming the underwriters exercise the over-allotment option in full.

*Additional issuances of our ordinary shares, including in the form of GDRs, may reduce the percentage ownership interest of investors who purchased GDRs in this offering.*

In order to raise funding in the future, we may issue additional ordinary shares, including in the form of GDRs. Holders of our ordinary shares have statutory preemptive rights entitling them to purchase a percentage of every issuance of our ordinary shares. As a result, holders of our ordinary shares may purchase ordinary shares we may issue in the future, including in the form of GDRs, in order to preserve their percentage ownership interest in us thereby reducing the percentage ownership interest of other investors.

*The liquidity and price of the GDRs depends on an active trading market for the GDRs developing after this offering.*

Prior to this offering, there was no active trading market for the GDRs and after this offering, an active trading market may not develop. If an active trading market for the GDRs does not develop, investors may not be able to sell the GDRs they purchased in this offering at or above the offer price or at all. As a result, investors who purchase GDRs in this offering could lose all or part of their investment in the GDRs.

## THIS OFFERING

The Company	AFI Development PLC, a limited liability company limited by shares registered in Cyprus.
This Offering	This offering comprises up to 100,000,000 newly issued shares in the form of 100,000,000 GDRs. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A or another exemption for, or transaction not subject to, registration under the Securities Act and outside the United States to certain persons in offshore transactions in reliance on Regulation S. The GDRs will be delivered by The Bank of New York as Depositary.
Share Capital	Our authorised share capital consists of 1,000,000,000 ordinary shares, each with a nominal value of US\$0.001. Our shares have the rights described under “Description of Share Capital and Certain Requirements of Cypriot Legislation.” Following this offering, assuming the underwriters do not exercise the over-allotment option, Africa Israel Investments Ltd., or Africa Israel, our controlling shareholder, and its subsidiaries will own 71.2 per cent. of our issued shares.
The GDRs	<p>One GDR will represent one share on deposit with BNY (Nominees) Limited, as Custodian. The GDRs will be issued pursuant to a Deposit Agreement among us, the Depositary and holders and beneficial owners from time to time of the relevant GDRs. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR Certificate and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR Certificate, each to be issued pursuant to the Deposit Agreement. The Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate are herein collectively referred to as the Master GDRs. Pursuant to the Deposit Agreement, the shares represented by the GDRs will be held in Russia by the Custodian, for the account of the Depositary and for the benefit of the holders and beneficial owners of GDRs.</p> <p>Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDR Certificates. Subject to the terms of the Deposit Agreement, interests in the Master Regulation S GDR Certificate may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR Certificate, and vice versa. See “Terms and Conditions of the Global Depositary Receipts,” “Settlement and Delivery—The Clearing Systems—Registration and Form” and “Settlement and Delivery—Global Clearance and Settlement Procedures—Secondary Market Trading”.</p>
Offer Price	US\$14.00 per GDR.
Closing Date	Expected to be on or about 11 May 2007.
Over-Allotment Option	We have granted to the underwriters an option exercisable within 30 days after the announcement of the offer price, in whole or in part to purchase an additional 10,000,000 ordinary shares in the form of GDRs at the offer price, solely to cover over-allotments in this offering.

## Lock-up

We, Africa Israel and Nirro Group S.A. have agreed, subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in us or securities convertible or exchangeable into or exercisable for any shares in us or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, from the date hereof until 180 days from the closing date, without the prior written consent of the Joint Bookrunners. However, such consent shall not be required for the sale of the shares to the underwriters pursuant to the Underwriting Agreement. See “Subscription”.

## Transfer Restrictions

The GDRs will be subject to certain restrictions on transfer as described under “Terms and Conditions of the Global Depositary Receipts” and “Selling and Transfer Restrictions”.

## Listing and Market for the GDRs

Prior to this offering, there has been no market for the GDRs. Application has been made to (1) the FSA for a listing of 533,847,027 GDRs, consisting of up to 110,000,000 GDRs to be issued on or about the closing date, and up to 423,847,027 additional GDRs to be issued from time to time against the deposit of shares (to the extent permitted by law) with the Depositary, to be admitted to the Official List and (2) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on a when and if issued basis on or about 3 May 2007. Admission to the Official List and to trading on the London Stock Exchange’s regulated market for listed securities are expected to take place on or about 11 May 2007.

The GDRs will trade on the London Stock Exchange under the symbol “AFID”. Application has also been made to have the Rule 144A GDRs designated eligible for PORTAL. Trading in the Rule 144A GDRs on PORTAL is expected to commence on or about 11 May 2007.

In connection with the over-allotment option shares may be deposited, subject to the provisions set forth under “Terms and Conditions of the Global Depositary Receipts” and in the Deposit Agreement, with the Custodian against which the Depositary shall deliver GDRs representing such shares to the extent permitted by law. See also “Risk Factors—Risks Relating to GDRs”.

## Settlement Procedures

Payment for the GDRs is expected to be made in US dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the closing date. The underwriters and the Depositary will apply to DTC to have the Rule 144A GDRs accepted into DTC's book-entry settlement system. Upon acceptance by DTC, a single Master Rule 144A GDR Certificate will be issued to DTC and registered in the name of Cede and Co., as nominee for DTC. The Master Regulation S GDR Certificate will be registered in the name of a nominee for The Bank of New York, London Office, as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See "Settlement and Delivery".

## Voting

The Deposit Agreement does not allow for the voting of fractional entitlements. Thus, you will need one GDR to be entitled to one vote. You are entitled to one vote per GDR at a shareholders' meeting. See "Description of Share Capital and Certain Requirements of Cypriot Legislation".

## General Information

It is expected that the Rule 144A GDRs will be accepted for clearance through the facilities of DTC and the Regulation S GDRs will be accepted for clearance through Euroclear and Clearstream. The security numbers for the GDRs offered hereby are as follows:

Regulation S GDRs:	CUSIP:	00106J200
	ISIN:	US 00106J2006
	Common Code:	029604592
Rule 144A GDRs:	CUSIP:	00106J101
	ISIN:	US 00106J1016
	Common Code:	029604533

London Stock Exchange trading symbol: AFID

PORTAL symbol: P00106J101

## **USE OF PROCEEDS**

We have conducted this offering and applied for the GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities in order to raise funds and to create a public trading market for such securities. We will receive net proceeds from this offering of approximately US\$1.34 billion after deducting underwriting commissions, fees and expenses incurred in connection with this offering, including payment of the maximum additional fee of one per cent. of the gross proceeds of the offering to the underwriters, and assuming no exercise of the over-allotment option. Such additional fee is payable at our discretion.

We intend to use the proceeds from this offering to fund our current development portfolio and to acquire new development projects in Moscow, the Moscow Region and other major cities in Russia for our project pipeline.

## **DIVIDEND POLICY**

To date, we have not declared or paid any dividends on our ordinary shares. In accordance with our strategy, as we expect to invest the majority of our cash flow into our current development portfolio and pipeline, we do not currently intend to declare any payments of dividends on our ordinary shares.

In the future, we may consider payments of dividends on our ordinary shares, when and if commercially prudent, after taking into account our profits, cash flow and capital investment requirement.

## CAPITALISATION

The following table sets forth our capitalisation as of 31 December 2006, on an actual basis and as adjusted for this offering, after deducting underwriting commissions, fees and expenses incurred in connection with this offering, assuming (i) no exercise of the over-allotment option and (ii) payment of the maximum additional fee of one per cent. of the gross proceeds of the offering to the underwriters, which is payable at our discretion.

You should read this section in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in this prospectus, together with the notes thereto, beginning on page F-2.

	As of 31 December 2006	
	Actual	As adjusted for this offering
	(US\$ in thousands)	
<b>Cash and cash equivalents</b> . . . . .	<b>26,272</b>	<b>1,370,122</b>
<b>Long term loans and borrowings<sup>(1)</sup></b> . . . . .	<b>61,746</b>	<b>61,746</b>
Share capital . . . . .	424	524
Share premium . . . . .	421,325	1,765,075
Translation reserve <sup>(2)</sup> . . . . .	6,047	6,047
Retained earnings . . . . .	175,745	175,745
<b>Total equity</b> . . . . .	<b>603,541</b>	<b>1,947,391</b>
<b>Total capitalisation</b> . . . . .	<b>665,287</b>	<b>2,009,137</b>

(1) Excludes current portion of long term loans and borrowings.

(2) Includes all foreign currency differences arising from the translation of the financial statements of our subsidiaries into the presentation currency of our consolidated financial statements included in this prospectus.

In January and February of 2007, we entered into term loan agreements with Africa Israel, both directly and through our subsidiary Scotson Limited, or Scotson, in the principal amounts of US\$62.0 million and US\$16.7 million, respectively. The loans bore interest at a rate of three-month LIBOR plus 2.5 per cent. per annum, and each had a maturity date of 31 March 2007. Both of these loans were repaid in March 2007 using a portion of the proceeds from the term loan facility with Deutsche Bank AG, London Branch noted below.

In February 2007, we entered into a US\$200 million facility with Deutsche Bank AG, London Branch. As of the date of this prospectus, this facility is fully drawn. In February 2007, we received US\$135 million in connection with the sale of a 50.0 per cent. interest in our subsidiary OOO “Krown Investments” to Super Passion Investments Limited.

## SELECTED FINANCIAL INFORMATION

The table below shows certain of our financial information as at and for the years ended 31 December 2004, 2005 and 2006. The financial information as at and for the years ended 31 December 2004, 2005 and 2006 has been derived from our consolidated financial statements included in this prospectus. The following selected financial information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in this prospectus.

	Years ended 31 December		
	2004	2005	2006
	(US\$ in thousands)		
<b>Income Statement Data</b>			
<b>Revenue</b>			
Construction consulting/management fees . . . . .	643	838	2,505
Rental income . . . . .	808	577	1,358
	<u>1,451</u>	<u>1,415</u>	<u>3,863</u>
Other income . . . . .	—	340	39
Operating expenses . . . . .	(463)	(354)	(1,684)
Administrative expenses . . . . .	(1,148)	(1,067)	(3,913)
	<u>(160)</u>	<u>334</u>	<u>(1,695)</u>
Profit on disposal of investment in subsidiaries . . . . .	9,672	43,149	119,345
<b>Operating profit before net finance costs . . . . .</b>	<b>9,512</b>	<b>43,483</b>	<b>117,650</b>
Finance income . . . . .	435	303	3,288
Finance expenses . . . . .	(1,401)	(1,422)	(7,648)
Net finance costs . . . . .	<u>(966)</u>	<u>(1,119)</u>	<u>(4,360)</u>
<b>Profit before tax . . . . .</b>	<b>8,546</b>	<b>42,364</b>	<b>113,290</b>
Income tax expense . . . . .	42	(230)	(1,223)
<b>Profit from continuing operations . . . . .</b>	<b>8,588</b>	<b>42,134</b>	<b>112,067</b>
Loss from discontinued operations (net of income tax) . . . . .	—	—	(83)
<b>Profit for the year . . . . .</b>	<b>8,588</b>	<b>42,134</b>	<b>111,984</b>

	As at 31 December		
	2004	2005	2006
	(US\$ in thousands)		
<b>Balance Sheet Data</b>			
Investment property under development . . . . .	80,406	185,073	363,708
Trading properties under construction . . . . .	5,346	26,806	79,044
Total assets . . . . .	134,057	257,703	687,129
Long term loans and borrowings . . . . .	103,587	182,660	61,746
Short term loans and borrowings . . . . .	241	8,225	14,786
Total liabilities . . . . .	110,461	193,288	83,588
Total equity . . . . .	23,596	64,415	603,541

	Years ended 31 December		
	2004	2005	2006
	(US\$ in thousands)		
<b>Statement of Cash Flow Data</b>			
Net cash used in operating activities . . . . .	(5,785)	(25,363)	(3,256)
Net cash used in investing activities . . . . .	(42,547)	(38,364)	(268,586)
Net cash flow from financing activities . . . . .	48,453	71,945	282,390

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with our consolidated financial statements included in this prospectus, or our consolidated financial statements, beginning on page F-2, together with the notes thereto. For a description of our consolidated financial statements, see "Presentation of Financial Information".*

*In addition, the following discussion contains certain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this prospectus, including under "Risk Factors" and "Forward-Looking Statements".*

### Overview

We are one of the leading real estate development companies operating in Russia. We focus on developing and redeveloping high quality commercial and residential real estate assets in Moscow, the Moscow Region and other major Russian cities such as St. Petersburg, Perm and Volgograd. Our strategy is to sell the residential properties we develop and to either lease the commercial properties we develop or sell them if we are able to achieve a favourable return.

We have an existing portfolio of 21 development projects in 12 locations in Russia comprising commercial projects focused on offices, shopping centres, hotels and mixed-use properties, and residential projects focused on upscale apartment buildings in prime locations in Moscow and on the development of residential districts in the Moscow Region aimed at the upper middle class segment of the market. According to Jones Lang LaSalle, or JLL, at completion, the projects in our current portfolio will have approximately 3.2 million square metres of gross lettable area and gross sellable area. As at 31 March 2007, JLL valued our beneficial interest in the projects in our current portfolio in their existing state of development at approximately \$3.69 billion, subject to the assumptions set out in the valuation report attached as Annex A to this prospectus. In addition to our portfolio of existing projects as at 31 March 2007, we had a pipeline of 12 development projects, located in Moscow, the Moscow Region and in other major cities in Russia.

Our profits for the year increased from US\$8,588 thousand in 2004 to US\$42,134 thousand in 2005 and to US\$111,984 thousand in 2006. To date, our profits have been derived primarily from disposals of our interests in projects that at the time were either completed or under development.

As we are in the early stages of our business development and the significant majority of our properties remain subject to completion and are not yielding, our results of operations may vary significantly from period to period. See "—Additional Factors that May Affect Our Future Financial Results".

### Presentation of Financial Information

Our consolidated financial statements were prepared in accordance with IFRS as issued by the International Accounting Standards Board, or IASB, in effect at the time of preparing our consolidated financial statements. The accounting policies applied in the preparation of our consolidated financial statements in accordance with IFRS as issued by the IASB, and in effect at that time, did not differ from IFRS as adopted for use in the European Union. IFRS differ in various material respects from US GAAP and UK GAAP.

In December 2006, we completed a corporate reorganisation by consolidating various entities that had previously been under common control with us. Our consolidated financial statements are comprised of the respective consolidated annual financial statements for the years ended 31 December 2004, 2005 and 2006 of AFI Development PLC, or AFI Development (formerly Donkamill Holdings Limited), Scotson Limited, or Scotson, which had served as a financing vehicle for our operations, and Borencor Enterprises Limited, or Borencor, which, among other things, holds a 100 per cent. interest in OOO "Stroyinkom-K", or Stroyinkom-K, which acts as project manager on virtually all of our projects. As the acquisition by AFI Development of Scotson and Borencor involved entities under common control with AFI Development, these transactions have been accounted for using the pooling of interests method, and our consolidated financial statements have been presented as if the transfer to us of the interests in Scotson and Borencor

had occurred with effect from 1 January 2004. All such entities were under the common control of Africa Israel Investments Ltd. and Nirro Group S.A. at such time.

Joint ventures in which we share control or have historically shared control with another partner, such as Westec Four Winds Ltd, or Westec, ООО “Krown Investments”, or Krown Investments, and ООО “Regionalnoe Agropromizvodstvennoe Obyedinenie”, or RAPO, have been consolidated proportionate to our equity in those entities. Proportionate consolidation has been applied only for those periods in which we shared control.

### **Key Factors Affecting our Financial Results**

Our results have been affected, and are expected to be affected in the future, by a variety of factors, including the following:

#### ***Macroeconomic Factors***

All of our properties and projects are located in Russia. As a result, Russian macroeconomic trends and country-specific risks significantly influence our performance.

The following table sets out certain macroeconomic information for Russia as of and for the dates indicated:

	Year ended 31 December		
	2004	2005	2006
Gross Domestic Product growth <sup>(1)</sup>	7.2%	6.4%	6.5%
Consumer price index <sup>(1)</sup>	10.9%	12.6%	9.7%
Average exchange rate (Roubles per US Dollar) <sup>(2)</sup>	28.7	28.3	27.1
Real Rouble appreciation against US Dollar <sup>(3)</sup>	15.1%	10.8%	10.7%

(1) Source: International Monetary Fund, or IMF. The Gross Domestic Product, or GDP, growth and consumer price index, or CPI, information for 2006 is estimated by the IMF.

(2) Source: Central Bank of Russia. The average of the exchange rates on the last business day of each full month during the relevant period.

(3) Source: Central Bank of Russia. Real Rouble appreciation against the US Dollar is a consumer price index adjusted for nominal exchange rate changes over the same period.

The Russian economy has experienced positive trends in the last few years such as increases in GDP, reduced rates of inflation and a relatively stable currency. GDP growth rates in Russia are high as compared to those in many industrialised countries. The rate of increase in the CPI in Russia is high compared with many industrialised countries, but has decreased since 2001 and 2002, when the consumer price index growth was above 15.0 per cent. per annum. The Russian government has generally followed conservative fiscal and monetary policies in recent years, resulting in federal budget surpluses, reductions in its foreign debt, large foreign currency reserves and a large stabilisation fund. The stabilisation fund, which was established by the Russian Federation in 2004, accumulates revenues from oil export duties and oil drilling taxes when the price for Urals oil exceeds a set cut-off price. The capital of the fund may be used to cover federal budget deficits and for other purposes.

#### ***Profit on Disposal of Investments in our Property Development Subsidiaries***

During the period under review, our operating profit was primarily derived from profits on disposal of investments in certain of our property development subsidiaries. We recognise profits on disposal of investments in our subsidiaries when the significant risks and rewards of ownership are transferred to the buyer in the transaction. We recognise a profit on disposal equal to the revenue received from the sale less the carrying amount of the assets held by such subsidiary in proportion to the interest sold as recorded on our balance sheet. Our sales of investments in property development subsidiaries during the period under review included the following:

- In September 2006, we sold a 50.0 per cent. interest in Krown Investments, which is developing the Ozerkovskaya Phase II and Phase III projects, to Super Passion Investments, for US\$150,000 thousand plus certain additional costs. We recognised a US\$111,831 thousand profit on the disposal of our interest, as well as a US\$534 thousand foreign exchange gain in connection with the sale.

- In June 2006, we sold a 100 per cent. interest in OOO “Techinvestgroup”, or Techinvestgroup, which developed the Udaltsova project, for US\$22,000 thousand. We recognised a US\$10,177 thousand profit on the disposal of our interest, as well as a US\$468 thousand foreign exchange gain in connection with the sale.
- In May 2005, we sold a 100 per cent. interest in OOO “Blaster Plus”, or Blaster Plus, which developed and held the Aquamarine I project, for US\$54,175 thousand. We recognised a US\$31,592 thousand profit on the disposal of our interest, as well as a US\$519 thousand foreign exchange gain in connection with the sale.
- In July 2005, we sold a 50.0 per cent. interest in RAPO, which is developing the Otradnoye project, for US\$29,998 thousand and recognised a US\$11,038 thousand profit on the sale. In July 2006, we reacquired the 50.0 per cent. interest in RAPO that we had sold in July 2005 for US\$33,360 thousand, and as a result we currently hold a 100 per cent. interest in RAPO.
- In December 2003, we concluded the sale of a 100 per cent. interest in OOO “Moint”, or Moint, which developed the Nejinskaya project, for an aggregate sale price of US\$40,000 thousand. We recognised a US\$22,812 thousand profit on the disposal of our interest in Moint, of which US\$9,672 thousand was recorded in 2004 following the satisfaction of certain conditions under the contract.

We sold our interests in Techinvestgroup and Moint in accordance with our overall strategy of focusing on large scale projects. We sold 50.0 per cent. interests in Krown Investments and RAPO with a view to bringing in partners to the projects to assist with the financing of the projects. In the case of our sale of Blaster Plus, which involved an underlying commercial property, we believed that the market conditions were favourable for the sale of the property.

For additional information on our disposals of interests in our property development subsidiaries during the period under review, see note 27 to our consolidated financial statements.

### *Acquisitions*

We have made a number of strategic acquisitions during the last three years which have affected our results of operations and financial condition. We made these acquisitions to acquire rights to buildings and/or land plots within the boundaries of certain of our proposed development projects.

- **Aristeya.** In June 2006, we acquired 100 per cent. of OOO “Aristeya”, or Aristeya, which owns the H<sub>2</sub>O office building, for a total consideration of US\$26,611 thousand. The H<sub>2</sub>O building is a completed building that we acquired as part of a larger business park development at the Paveletskaya Embankment project.
- **Bugis Finance.** In October 2006, we acquired 100 per cent. of Bugis Finance Ltd., or Bugis Finance, which holds rights to non-residential premises with a total area of 4,577.6 square metres located at Tverskaya Zastava 3, which is a part of the Tverskaya Plaza II project, for US\$22,000 thousand. These non-residential premises accounted for approximately 20 per cent. of our total rental income in the year ended 31 December 2006.
- **MKPK.** In March 2006, we acquired a 98.2 per cent. interest in OAO “Moskovsky Kartonazhno—Poligrafichesky Kombinat”, or MKPK, which holds the rights to a group of commercial buildings that form part of the Paveletskaya Embankment project, for US\$34,522 thousand. MKPK also operates a package manufacturing facility, a portion of the operations of which we have sold and the remainder of which we plan to sell. Accordingly, we present the results of operations of MKPK’s manufacturing activities as discontinued operations. We recorded a loss from discontinued operations of US\$83 thousand in the year ended 31 December 2006 in connection with MKPK’s manufacturing activities.
- **RAPO.** We initially acquired 100 per cent. of RAPO, which is developing the Otradnoye project, for US\$30,010 thousand in February 2005. We then sold a 50.0 per cent. interest in RAPO for US\$29,998 thousand to a third party to assist in the financing of the project in July 2005. In July 2006, we reacquired the remaining 50.0 per cent. interest in RAPO from our partner for US\$33,360 thousand after we determined that our partner did not have the financial resources necessary to participate in the project. Accordingly, we currently hold 100 per cent. of RAPO. During the period from July 2005 to July 2006, we treated RAPO as a joint venture from which we had generated certain construction consulting and construction management fee revenue. We

ceased recording such fee revenue from RAPO upon its becoming one of our wholly-owned subsidiaries.

- **Ozerkovka.** In December 2005, we acquired 100 per cent. of OOO “Ozerkovka”, or Ozerkovka, which owns an office building at 3 Ozerkovskaya Lane, which is part of our Ozerkovskaya Phase IV project, for US\$5,563 thousand.
- **Dorohovo.** In April 2004, we acquired 100 per cent. of OOO “PSO Dorohovo”, or Dorohovo, which has freehold interests in five land plots located on our Ruza development site, for US\$3,244 thousand.

For additional information on our acquisitions during the period under review, see note 7 to our consolidated financial statements.

### ***Revenue Recognition***

Revenue recognition policies have a significant impact on our results of operations. Below we have summarised key elements of our revenue recognition policies:

- **Rental income.** We recognise rental income from investment properties leased out under operating leases in our income statement on a straight line basis over the term of the lease.
- **Construction consulting and construction management fees.** We recognise revenues from construction consulting and construction management services in our income statement in proportion to the stage of completion of the related project at the relevant reporting date. We assess the stage of completion by reference to surveys of work performed.
- **Sales of trading properties.** We recognise revenue from the sale of trading properties in our income statement when the significant risks and rewards of ownership of the property are transferred to the buyer. When we receive revenue in connection with the sale of trading property that is under construction, we record such revenue net of the carrying amount of the trading property on our balance sheet at the time of sale.

### ***Capitalisation of Costs for Properties under Development***

We capitalise all costs directly related to the purchase and construction of properties being developed as both investment properties and trading properties, including costs to acquire land rights and premises, design costs, permit costs, costs of general contractors, costs relating to the lease of the underlying land and the majority of our employee costs related to such projects. In addition, we capitalise financing costs related to development projects only during the period of construction of the projects. We do not, however, commence capitalising financing costs related to expenditures on a project until construction on such project actually begins. As substantially all of our development projects are still in the pre-construction or construction phases, to date we have capitalised the great majority of the overall costs related to our business activities. In our consolidated financial statements, we capitalised expenses related to the development of our investment and trading properties in aggregate amounts of US\$51,024 thousand, US\$112,940 thousand and US\$150,267 thousand in the years ended 2004, 2005 and 2006, respectively.

Upon completion of construction, property classified as investment property under development (which are those properties that are being constructed or developed for future use to earn rental income or for capital appreciation) is appraised to market value and reclassified as investment property and any gain or loss on appraisal is recognised in our income statement. Trading properties, which include those projects where we intend to sell the entire project as a whole or parts thereof (and principally includes our residential development projects), are measured on our balance sheet at the lower of cost and net realisable value, which is the estimated selling price in the ordinary course of business, less the estimated costs of completion and sale. Generally, once construction of investment properties and trading properties is completed, we begin to recognise expenses related to such assets in our income statement.

### ***Exchange Rates***

Our consolidated financial statements are presented in US Dollars, which is our functional currency. The functional currency of our Russian subsidiaries and joint ventures is the Rouble. The balance sheets of our Russian subsidiaries are translated into US Dollars in accordance with IAS 21, whereby assets and liabilities are translated into US Dollars at the rate of exchange prevailing at the balance sheet date and

income and expense items are translated into US Dollars at the average exchange rate for the period. All resulting foreign currency exchange rate differences are recognised directly in our shareholders' equity under the line item "translation reserve". When a foreign operation is disposed of, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation is recognised in our income statement when the gain or loss on disposal of the foreign operation is recognised. During the period under review, we realised exchange gains in connection with the sale of interests in Krown Investments and Techinvestgroup in 2006 in the aggregate amount of US\$1,002 thousand and in connection with the sale of our interest in Blaster Plus in 2005 in the amount of US\$519 thousand.

The monetary assets and liabilities of our Russian subsidiaries that are denominated in currencies other than Roubles are initially recorded by our Russian subsidiaries at the exchange rate between the Rouble and such foreign currency prevailing at such date. Such monetary assets and liabilities are then retranslated into Roubles at the exchange rate prevailing at each subsequent balance sheet date. We recognise the resulting exchange rate difference between the date such assets or liabilities were originally recorded and such subsequent balance sheet date as foreign exchange losses and gains in our income statement. In particular, during the period under review, we have recognised foreign exchange rate gains and losses in connection with US Dollar denominated payables and receivables of our Russian subsidiaries. As most of our projects are still in the pre-yield stage, our Russian subsidiaries have historically had higher levels of US Dollar denominated payables, including interest on loans and general contractor fees, than US Dollar denominated receivables, such as rental payments, with the result that we have historically recorded foreign exchange gains when the Rouble appreciates against the US Dollar, thus reducing the US Dollar denominated liabilities of our Russian subsidiaries when translated into Roubles, and foreign exchange losses when the US Dollar appreciates against the Rouble.

#### ***Increasing Construction and Other Development Costs***

During the periods under review, we have experienced increases in development and construction costs, including costs of contractors, labour, pre-project documentation and land and property acquisition costs. Labour costs have been increasing due to labour shortages and high costs of living in Russia, particularly in Moscow.

#### ***Additional Factors that May Affect Our Future Financial Results***

We are still in an early stage of development and currently have a limited number of yielding properties. As a result, our historical results of operations may not be an accurate indication of our future results of operations. As we complete a greater number of projects, additional factors, including those set forth below, may impact our future financial position and results of operations.

#### ***Sales of Properties***

Consistent with our strategy, we may sell our projects or our interests in the subsidiaries that hold our projects. To date, we have derived nearly all of our profits from selling interests in our subsidiaries that hold our projects rather than the projects themselves, due to tax considerations. The sale of our interests in the Cyprus subsidiaries that hold our projects is not subject to income tax in either Cyprus or Russia. However, the sale of the projects themselves, which we are likely to do to a greater extent in the future, will be subject to income tax in Russia.

#### ***Recognition of Costs***

Given that substantially all of our projects are in the pre-construction or construction stage, we have historically capitalised the majority of the costs related to these projects, except for finance costs related to our projects in the pre-construction phase. However, once we complete the construction of a project, we will cease to capitalise the related costs and begin to recognise expenses related to the project in our income statement. We also intend to expand our operations in the field of property management and will expense all costs relating to our management activities. As a result, we expect our operating expenses and administrative expenses to increase significantly in future periods.

We also expect to assume significant amounts of debt in connection with financing our projects, which will result in an increase in financing costs.

### *Recovery of VAT*

We pay VAT to the Russian authorities with respect to construction costs and expenses on our projects, which, according to Russian tax law, can be recovered upon completion of construction. We have accordingly included recoverable VAT as an asset on our balance sheet, the size of which we expect will increase as the development of our projects advances. We may face delays recovering such VAT payments to the extent we face procedural complications to reclaiming such VAT or, in certain cases, such as to the extent we do not complete a project, we may not be eligible to recover such VAT payments.

### *Deferred Taxation*

As we continue to advance the development of our projects, we also expect to record both higher deferred tax liabilities and assets. Under Russian tax law, we are not allowed to capitalise certain of the costs in relation to the design, construction and financing of projects that we capitalise for the purposes of our consolidated financial statements under IFRS. As a result, our tax bases in the related assets may be lower than our accounting bases for IFRS purposes, which would result in deferred tax liabilities. However, the expensing of such costs may result in accumulated tax losses for Russian tax purposes that we may be able to carry forward against estimated future profits, resulting in deferred tax assets. We expect these deferred tax liabilities and assets to grow as our major projects reach more advanced stages. However, such tax losses may only be carried forward to offset gains for a ten year period under Russian tax law, and they may only be utilised in the Russian subsidiary in which such tax losses were generated. There can be no assurance that we will be able to utilise any such tax loss carryforwards.

### *Fair Value Calculation*

Our future results of operations may be affected by our measurement of the fair value of our investment properties and changes in the fair value of such properties. Upon completion of construction, the projects which we have classified as investment property under development are remeasured at fair value and reclassified as investment property, and any gain or loss on remeasurement is recognised in our income statement. Any change in fair value of the investment property is thereafter recognised as a gain or loss in our income statement. Accordingly, fair value measurements of our investment properties may significantly affect our results of operations even if we do not dispose of such assets.

### *Revenue*

Generally, our strategy is to lease the commercial properties we develop, subject to our continual reassessment of such properties based on prevailing market conditions. Amounts we receive pursuant to the lease of our commercial properties will be recorded as revenue on our income statement. As a result, we expect our revenue to increase in future periods as our projects become income yielding.

### *Competition*

We believe that our future results of operations may be impacted by increasing competition, especially as it relates to the identification and acquisition of properties in Russia. See “Risk Factors—Risks Relating to our Business—We may be unable to compete effectively with real estate companies and developers”.

### **Recent Developments**

Subsequent to 31 December 2006, we have entered into the following material transactions:

In January 2007, we acquired OOO “Cristall Development”, or Cristall Development, and in February 2007 we formed OOO “Volga Stroyinkom Development”, or Volga Stroyinkom. Volga Stroyinkom owns 78.0 per cent. of the Volgograd project, which is a multi-phase, retail development complex, located in Volgograd city centre. Volga Stroyinkom is party to a co-investment contract under which Volga Stroyinkom would provide the financing and OOO “Avtograd” would provide the leasehold and ownership rights to the land and buildings for the Volgograd project.

Jointly with OOO “Danya Cebus Rus”, or Danya Cebus, we formed Krusto Enterprises Limited, or Krusto, a Cypriot company. We hold 60.0 per cent. of Krusto while Danya Cebus holds 40.0 per cent. Krusto is expected to be the owner of 50.0 per cent. of ZAO “Kama Gate”, or Kama Gate, after the registration of the shares of Kama Gate with the relevant regulatory authorities. The remainder of Kama Gate is held by our Russian partner which owns the lease rights to the land plots located on the project site. We acquired our interest in the Perm project for RUB 50.0 thousand.

We have signed a stock purchase agreement for the purchase of the interests in Keyiri Trading & Investments Limited, or Keyiri Trading, which is a Cypriot company that holds, through its Russian subsidiary, OOO “Favorit”, or Favorit, a 76.0 per cent. interest in the land plot on which our retail project in St. Petersburg will be located. The transfer of the 100 per cent. interest is pending registration. We own, through our wholly-owned subsidiary, Buildola Properties Limited, 100 per cent. of OOO “KO Proekt”, or KO Proekt, which, in turn, holds 76.0 per cent. of OOO “KO Development”, or KO Development, that will develop the St. Petersburg retail shopping project. The remaining 24.0 per cent. of KO Development is currently held by our local partner in St. Petersburg. We intend to complete the acquisition of our interest in the St. Petersburg project for US\$2.7 million, plus an additional amount of RUB11.2 million to cover Favorit’s obligations to the seller of the land plot.

In February 2007, we, through our subsidiary OOO “MayStroy”, or MayStroy, acquired 100 per cent. of the share capital of ZAO “Armand”, or Armand, an entity which has certain land rights reserved to it under a resolution by the City of Moscow at the Kuntsevo project site, for RUB 10.0 thousand. As at the date of this prospectus, 100 per cent. of the share capital of Armand is pledged in favour of OOO “Auto Motor Group”, or Auto Motor Group, a non-related third party. In order to release the pledge, we will either need to enter into an agreement with Auto Motor Group by 1 June 2007 pursuant to which we must provide a suitable car dealership facility for Auto Motor Group or enter into an amendment agreement with Auto Motor Group to extend the 1 June 2007 deadline.

In February 2007, we entered into a framework agreement with Ramis Limited, an affiliate of OOO “Milinar”, or Milinar, a Russian company that owns buildings located at the Dinamo project site, which is expected to accommodate a business park, pursuant to which the Milinar affiliate agreed to carry out all actions necessary to enable us to purchase a 100 per cent. participatory interest in Milinar. Under the terms of the agreement, our total acquisition cost for Milinar is set at approximately US\$149,000 thousand, and we have already made an advance payment to such affiliate of Milinar in the amount of US\$30,300 thousand. The seller is obligated to carry out certain repairs on the site which we are required to finance.

In March 2007, we entered into a sale and purchase agreement for the acquisition of a 50.0 per cent. participatory interest in OOO “Bizar”, or Bizar, a Russian company which is expected to own two buildings located at the Berezhkovskaya project site. We plan to purchase an additional 24.0 per cent. interest in Bizar after the seller transfers two additional buildings to Bizar. Under the terms of our agreement with the seller of participatory interests in Bizar, our total costs for a 74.0 per cent. interest in Bizar would be US\$37,000 thousand. See “Business—Material Agreements—Preliminary Agreements—Berezhkovskaya Project”.

In January and February of 2007, we entered into term loan agreements with Africa Israel, both directly and through our subsidiary Scotson Limited, or Scotson, in the principal amounts of US\$62.0 million and US\$16.7 million, respectively. The loans bore interest at a rate of three-month LIBOR plus 2.5 per cent. per annum, and each had a maturity date of 31 March 2007. Both of these loans were repaid in March 2007 using a portion of the proceeds from the term loan facility with Deutsche Bank AG, London Branch noted below.

In February 2007, we entered into a US\$200 million term loan facility with Deutsche Bank AG, London Branch. See “—Liquidity and Capital Resources—Capital Resources”.

## **Results of Operations**

### ***Description of Income Statement Line Items***

The following discussion provides a description of the composition of certain of our income statement line items for the period under review.

#### ***Revenue***

To date, we have derived revenues from two sources: construction consulting and construction management fees and rental income. In the period under review, we have derived relatively small amounts of revenue from such fees and rental income as compared to profits from the disposal of investments in our subsidiaries. We expect that our revenue from rental income will increase significantly in the future once we complete the commercial properties we are currently developing for lease. As we no longer provide construction consulting and construction management services to third parties other than our joint

ventures, we do not expect construction consulting and construction management fees to constitute a significant source of revenue in the future.

*Construction consulting and construction management fees.* We have historically derived construction consulting and construction management fees from project management services we provide to both third party developers and our joint ventures. We typically charge third party developers and our joint ventures a fixed percentage of the total costs related to the projects for which we provide such services. Since 2006, we have no longer provided construction consulting and construction management services for third parties outside of our group, and so revenue derived from such fees from third parties will be at or close to zero going forward. We do, however, continue to record revenues with respect to construction consulting and construction management services provided to our joint ventures in proportion to the ownership interests of third parties in such joint ventures. We have historically provided such services to (i) our joint venture Westec Four Winds Ltd., or Westec, which is developing the Four Winds project, (ii) our joint venture Krown Investments, which is developing the Ozerkovskaya Phase II and Phase III projects, and to which we sold a 50.0 per cent. interest to a third party in September 2006, and (iii) RAPO, which is developing the Otradnoye project, with respect to which we currently hold a 100 per cent. interest, but only held a 50.0 per cent. interest between July 2005 and July 2006. Beginning in 2007, Westec put in place its own project management team, so we do not expect to provide project management services to Westec in the future. We expect our revenue from construction consulting and construction management fees in 2007 to be at approximately the same level as in 2006. In particular, we anticipate that we will derive higher levels of project management service fees from our joint venture Krown Investments, as Krown Investment's development projects enter into a more intense construction phase, which will offset the loss of such fees from Westec, RAPO and third party developers.

*Rental income.* To date we have derived rental income primarily from buildings that we have purchased and which are rented on a short term basis, including the following:

- The non-residential premises we own at Tverskaya Zastava 3, which is a part of our Tverskaya Plaza II project. We intend to demolish these premises as part of the overall development of Tverskaya Zastava II.
- The building we own at 3 Ozerkovskaya Lane, which is part of our Ozerkovskaya Phase IV project. We intend to demolish this building in order to build a mixed-use development at the site.
- The H<sub>2</sub>O office building we acquired in 2006, which forms part of the Paveletskaya Embankment development.

Apart from the H<sub>2</sub>O building, which we acquired in 2006 after it had been renovated by its previous owner, we do not yet derive any rental income from projects that we have developed ourselves.

#### *Other income*

Our other income comprises debts incurred in prior periods to related parties that have been forgiven in the current period.

#### *Operating expenses*

Operating expenses consist mainly of expenses, such as employee wages and social benefits, and property operating expenses, which are directly attributable to revenues. As substantially all of our activities to date have involved real estate development projects that are still in the pre-construction or construction phase, we have historically capitalised the great majority of our overall costs. See “—Key Factors Affecting Our Financial Results—Capitalisation of Expenses for Properties under Development”. We recognise as expenses in our income statement the employee costs of those employees who have provided construction consulting and construction management services to third parties or, with respect to a portion of such costs, to our 50-50 joint ventures. We also recognise property operating costs, including outsourced building maintenance, utilities, security and other tenant services, related to our properties that generate rental income as expenses in our income statement. Such rent-yield properties currently include Tverskaya Zastava 3, 3 Ozerkovskaya Lane and the H<sub>2</sub>O building and, for previous periods, included completed buildings, such as Aquamarine I.

### *Administrative expenses*

Our administrative expenses comprise primarily general and administrative expenses such as office rental costs, audit, travelling and entertainment and marketing costs, as well as depreciation expenses related to our motor vehicles and office equipment. Our principal administrative expense to date has been rental payments for the lease of our head office premises at 29, 1st Brestskaya Street in Moscow.

### *Profit on disposal of investment in subsidiaries*

We recognise profit or loss from the sale of interests in our subsidiaries when the significant risks and rewards of ownership are transferred to the buyer in the transaction. See “—Key Factors Affecting Our Results of Operations—Profit on Disposal of Investments in our Property Development Subsidiaries”.

### *Operating profit before net finance costs*

Operating profit before net finance costs is calculated by adding revenue, other income and profit on disposal of investment in subsidiaries, and subtracting operating expenses and administrative expenses.

### *Finance income*

Our finance income comprises net foreign exchange gain, if any, and interest income. We recognise foreign exchange gains and losses, principally in connection with US Dollar denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Rouble. Historically our Russian subsidiaries have had higher levels of US Dollar denominated payables, including interest on loans and general contractor fees, than US Dollar denominated receivables, such as rental payments, with the result that we have historically recorded foreign exchange gains when the Rouble appreciates against the US Dollar, thus reducing the US Dollar denominated liabilities of our Russian subsidiaries when translated into Roubles, and foreign exchange losses when the US Dollar appreciates against the Rouble. Our interest income is derived primarily from interest on our bank deposits and loans to our joint ventures, including Westec and, during a portion of 2005 and 2006, RAPO.

### *Finance expenses*

Our finance expense comprises net foreign exchange loss, if any, and interest expense on outstanding loans less interest capitalised. We recognise foreign exchange gains and losses principally in connection with US Dollar denominated payables and receivables of our Russian subsidiaries, whose functional currency is the Rouble. See “—Key Factors Affecting Our Financial Results—Exchange Rates”. Our interest expense has historically been derived primarily from loans from shareholders and banks. All outstanding principal and interest on loans that had been provided to us by our shareholders as of 31 December 2006 were converted into equity effective 31 December 2006; however, we expect to increase borrowings from third parties in the future. To the extent that we increase our total borrowings, we would expect our finance expenses to rise in future periods. We capitalise our interest expense with respect to our development projects that are under construction, which amounts are not reflected as expenses in our income statement. When capitalising interest expense, (i) in the event funds are borrowed specifically for a particular project, we capitalise all actual borrowing costs related to the project less income earned on the temporary investment of such borrowings, and (ii) in the event funding for a project is obtained out of our general funds, we capitalise only funding costs related to the particular project based on the weighted average of the borrowing costs applicable to our general funds. See “—Key Factors Affecting Our Financial Results—Capitalisation of Expenses for Properties under Development”.

### *Income tax expense*

Income taxes are calculated based on tax legislation applicable to the country of residence of each of our subsidiaries and, as a company based and organised in Cyprus, we are subject to income tax in Cyprus. We and our Cypriot subsidiaries are currently subject to a statutory corporate income tax rate of 10.0 per cent. in Cyprus. Our Russian subsidiaries are subject to tax at an income tax rate of 24.0 per cent. though, to date most of our Russian subsidiaries have experienced losses for Russian tax purposes. Profits on disposal of investments in intermediate holding companies based in Cyprus, from which we have derived the vast majority of our profits to date, are not subject to income tax either in Cyprus or Russia.

### *Loss from discontinued operations*

In March 2006, we acquired a 98.2 per cent. interest in MKPK, a Russian entity engaged in package manufacturing that owns the commercial buildings which are located on our Paveletskaya Embankment development site. Given that we are not engaged in manufacturing activities, our management decided to sell the manufacturing operations of MKPK, and we have accordingly classified MKPK's manufacturing equipment as assets held for sale. For the year ended 31 December 2006, we have presented the results of MKPK's manufacturing activities separately as a loss from discontinued operations below the line item "profit from continuing operations" on our income statement. In February 2007, we sold one of MKPK's production lines to a subsidiary of the international packaging company Alcan Inc. for a small gain, and we are in negotiations to sell the other production line.

### *Results of Operations for the Years Ended 31 December 2005 and 2006*

	For the year ended 31 December	
	2005	2006
	(US\$ in thousands)	
<b>Revenue</b>		
Construction consulting/management fees . . . . .	838	2,505
Rental income . . . . .	577	1,358
	<u>1,415</u>	<u>3,863</u>
Other income . . . . .	340	39
<b>Expenses</b>		
Operating expenses . . . . .	(354)	(1,684)
Administrative expenses . . . . .	(1,067)	(3,913)
	<u>334</u>	<u>(1,695)</u>
Profit on disposal of investment in subsidiaries . . . . .	43,149	119,345
<b>Operating profit before net finance costs . . . . .</b>	<b>43,483</b>	<b>117,650</b>
Finance income . . . . .	303	3,288
Finance expenses . . . . .	(1,422)	(7,648)
<b>Net finance costs . . . . .</b>	<b>(1,119)</b>	<b>(4,360)</b>
<b>Profit before tax . . . . .</b>	<b>42,364</b>	<b>113,290</b>
Income tax expense . . . . .	(230)	(1,223)
<b>Profit from continuing operations . . . . .</b>	<b>42,134</b>	<b>112,067</b>
Loss from discontinued operations . . . . .	—	(83)
<b>Profit for the year . . . . .</b>	<b>42,134</b>	<b>111,984</b>

*Revenue.* Our revenue increased by US\$2,448 thousand, or 173.0 per cent., from US\$1,415 thousand in 2005 to US\$3,863 thousand in 2006. This increase was due to a US\$781 thousand or 135.4 per cent., increase in rental income, and a US\$1,667 thousand, or 198.9 per cent., increase in construction consulting and construction management fees. The increase in construction consulting and construction management fees consisted primarily of construction consulting and construction management services provided to Krown Investments that we began recording as revenues on a proportionate basis as a result of our sale of a 50.0 per cent. interest in Krown Investments in September 2006. The increase in rental income was primarily due to the purchase of Bugis Finance, which leases out non-residential premises at Tverskaya 3, and the acquisition of the H<sub>2</sub>O office building in 2006.

*Other income.* Our other income decreased 88.5 per cent. from US\$340 thousand in 2005 to US\$39 thousand in 2006. Other income in 2006 related to the forgiveness of debt owed to Parcost, a related party, involving compensation charges incurred in 2004. Other income in 2005 related to the forgiveness of debt from BP Steanly, a related party associated with the Nirro Group, relating principally to consulting services provided to us by BP Steanly, incurred in 2004.

*Operating expenses.* Our operating expenses increased by US\$1,330 thousand, or 375.7 per cent., from US\$354 thousand in 2005 to US\$1,684 thousand in 2006. This increase was primarily due to higher expenses resulting from an increase in the number of revenue producing properties we operated, including

the acquisition of non-residential premises at Tverskaya 3 and the H<sub>2</sub>O office building in 2006, as well as to the fact that we began recording as expenses on a proportionate basis costs relating to the construction consulting and construction management services we provided to Krown Investments as a result of the sale of a 50.0 per cent. interest in Krown Investments in September 2006.

*Administrative expenses.* Our administrative expenses increased by US\$2,846 thousand, or 266.7 per cent., from US\$1,067 thousand in 2005 to US\$3,913 thousand in 2006. This increase relates in part to certain expenses that we previously capitalised but expensed in 2006. In addition, we incurred higher rental and other administrative expenses in connection with our move to new, larger office premises in 2006. Our bad debt expense in 2006 relates to amounts owed to us by a third party in connection with a planned renovation project at Starokaluzhskoye Chausse in Moscow, which we decided to abandon in 2004. The third party, which held an interest in the project, had initially indicated that it would arrange with other parties with interests in the project to sell a 100 per cent. interest in the project to us. After incurring certain costs related to the project, the third party informed us that it did not intend to transfer its interests to us, and we charged the third party for costs we had incurred on the project to that date in the amount of US\$2,200 thousand. The third party paid us US\$1,202 thousand and we recorded the remainder as a receivable. In 2006, we elected to write off the receivable in its entirety.

*Profit on disposal of investment in subsidiaries.* Our profit on disposal of investment in subsidiaries increased by US\$76,196 thousand, or 176.6 per cent., from US\$43,149 thousand in 2005 to US\$119,345 thousand in 2006. In 2006 we recognised a profit of US\$112,365 thousand on the sale of a 50.0 per cent. interest in Krown Investments and a US\$10,645 thousand gain on the sale of 100 per cent. of Techinvestgroup. In 2005 we recorded profit on disposals of US\$32,111 thousand in connection with the sale of Blaster Plus and US\$11,038 thousand in connection with the sale of a 50.0 per cent. interest in RAPO. In 2006, we also recorded a loss of US\$3,665 thousand related to post-closing costs that we incurred in 2006 in connection with the delivery of permitting documentation and the provision of utilities to the Aquamarine I project that we had agreed to cover as part of our sale of Blaster Plus, which developed the Aquamarine project, in 2005.

#### *Net finance costs*

The following table sets forth our net finance costs for the years ended 31 December 2005 and 2006:

	For the year ended 31 December	
	2005	2006
	(US\$ in thousands)	
Interest income . . . . .	303	1,895
Net foreign exchange gain . . . . .	—	1,393
<b>Finance income . . . . .</b>	<b>303</b>	<b>3,288</b>
Interest expense . . . . .	(8,975)	(25,580)
Net foreign exchange loss . . . . .	(669)	—
Interest capitalised . . . . .	8,222	17,932
<b>Finance expenses . . . . .</b>	<b>(1,422)</b>	<b>(7,648)</b>
<b>Net finance costs . . . . .</b>	<b>(1,119)</b>	<b>(4,360)</b>

Net finance costs are finance expenses less finance income. Our net finance costs increased by US\$3,241 thousand, or 289.6 per cent., from US\$1,119 thousand in 2005 to US\$4,360 thousand in 2006. This increase was due to a US\$6,226 thousand increase in finance expenses, partially offset by a US\$2,985 thousand increase in finance income.

*Finance income.* Our finance income increased by US\$2,985 thousand, or 985.1 per cent., from US\$303 thousand in 2005 to US\$3,288 thousand in 2006.

*Interest income.* Our interest income increased by US\$1,592 thousand, or 525.4 per cent., from US\$303 thousand in 2005 to US\$1,895 thousand in 2006. This increase was primarily due to higher levels of interest from bank deposits, as we placed a portion of the funds from bank borrowings drawn in 2006, in particular in relation to amounts drawn under our loan facilities from Quasar Capital in the amount of US\$60,000 thousand and MDM-Bank in the amount of US\$10,517 thousand, on temporary deposit in our bank accounts pending further use of such funds.

*Net foreign exchange gain.* We recorded a net foreign exchange gain of US\$1,393 thousand in 2006, compared to a net foreign exchange loss in 2005 of US\$669 thousand. Our foreign exchange gain in 2006 was primarily due to an appreciation of the Rouble against the US Dollar in 2006, with the consequence that the US Dollar denominated payables of our Russian subsidiaries were reduced when translated into Roubles. See “—Description of Income Statement Line Items—Finance income”.

*Finance expenses.* Our finance expenses increased by US\$6,226 thousand, or 437.8 per cent., from US\$1,422 thousand in 2005 to US\$7,648 thousand in 2006.

*Interest expense.* The increase in our interest expense from 2005 to 2006 was due primarily to an increase in overall debt levels in 2006, including shareholder loans and bank loans reflecting increased property development activity. The total amount of loans from our principal shareholder, Moonbeam Enterprises Limited, increased from US\$176,187 thousand as of 31 December 2005 to US\$421,747 thousand as at 31 December 2006, at which time all outstanding principal and interest under the loans were converted and exchanged for shares of AFI Development. In addition, in February 2006, we entered into a US\$60,000 thousand loan facility with Quasar Capital to finance the Ozerkovskaya Embankment project, of which the entire principal amount was drawn in 2006, and in April 2006, Westec entered into a €43,560 thousand facility with MDM to finance the Four Winds project, of which US\$10,517 thousand was drawn in 2006. Our capitalised interest costs also increased from US\$8,222 thousand in 2005 to US\$17,932 thousand in 2006 reflecting the overall increase in our level of borrowings related to increased development activity. In 2005 and 2006, our capitalised interest expenses related primarily to expenditure on the Moscow City Shopping Centre, Ozerkovskaya Embankment and Tverskaya Zastava projects, certain phases of which (namely Ozerkovskaya Phase I and the Tverskaya Zastava Shopping Centre) were in the construction phase and, in 2006 only, the Otradnoye project, for which we have completed construction on certain aspects of the project.

*Net foreign exchange loss.* We recorded a net foreign exchange loss of US\$669 thousand in 2005, compared to a net foreign exchange gain of US\$1,393 thousand in 2006. Our foreign exchange gain in 2006 is discussed above under “—Finance income—Net foreign exchange gain”. Our foreign exchange loss in 2005 was primarily due to the depreciation of the Rouble against the US Dollar in 2005, with the consequence that the US Dollar denominated payables of our Russian subsidiaries increased when translated into Roubles. See “—Description of Income Statement Line Items—Finance income”.

*Income tax expense.* Our income tax expense increased by US\$993 thousand, from US\$230 thousand in 2005 to US\$1,223 thousand in 2006. Our effective tax rate, which is calculated as our income tax expense as a percentage of our profit before tax, was 1.1 per cent. in 2006 and 0.5 per cent. in 2005, which was significantly below the applicable Cypriot rate of corporate income tax of 10.0 per cent. in 2006 and 4.25 per cent. in 2005, principally because our main source of income during both periods was profit on disposal of investment in subsidiaries, which is not subject to income tax in either Cyprus or Russia. In 2006, Cyprus repealed the 4.25 per cent. corporate income tax rate for Cyprus corporations that are owned by non-tax residents of Cyprus, and we were accordingly subject to the standard 10.0 per cent. corporate income tax rate in Cyprus commencing in 2006. In 2006, we recorded a US\$416 thousand provision relating to potentially unpaid VAT and fines in Russia and potentially unrecorded interest income in Cyprus regarding loans made by our Cyprus subsidiaries to our Russian subsidiaries for prior periods.

*Loss from discontinued operations.* In 2006, we recorded an US\$83 thousand loss from discontinued operations related to the manufacturing operations of our subsidiary, MKPK, which we acquired in March 2006. See “—Description of Income Statement Line Items—Loss from discontinued operations”. The results of MKPK’s manufacturing operations in 2006 are as follows:

	2006 (US\$ in thousands)
Revenue .....	19,532
Expenses .....	(19,586)
Results from operating activities .....	(54)
Income tax expense .....	(29)
Loss for the year .....	(83)

We also expect to incur a loss in connection with our discontinued operations in 2007, including employee costs related to shutting down or transferring the remainder of MKPK's manufacturing operations. Our management does not believe that such loss will be material.

#### *Profit for the year*

Due to the factors described above, our profit increased by US\$69,850 thousand, or 165.8 per cent., from US\$42,134 thousand in 2005 to US\$111,984 thousand in 2006. This increase was primarily due to an increase in profit on disposal of investment in subsidiaries.

#### *Results of operations for the years ended 31 December 2004 and 2005*

	For the year ended 31 December	
	2004	2005
	(US\$ in thousands)	
<b>Revenue</b>		
Construction consulting/management fees . . . . .	643	838
Rental income . . . . .	808	577
	<u>1,451</u>	<u>1,415</u>
Other income . . . . .	—	340
<b>Expenses</b>		
Operating expenses . . . . .	(463)	(354)
Administrative expenses . . . . .	(1,148)	(1,067)
	<u>(160)</u>	<u>334</u>
Profit on disposal of investment subsidiaries . . . . .	9,672	43,149
<b>Operating profit before net finance costs</b> . . . . .	<b><u>9,512</u></b>	<b><u>43,483</u></b>
Finance income . . . . .	435	303
Finance expenses . . . . .	(1,401)	(1,422)
<b>Net finance costs</b> . . . . .	<b><u>(966)</u></b>	<b><u>(1,119)</u></b>
<b>Profit before tax</b> . . . . .	<b><u>8,546</u></b>	<b><u>42,364</u></b>
Income tax expense . . . . .	42	(230)
<b>Profit for the year</b> . . . . .	<b><u><u>8,588</u></u></b>	<b><u><u>42,134</u></u></b>

*Revenue.* Our revenue decreased by US\$36 thousand, or 2.5 per cent., from US\$1,451 thousand in 2004 to US\$1,415 thousand in 2005. This decrease was due to a US\$231 thousand, or 28.6 per cent., decrease in rental income, partially offset by a US\$195 thousand, or 30.3 per cent., increase in construction consulting and construction management fees. The increase in construction consulting and construction management fees was primarily due to the recognition of revenues from Blaster for services we rendered to it following our sale of it in 2005, as well as fees charged to RAPO during 2005 in proportion to the third party interest in RAPO during 2005. We acquired 100 per cent. of RAPO in February 2005 and subsequently sold a 50.0 per cent. interest in it in July 2005. The decrease in rental income was primarily due to the sale in May 2005 of Blaster Plus, which owned a building that produced rental income, and the demolition of a building on the site of the Aquamarine I project that had generated rental income in 2004.

*Other income.* Our other income increased from zero in 2004 to US\$340 thousand in 2005. Other income in 2005 related to the forgiveness of debt from BP Steanly, a party related to Nirro Group S.A., relating to consulting services charges incurred in 2004.

*Operating expenses.* Our operating expenses decreased by US\$109 thousand, or 23.5 per cent., from US\$463 thousand in 2004 to US\$354 thousand in 2005. This decrease was primarily due to a decrease in expenses resulting from a decrease in the number of revenue producing properties we held as a result of the disposal of Blaster Plus, which developed the Aquamarine I project, in May 2005.

*Administrative expenses.* Our administrative expenses decreased by US\$81 thousand, or 7.1 per cent., from US\$1,148 thousand in 2004 to US\$1,067 thousand in 2005. This decrease was primarily due to certain expenses that we capitalised instead of expensed in 2005 as compared to 2004.

*Profit on disposal of investment in subsidiaries.* Our profit on disposal of investment in subsidiaries increased by US\$33,477 thousand, or 346.1 per cent., from US\$9,672 thousand in 2004 to US\$43,149 thousand in 2005. We recognised a US\$32,111 thousand profit on disposal of Blaster Plus and a US\$11,038 thousand profit on disposal of 50.0 per cent. of RAPO in 2005, compared with the gain on sale of Moint in the amount of US\$9,672 thousand that we recognised in 2004.

#### *Net finance costs*

The following table sets forth our net finance costs for the years ended 31 December 2004 and 2005:

	For the year ended 31 December	
	2004	2005
	(US\$ in thousands)	
Interest income . . . . .	243	303
Net foreign exchange gain . . . . .	192	—
<b>Finance income . . . . .</b>	<b>435</b>	<b>303</b>
Interest expense . . . . .	(3,136)	(8,975)
Net foreign exchange loss . . . . .	—	(669)
Capitalised interest expense . . . . .	1,735	8,222
<b>Finance expenses . . . . .</b>	<b>(1,401)</b>	<b>(1,422)</b>
<b>Net finance costs . . . . .</b>	<b>(966)</b>	<b>(1,119)</b>

Our net finance costs increased by US\$153 thousand, or 15.8 per cent., from US\$966 thousand in 2004 to US\$1,119 thousand in 2005. This increase was due to a US\$132 thousand decrease in finance income and a US\$21 thousand increase in finance expenses.

*Finance income.* Our finance income decreased by 30.3 per cent., from US\$435 thousand in 2004 to US\$303 thousand in 2005.

*Interest income.* Our interest income increased by US\$60 thousand, or 24.7 per cent., from US\$243 thousand in 2004 to US\$303 thousand in 2005. This increase was primarily due to (i) higher levels of interest from bank deposits, as we placed a portion of the new loans received from our shareholders in 2005 and from other parties such as S&T Equity Overseas, an affiliate of our joint venture partner in Westec, on temporary deposit in bank accounts pending further use of such funds and (ii) interest on additional loans made by us to our joint ventures, including Westec and RAPO, during 2005. We had aggregate loans outstanding to our joint ventures of US\$8,666 thousand as at 31 December 2005 as compared to US\$1,761 thousand as at 31 December 2004.

*Net foreign exchange gain.* We recorded a net foreign exchange gain of US\$192 thousand in 2004, compared to a net foreign exchange loss in 2005. Our foreign exchange gain in 2004 was primarily due to an appreciation of the Rouble against the US Dollar in 2004, with the consequence that the US Dollar denominated payables of our Russian subsidiaries were reduced when translated into Roubles. See “—Description of Income Statement Line Items—Finance income”.

*Finance expenses.* Our finance expenses increased by US\$21 thousand, or 1.5 per cent., from US\$1,401 thousand in 2004 to US\$1,422 thousand in 2005.

*Interest expense.* The increase in our interest expense from 2004 to 2005 was primarily due to an increase in overall debt levels including, principally, shareholder loans. The total amount of loans from our shareholders increased from US\$99,458 thousand as of 31 December 2004 to US\$181,647 thousand as at 31 December 2005. In addition, our loans from S&T Equity Overseas, an affiliate of our joint venture partner in Westec, increased from US\$1,533 thousand as of 31 December 2004 to US\$6,473 thousand as at 31 December 2005. Our capitalised interest costs also increased from US\$1,735 thousand in 2004 to US\$8,222 thousand in 2005, reflecting the overall increase in our borrowings in 2005 being utilised for expenditures on our Moscow City Shopping Centre, Four Winds, Ozerkovskaya Embankment and Tverskaya Zastava projects, each of which is in the construction phase.

*Net foreign exchange loss.* We recorded a net foreign exchange gain of US\$192 thousand in 2004, and a net foreign exchange loss of US\$669 thousand in 2005. Our foreign exchange gain in 2004 is

discussed above under “—Finance income—Net foreign exchange gain”. Our foreign exchange loss in 2005 was primarily due to the depreciation of the Rouble against the US Dollar in 2005, with the consequence that the US dollar denominated payables of our Russian subsidiaries increased when translated into Roubles. See “—Description of Income Statement Line Items—Finance income”.

*Income tax expense.* We recorded income tax expense of US\$230 thousand in 2005 whereas we recorded a deferred tax benefit of US\$42 thousand in 2004. Our effective tax rate was 0.5 per cent. in 2005, which was significantly below the applicable rate of income tax for Cyprus corporations that are owned by non-tax residents of 4.25 per cent. in 2005, principally because our main source of income during both periods was profit on disposal of investment subsidiaries, which is not subject to income tax in Cyprus or Russia. We recorded a deferred tax benefit in 2004 principally related to tax losses realised by our Russian subsidiaries in 2004.

#### *Profit for the year*

Due to the factors described above, our profit increased by US\$33,546 thousand, or 390.6 per cent., from US\$8,588 thousand in 2004 to US\$42,134 thousand in 2005. This increase was due to an increase in profit on disposal of investment in subsidiaries.

### **Liquidity and Capital Resources**

#### **Cash Flows**

*For the years ended 31 December 2005 and 2006*

The following table sets out our consolidated cash flows for the years ended 31 December 2005 and 2006.

	<b>For the year ended 31 December</b>	
	<b>2005</b>	<b>2006</b>
	<b>(US\$ in thousands)</b>	
<b>Net cash used in operating activities</b> . . . . .	<b>(25,363)</b>	<b>(3,256)</b>
<b>Net cash used in investing activities</b> . . . . .	<b>(38,364)</b>	<b>(268,586)</b>
<b>Net cash from financing activities</b> . . . . .	<b>71,945</b>	<b>282,390</b>
Effect of exchange rate fluctuations . . . . .	3	4,203
Net increase in cash and cash equivalents . . . . .	8,221	14,751
Cash and cash equivalents at 1 January . . . . .	3,300	11,521
<b>Cash and cash equivalents at 31 December</b> . . . . .	<b>11,521</b>	<b>26,272</b>

IFRS requires us to identify a property as an investment property or a trading property at the time we acquire it and the determination, once made, cannot be changed even if our objectives with respect to such property change. Generally, our strategy is to sell the residential properties we develop and to lease the commercial properties we develop, subject to continuous reassessment of such properties based on prevailing market conditions. Because of this, we have historically classified all of our commercial properties as investment properties and our residential properties as trading properties. The effect of this is that, when we sell all or a portion of one of our commercial properties, the principal cash flow effects of such a sale are reflected in cash from investing activities, rather than cash from operating activities, even though we have engaged in substantial development activity in respect of such properties. On the other hand, if we sell all or a portion of one of our residential properties, the principal cash flow effects of such a sale are reflected in cash flows from operating activities.

*Net cash used in operating activities.* Net cash used in operating activities decreased from US\$25,363 thousand in 2005 to US\$3,256 thousand in 2006, resulting in an aggregate decrease in aggregate cash outflow from operating activities of US\$22,107 thousand. In 2005, a portion of the net assets of Blaster Plus we sold consisted of prepayments made to us, as project manager for the Aquamarine I project, for future disbursement to third party contractors engaged in completing construction of the Aquamarine I project. During the course of 2005, we transferred such payments in the amount of US\$12,845 thousand to the third party contractors with the effect that, by the end of 2005, such amounts were fully disbursed. We treated such payments as a decrease in downpayments received for construction that was reflected in our cash flows used in operating activities. On the other hand, such amounts were also

taken into consideration in fixing the sale price of Blaster Plus and we recorded a corresponding amount of proceeds from the sale of investment in subsidiaries in our cash flows used in investing activities. This was an important factor in explaining why we recorded higher net cash used in operating activities in 2005 as compared to 2006. In addition, we recorded in 2006 a gain of US\$10,177 thousand in connection with our disposal of Techinvestgroup, which held the rights to our residential property, Udaltsova, and this gain is recorded as part of cash flows from (used in) operating activities. Gains on sales of investments in subsidiaries, which accounted for substantially all of our profit before tax in 2006 and in 2005, is, other than the gain on the sale of Techinvestgroup, which related to the sale of residential property, netted out in calculating cash flows from operating activities as an adjustment to cash flows from/used in operating activities and is reflected instead in cash flows from/used in investing activities to the extent we generate cash proceeds from such sales.

*Net cash used in investing activities.* Net cash used in investing activities increased by US\$230,222 thousand, or 600.0 per cent., from US\$38,364 thousand in 2005 to US\$268,586 thousand in 2006. This increase was primarily due to increased cash used for acquisitions in 2006 as compared to 2005, as well as increases in advances to builders, increased construction costs related to our investment properties, including, principally, our Moscow City Shopping Centre, Ozerkovskaya Embankment and Tverskaya Zastava projects, and lower cash proceeds from the sales of investments in subsidiaries in 2006. In 2006, we recorded total cash outflow from acquisitions of US\$115,639 thousand, as a consequence of our acquisitions of 100 per cent. interests in Aristeya and Bugis Finance, a 98.2 per cent. interest in MKPK, and the remaining 50.0 per cent. interest in RAPO, as compared to a total cash outflow of US\$5,563 thousand in 2005. We recorded lower cash proceeds from the sales of investments in subsidiaries in 2006 than in 2005 due to the fact that we had not received US\$135,000 thousand of the sale price due to us from our sale of a 50.0 per cent. interest in Krown Investments to Super Passion as of 31 December 2006. While we received all such outstanding amounts due in connection with the sale of our 50.0 per cent. interest in Krown Investments in February 2007, and recognised such amounts in our income statement for the year ended 31 December 2006, such amounts were not recorded as cash from investing activities in 2006. We also recorded higher VAT payments in connection with construction costs and expenses in 2006 as compared to 2005. Under Russian law, VAT paid on construction costs can be recovered upon completion of construction, and we have accordingly recorded such VAT amounts anticipated to be recovered as an asset on our balance sheet.

*Net cash from financing activities.* Net cash from financing activities increased by US\$210,445 thousand, or 292.5 per cent., from US\$71,945 thousand in 2005 to US\$282,390 thousand in 2006. Net cash from financing activities increased primarily due to larger amounts of loans received in 2006 as compared to 2005 to finance acquisitions, including the acquisitions of interests in Aristeya, Bugis Finance, MKPK and RAPO, and capital expenditures including, principally, expenditures related to our Moscow City Shopping Centre, Ozerkovskaya Embankment, Tverskaya Zastava and Otradnoye projects.

*Effect of exchange rate fluctuations.* We recorded a positive effect of exchange rate fluctuations of US\$4,203 thousand in 2006 as compared to US\$3 thousand in 2005, primarily due to the effect of the appreciation of the Rouble against the US Dollar in 2006 and its application to our monetary assets and liabilities.

#### ***For the years ended 31 December 2004 and 2005***

The following table sets out our consolidated cash flows for the years ended 31 December 2004 and 2005.

	<b>For the year ended 31 December</b>	
	<b>2004</b>	<b>2005</b>
	<b>(US\$ in thousands)</b>	
<b>Net cash used in operating activities</b> . . . . .	<b>(5,785)</b>	<b>(25,363)</b>
<b>Net cash used in investing activities</b> . . . . .	<b>(42,547)</b>	<b>(38,364)</b>
<b>Net cash from financing activities</b> . . . . .	<b>48,453</b>	<b>71,945</b>
Effect of exchange rate fluctuations . . . . .	449	3
Net increase in cash and cash equivalents . . . . .	570	8,221
Cash and cash equivalents at 1 January . . . . .	2,730	3,300
<b>Cash and cash equivalents at 31 December</b> . . . . .	<b>3,300</b>	<b>11,521</b>

*Net cash used in operating activities.* Net cash used in operating activities increased from US\$5,785 thousand in 2004 to US\$25,363 thousand in 2005, resulting in a change in aggregate cash outflow from operating activities of US\$19,578 thousand. In 2005, a portion of the proceeds we received in connection with our sale of Blaster Plus represented prepayments made to us, as project manager for the Aquamarine I project, for disbursement to third party contractors engaged in completing construction of the Aquamarine I project. During the course of 2005, we transferred such payments to the third party contractors with the effect that by the end of 2005, such amounts were fully disbursed. For purposes of our consolidated cash flow statements, we recorded such prepaid amounts in the aggregate of US\$12,845 thousand as proceeds from the sale of investments in subsidiaries, which is part of our cash flows from investing activities, whereas we recorded the same amount represented by the disbursement of such funds to third party contractors as cash outflow for purposes of our cash flows used in operating activities. This was the most significant reason why we recorded higher net cash used in operating activities in 2005 as compared to 2004. In addition, we recorded higher construction costs relating to our trading properties and decreases in trade payables in 2005 as compared to 2004.

*Net cash used in investing activities.* Net cash used in investing activities decreased by US\$4,183 thousand, or 9.8 per cent., from US\$42,547 thousand in 2004 to US\$38,364 thousand in 2005. This decrease was primarily due to (i) higher levels of proceeds from the sale of investments in subsidiaries, as a result of the sale of a 100 per cent. interest in Blaster Plus and a 50.0 per cent. interest in RAPO in 2005, (ii) lower levels of net cash outflow from the acquisition of subsidiaries in 2005, and (iii) lower levels of advances to builders in 2005 as compared to 2004. Our net cash outflow from the acquisition of subsidiaries decreased in 2005 as compared to 2004 because the acquisition of our 100 per cent. interest in RAPO was paid in advance in 2004 and is accordingly reflected as cash flow from investing activities in 2004.

*Net cash from financing activities.* Net cash from financing activities increased by US\$23,492 thousand, or 48.5 per cent., from US\$48,453 thousand in 2004 to US\$71,945 thousand in 2005. Net cash from financing activities increased in 2005 as compared to 2004 primarily due to larger amounts of shareholder loans received as well as larger amounts of borrowings from S&T Equity Overseas, an affiliate of our joint venture partner in Westec, in 2005 as compared to 2004. Our financing activity in 2005 related principally to fund our expenditures for the Moscow City Shopping Centre, Ozerkovskaya Embankment and Tverskaya Zastava projects.

*Effect of exchange rate fluctuations.* We recorded a positive effect of exchange rate fluctuations of US\$3 thousand in 2005 as compared to US\$449 thousand in 2004 primarily due to the effect of the depreciation of the Rouble against the US Dollar in 2005 in relation to our monetary assets and liabilities.

### ***Capital Resources***

During the periods presented, we have met our cash needs principally through borrowings and proceeds from the sale of investment in subsidiaries. To date, a large majority of our borrowings have been from, or have been guaranteed by, our principal shareholders, Moonbeam Enterprises Limited and Nirro Group. All of our outstanding loans from our principal shareholders, in the aggregate amount of US\$421,747 thousand, were converted and exchanged for shares in AFI Development as of 31 December 2006. In 2006 and the beginning of 2007, we and certain of our joint ventures obtained significant financings from international and local banking institutions, as follows:

- On 19 April 2006, Westec entered into a loan agreement for €43,560 thousand with MDM-Bank. The loan matures on 28 December 2007 and bears interest at 12.0 per cent. per annum. Funds provided under the facility agreement are designated to finance the development of the project located at Bolshaya Gruzinskaya, 69-71 (Four Winds I and II). The facility is secured by a pledge of the property rights of Westec in 1,154 square metres of residential premises, 26,926 square metres of non-residential premises and 216 car parking places which, pursuant to project documentation, is to be located at Bolshaya Gruzinskaya, 69-71. As of 31 March 2007, €15,889 thousand was outstanding under this facility agreement.
- On 13 February 2006, we entered into a US\$60,000 thousand Term Loan Facility Agreement with Quasar Capital Limited as Original Lender and Deutsche Bank AG, London Branch, as Facility Agent. This loan is intended for the financing of the Ozerkovskaya Embankment project. Interest on the loan is payable every six months and was initially set at a rate of LIBOR plus 2.25 per cent. per annum. The loan has a term of five years and is to be repaid in instalments of US\$10 million

each, with the first instalment payable 30 months after the draw down date and the remaining instalments payable every six months thereafter. The facility was secured by a pledge of a 100 per cent. participatory interest in Krown Investments by virtue of a pledge agreement between the parties. However, on 17 November 2006, the parties terminated the pledge and amended the interest rate to LIBOR plus 2.40 per cent. per annum. The full amount of the loan is guaranteed by Africa Israel. As of 31 March 2007, this facility was fully drawn.

- On 22 February 2007, we entered into a US\$200 million term loan facility with Deutsche Bank AG, London Branch. We received a disbursement of the entire principal amount of the facility on 23 February 2007. The funds are intended to fund our general operational requirements. Funds drawn under the agreement bear interest at 1.45 per cent. above six-month LIBOR per annum. Accrued interest must be paid every six months, beginning on 23 February 2007. The entire principal amount of the facility matures on 23 July 2008; however we may elect to repay the loan on an earlier date provided that we give written notice to Deutsche Bank AG, London Branch 30 days prior to the repayment. The loan is secured by a guarantee by Africa Israel, which shall be effective until our obligations under the agreement are satisfied in full. As guarantor, Africa Israel has undertaken that it will retain a 51.0 per cent. interest in our shares for the time of our agreement. Moreover, Africa Israel has undertaken not to enter into any corporate reorganisation while the guarantee is effective. For a description of the covenants under this loan facility, see “Description of Certain Indebtedness”.

In January and February of 2007, we entered into term loan agreements with Africa Israel, both directly and through our subsidiary Scotson Limited, or Scotson, in the principal amounts of US\$62.0 million and US\$16.7 million, respectively. The loans bore interest at a rate of three-month LIBOR plus 2.5 per cent. per annum, and each had a maturity date of 31 March 2007. Both of these loans were repaid in March 2007 using a portion of the proceeds from the term US\$200 million loan facility with Deutsche Bank AG, London Branch noted above.

We are currently in negotiations regarding a non-revolving credit line agreement from the Savings Bank of the Russian Federation, or Sberbank. The credit line is expected to bear interest at a floating rate. The funds drawn under the credit line would be required to be used to finance the construction of the Tverskaya Zastava Shopping Centre project. The credit line would be secured by a mortgage of certain of our rights to the Tverskaya Shopping Centre as well as a pledge of 51.0 per cent. of our interest in the charter capital of OOO Avtostoyanka Tverskaya Zastava, or “ATZ”, the subsidiary through which we hold our interests in the Tverskaya Shopping Centre and the Plaza I, II and II(a) projects for the Tverskaya Zastava development. There can be no assurance, however, that we will obtain such credit line from Sberbank.

As of 31 December 2006, Westec Four Winds Ltd., in which we own a 50.0 per cent. interest, had undrawn committed credit facilities of approximately Euros 27.0 million. In addition, as of 31 December 2006, we had cash and cash equivalents amounting to US\$26,272 thousand.

Over the next several years, we expect to finance most of our future capital expenditure and working capital needs through debt financing, cash flows from operating activities and proceeds from the sale of investments in subsidiaries as well as by utilising the net proceeds of this offering. Our ability to incur future debt is limited by the restrictive covenants described above and in “Description of Certain Indebtedness”. The availability of debt financing may be influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, contractual restrictions and market conditions. We have also pledged shares of certain of our subsidiaries and real properties in connection with our borrowings. See note 23 to our consolidated financial statements. We cannot assure you that we will be able to continue to obtain debt financing in the future.

Consistent with our growth strategy, we may acquire other real estate companies to expand our operations in Russia. Our cash requirements relating to potential acquisitions may vary significantly based on market opportunities. We may also finance these acquisitions by exchanging interests in our existing projects and properties with other parties. See “—Capital Requirements”.

As of 31 December 2006, our debt was comprised of the following:

	Currency	Annual interest rate (actual at 31 December 2006)	31 December 2006 (US\$ in thousands)
Quasar Capital Limited . . . . .	US\$	six-month US\$ LIBOR + 2.40%	61,684
MDM Bank Plc . . . . .	EUR	12%	10,517
Unsecured loan from Krown Investments	RUB	9%	524
S&T Equity (Overseas) Ltd . . . . .	US\$	5%	3,807
<b>Total</b> . . . . .			<u>76,532</u>

As at 31 December 2006, our loans and borrowings were payable as follows:

	As at 31 December		
	2004	2005	2006
	(US\$ in thousands)		
Less than one year . . . . .	241	8,225	14,786
Between one and five years . . . . .	8,405	6,473	51,746
More than five years . . . . .	<u>95,182</u>	<u>176,187</u>	<u>10,000</u>
	<u>103,828</u>	<u>190,885</u>	<u>76,532</u>

### Capital Requirements

We require capital to finance the following:

- capital expenditures, consisting of cash outlays for capital investments in real estate development projects and the acquisition of real estate properties and land rights (ownership or leasehold);
- acquisitions of other companies with real estate holdings or activities;
- repayment of debt;
- changes in working capital; and
- general corporate activities.

Real estate development is a capital-intensive business, and we expect to have significant ongoing liquidity and capital requirements in order to finance our growth strategy, including investing in new properties and development projects in our target market segments, while making additional investments into our existing properties and real estate development projects.

Our capital expenditures consist principally of investments in the development of investment properties under development and trading properties under construction. Our cash outlays for capital expenditures for the years ended 31 December 2004, 2005 and 2006 were US\$51,024 thousand, US\$112,940 thousand and US\$150,267 thousand, respectively.

For the foreseeable future, we expect that we will continue to rely on our financing activities to support our investing and operating activities. We also expect that our capital expenditures in connection with the development of real estate properties and investments in new properties will be the majority of our cash outflows for the foreseeable future.

Between 1 January 2007 and 31 March 2007, we spent US\$36,104 thousand to acquire projects and properties. See “—Recent Developments”. Our cash requirements relating to potential acquisitions may vary significantly, depending on market opportunities and the availability of attractive acquisition opportunities.

We anticipate that we will spend between approximately US\$700,000 thousand and US\$1,200,000 thousand in 2007 in connection with developing our existing real estate projects and the acquisition of new projects.

## Commitments and Contingent Liabilities

### Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, lease obligations and certain other committed obligations. The following table summarises our future obligations (including interest up until 31 December 2006) under these contracts due by the periods indicated as of 31 December 2006.

	Less than a year	Between one and five years	More than five years	Total
	(US\$ in thousands)			
<b>Contractual obligations</b>				
Loans and borrowings . . . . .	14,786	51,746	10,000	76,532
Operating leases . . . . .	2,143	5,955	20,056	28,154
<b>Committed investments</b>				
Construction costs . . . . .	441,243	357,983	—	799,226
<b>Total</b> . . . . .	<u>458,172</u>	<u>415,674</u>	<u>30,056</u>	<u>903,912</u>

As of 31 December 2006, our principal loans and borrowings included secured bank loans from Quasar Capital and MDM Bank. See note 23 to our consolidated financial statements.

Our operating leases include both land leases with the City of Moscow with respect to land underlying certain of our projects and a lease of office space in Moscow by our subsidiary Stroyinkom-K. See note 29 to our consolidated financial statements.

Committed construction and renovation costs arise under agreements with third parties for construction of properties. As of 31 December 2006, we were contractually committed to make future payments with respect to the following projects:

<u>Project name</u>	<u>Commitment</u> (US\$ in thousands)
Moscow City Shopping Centre . . . . .	279,376
Tverskaya Zastava development . . . . .	255,451
Otradnoye . . . . .	108,129
Ozerkovskaya Embankment—Phase II . . . . .	74,506
Four Winds I and II . . . . .	44,121
Paveletskaya Embankment . . . . .	37,643
<b>Total</b> . . . . .	<u>799,226</u>

These capital commitments, however, form only a portion of our total expected expenditure for these projects. We have budgeted a total of US\$2,422,000 thousand to bring these particular projects to completion. See “Business—Current Portfolio Overview”.

A summary of our most significant commitments under construction contracts as of 31 December 2006 is set forth below.

In December 2006, we entered into a construction agreement with Enka Insaat Sanayi S.A., or Enka, a Turkish construction company, for approximately US\$228,000 thousand (including VAT) for the design and construction of a portion of the aboveground part of the central core of the Moscow International Business Centre at the Moscow City Shopping Centre project. The project is scheduled to be completed within 23 months from the date construction begins. As of 31 December 2006, the amount of future capital commitment in respect of the construction agreement was approximately US\$228,000 thousand (including VAT).

In connection with our development of a shopping centre and traffic interchange at Tverskaya Zastava Square, in September 2006, we entered into a construction agreement with Enka pursuant to which Enka would develop the design documentation and act as general contractor for the construction of the complex. The contract price is approximately US\$268,000 thousand (including VAT). Pursuant to the agreement, Stroyinkom-K was required to make an advance payment of approximately US\$26,800 thousand (including VAT) with the balance being payable on a monthly basis. As of 31 December 2006, the amount of future

capital commitments in respect of the construction agreement was approximately US\$240,000 thousand (including VAT).

In connection with our development of a multifunctional complex located at 26 Ozerkovskaya Embankment, in September 2006, we entered into a US\$51,900 thousand (including VAT) construction agreement with Danya Cebus pursuant to which Danya Cebus would construct the aboveground part of the residential sections “B” and “V” and the hotel (section “G”) for the project. We have also entered into an approximately RUB 14,000 thousand construction agreement (including VAT) with Danya Cebus pursuant to which Danya Cebus would construct and install a supporting wall at 28 Ozerkovskaya Embankment for the Phase II project located at 26 Ozerkovskaya Embankment. As of 31 December 2006, the amount of future capital commitments under these contracts was approximately US\$51,000 thousand.

In March 2005, our joint venture Westec entered into a construction contract with OOO “Rasen Construction”, which is acting as general contractor in connection with the Four Winds I and II projects, with a contract price of US\$77,763 thousand (including VAT). In November 2006, the contract was amended to reflect a new contract price of US\$84,458 thousand (including VAT). As of 31 December 2006, the amount of future capital commitments according to the contract is approximately US\$43,000 thousand.

### **Qualitative and Quantitative Disclosures About Market Risk**

We are exposed to market risks from changes in both foreign currency exchange rates and interest rates. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. To date, we have not utilised any derivative or other financial instruments for trading purposes.

#### ***Foreign currency risk***

The functional currency of our Russian subsidiaries is the Rouble, whereas our functional currency is the US Dollar. The majority of our revenue, costs and capital expenditures are either priced, incurred, payable or otherwise measured in US Dollars. In addition, as of the date of this Prospectus, the majority of our borrowings are in US Dollars. Although most transactions are settled in Roubles, the price for real estate property is tightly linked to the US Dollar. We are exposed to fluctuations in the Rouble against the US Dollar and the Euro principally as a result of our Russian subsidiaries having US Dollar and Euro denominated payables and receivables, which may generate foreign income gains and losses at our Russian subsidiaries.

#### ***Interest rate risk***

We are subject to market risk deriving from changes in interest rates, which may affect the cost of our current floating rate indebtedness and future financing. As of 31 December 2006, 80.5 per cent. of our indebtedness was floating rate, represented by our loan from Quasar Capital, which had an outstanding principal amount of US\$61,684 thousand as of 31 December 2006 and bears interest at six month LIBOR plus 2.4 per cent. per annum.

In February 2007 we also entered into a US\$200 million term loan facility with Deutsche Bank AG, London Branch, that bears interest at LIBOR plus 1.45 per cent. per annum. In addition, we are currently in negotiations with Sberbank with respect to a non-revolving credit line that would bear interest at a floating rate. As a consequence, we expect to continue to remain subject to market risk deriving from changes in interest rates in the future.

#### ***Credit risk***

Because we are in an early stage of development and have only a limited number of yielding properties, we have not yet developed a comprehensive credit policy to monitor our credit risk exposure to tenants and purchasers. We expect to develop such credit policies in the near future as we approach completion of our most advanced-stage major development projects.

### **Critical Accounting Policies**

Critical accounting policies are those policies that require the application of our management’s most challenging, subjective or complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgements and uncertainties that are sufficiently sensitive to result in materially different

results under different assumptions and conditions. We believe that our most critical accounting policies are those described below.

A detailed description of certain of the main accounting policies we use in preparing our consolidated financial statements is set forth in note 3 to our consolidated financial statements.

#### ***Estimates regarding fair value***

We make estimates and assumptions regarding the fair value of our investment properties that have a significant risk of causing a material adjustment to the amounts of assets and liabilities on our balance sheet. In particular, our investment properties under development (which currently comprises a significant majority of our projects) are remeasured at fair value upon completion of construction and gain or loss on remeasurement is recognised in our income statement. In forming an opinion on fair value, we consider information from a variety of sources including, among other things, the current prices in an active market, third party valuations and internal management estimates.

The principal assumptions underlying our estimates of fair value are those related to the receipt of contractual rentals, expected future market rentals, void/vacancy periods, maintenance requirements, and discount rates that we deem appropriate. We regularly compare these valuations to our actual market yield data and actual transactions and those reported by the market. We determine expected future market rents on the basis of current market rents for similar properties in the same location and condition.

#### ***Impairment of financial assets***

We recognise impairment losses with respect to financial assets, including loans receivable and trade and other receivables, in our income statement if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. We test significant financial assets for impairment on an individual basis and assess our remaining financial assets collectively in groups that share similar credit characteristics. Impairment losses with respect to financial assets are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows of such asset discounted at the original effective interest rate of such asset.

Estimating the discounted present value of the estimated future cash flows of a financial asset is inherently uncertain and requires us both to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changes in one or more of these estimates can lead us to either recognising or avoiding impairment charges. In 2005 and 2006, we recorded bad debt expenses of US\$49 thousand and US\$998 thousand, respectively, in connection with receivables owed to us by an unrelated party that we deemed to be uncollectible.

#### ***Impairment of non-financial assets***

We recognise impairment loss with respect to non-financial assets, including investment property under development and trading properties under construction, if the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, we discount estimated future cash flows of the asset to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The carrying amounts of impaired non-financial assets are reduced to their estimated recoverable amount either directly or through the use of an allowance account and we include the amount of such loss in our income statement for the period.

We assess at each reporting date whether there is any indication that a non-financial asset may be impaired. If any such indication exists, we then estimate the recoverable amount of the asset. Estimating the value in use requires us to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The development of the value in use amount requires us to estimate the life of the asset, its expected cash flows over that life, and the appropriate discount rate, which is generally based on our weighted average cost of capital, itself subject to additional estimates and assumptions. Changes in one or all of these assumptions can lead to us either recognising or avoiding impairment charges. We have not recognised any impairment losses with respect to our non-financial assets during the period under review.

### ***Deferred income taxes***

We are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves a jurisdiction-by-jurisdiction estimation of actual current tax exposure and the assessment of the temporary differences resulting from differing treatment of items, such as capitalisation of expenses, among others, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must assess in the course of our tax planning process our ability and the ability of our subsidiaries to obtain the benefit of deferred tax assets based on expected future taxable profit and available tax planning strategies. If, in our management's judgement, the deferred tax assets recorded will not be recovered, a valuation allowance is recorded to reduce the deferred tax asset.

Significant management judgement is required in determining our provision for income taxes, deferred tax assets, deferred tax liabilities and valuation allowances to reflect the potential inability to fully recover deferred tax assets. In our consolidated financial statements the analysis is based on the estimates of taxable income in the jurisdictions in which we operate and the period over which the deferred tax assets and liabilities will be recoverable. If actual results differ from these estimates, or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could adversely affect our financial position and results of operations.

### **Recent Accounting Pronouncements**

The IASB has recently promulgated certain new International Financial Reporting Standards, amendments to standards and amendments to interpretations. These new standards and amendments are described in note 3 to our consolidated financial statements.

These new standards and amendments were not yet effective for the year ended 31 December 2006 and have not been applied in preparing our consolidated financial statements. However, we do not expect that the application of these new standards and amendments will have a material effect on our consolidated financial statements.

## INDUSTRY OVERVIEW

### Overview of the Russian Economy

Russia has experienced significant economic growth in recent years, with structural economic reforms introduced by the government having been a major contributing factor to strong economic performance. According to the International Monetary Fund, Russian GDP has grown at an average rate of approximately 6.1 per cent. per annum from 2001 to 2005 and was expected to grow approximately 6.5 per cent. in 2006. Consumer price inflation averaged approximately 14.9 per cent. per annum from 2001 to 2005 and was expected to decrease to approximately 9.7 per cent. in 2006.

The recent growth in the Russian economy was initially fuelled by high commodity prices, particularly for oil, and the depreciation of the Rouble following the 1998 financial crisis. More recently, a combination of fiscal and budgetary discipline, structural economic reforms and increasing consumer demand and investment have contributed to this growth. Although current Russian GDP per capita is significantly less than those of North America and Europe (other than Russia), the World Bank reported that real incomes in Russia have increased an average of 4 to 6 per cent. per annum from 2001 through 2005.

Since 2001, Russia's current account surplus has increased, primarily due to increases in oil prices and, according to the IMF, was expected to amount to approximately 12.3 per cent. of GDP in 2006. Russia's federal budget surplus amounted to 8.7 per cent. of GDP in the first seven months of 2006 on a cashflow basis, according to data from the finance ministry's Economic Expert Group, and according to the Central Bank of Russia, Russia had gold and foreign currency reserves of approximately US\$266.9 billion as of 4 August 2006.

The political situation in Russia has been stable during the last few years and country risk has reduced, as signalled by stable ratings by Fitch, Moody's and Standard & Poor's and Russia's pending entry into the World Trade Organisation. According to Russia's Deputy Prime Minister, Alexander Zhukov, direct foreign investments into Russia totalled US\$14.1 billion for the first six months of 2006, compared to US\$9.3 billion for the first six months of 2005, as reported by the Central Bank of Russia.

### Real Estate Market Overview

Russia's economic growth, combined with the increase in availability of attractive financing options and the introduction of mortgages and the increase in per capita disposable income, have resulted in increased demand for commercial and residential property.

### Moscow Market Characteristics

According to Jones Lang LaSalle, or JLL, Moscow's position as a "global city" is supported by a number of factors, most notably its population of over 10 million inhabitants, a developing service sector and position as a regional and national capital. Moscow's property market showed healthy growth throughout 2006, with record-setting construction activity and numerous high-profile projects being planned.

Although the majority of land in Moscow is still held subject to leases with the City of Moscow, one of the more notable developments in the market has been the adoption of freehold ownership of land. Despite the fact that the process of securing freehold rights for land in its present form is a cumbersome and costly process, the ability to now obtain freehold interests marks an important breakthrough in the development of the commercial real estate market.

### *Moscow Office Market*

The recent increase in the demand for office space in the Moscow office market has resulted in greater investment in new development projects. However, vacancy rates remain low and rental rates continue to rise as demand for office space in the Moscow office market continues to lag behind supply.

### *Moscow Office Classification Standards*

The Moscow Research Forum, or MRF, is an informal association of real estate consultants, including Colliers International, JLL, CB Richard Ellis Noble Gibbons and Cushman & Wakefield. The MRF classification scheme divides modern quality office space into A, B+ and B- classes. All office space that does not meet the criteria for one of these three classes is classified as Class C. Office space classification depends upon many factors, such as location, the ratio of leased space to the number of available parking

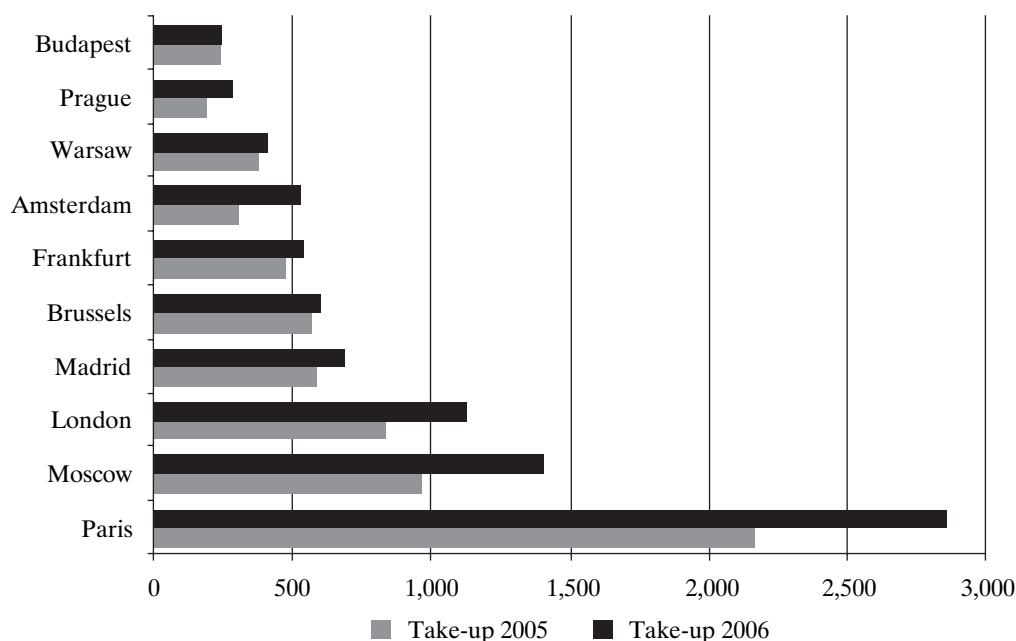
spaces, underground parking, a catering outlet for tenants, 24-hour security and automated inner control and surveillance systems, air-conditioning and professional management.

### *Demand*

With a population of approximately 10.4 million, Moscow was the largest city in Europe and the business and governmental centre for approximately 144 million Russians as of 31 December 2006. Demand for larger, international quality office premises has, in recent years, been driven by the expansion of national headquarters of multinational companies and the increasing success of domestic companies relocating their headquarters to Moscow.

As a result, demand for quality office space in Moscow, as measured by take-up (i.e. total space of a given quality known to have been acquired by lease, pre-lease, sale or pre-sale over a given period), has almost tripled from approximately 320,000 square metres in 2001 to almost 1 million square metres in 2005 and approximately 1.4 million square metres in 2006. At this level of take-up, Moscow surpassed London in 2006, to be ranked second in Europe, behind only Paris.

### **2006 Office Take-up Benchmarks ('000 square metres)**



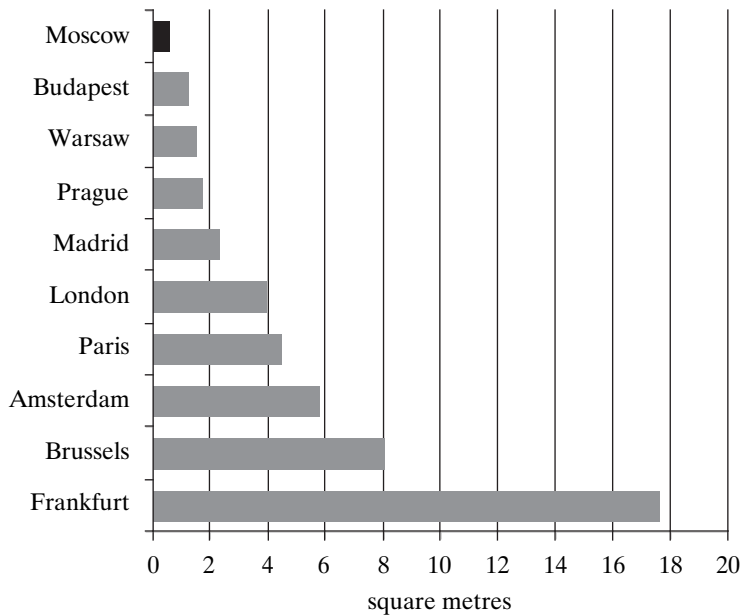
Source: Jones Lang LaSalle.

### *Supply*

While the stock of Class A and Class B office space has more than doubled since 2000, to 5.8 million square metres in 2006, according to JLL, the market remains unsaturated. In 2006, Moscow represented the largest development market in Europe, according to JLL, with completion of new office space expected to exceed 1 million square metres in each of 2006 and 2007. Despite the rapid pace of new development, Moscow had approximately 0.56 square metres of office space per capita as at 31 December 2006, which is one of the lowest office densities among comparable European capital cities, according to JLL.

Strong demand has resulted in an increase of new construction, with 1.2 million square metres of Class A and Class B space being built during 2006, according to JLL. However, a scarcity of attractive sites and other factors act as constraints on new construction of quality office space in Moscow. Soviet-era buildings are not easily converted to even Class B office space, and we do not know of any that has been converted into Class A space. Building in less desirable locations, resurrecting unfinished projects originally planned for other uses, or renovating existing properties can produce Class B space, but producing new Class A space is much more problematic. Commercial and legal challenges in securing an appropriate location, in obtaining permits necessary for design and other purposes and in executing projects constrain development.

### Class A and B Office Space per Capita (as at 31 December 2006)

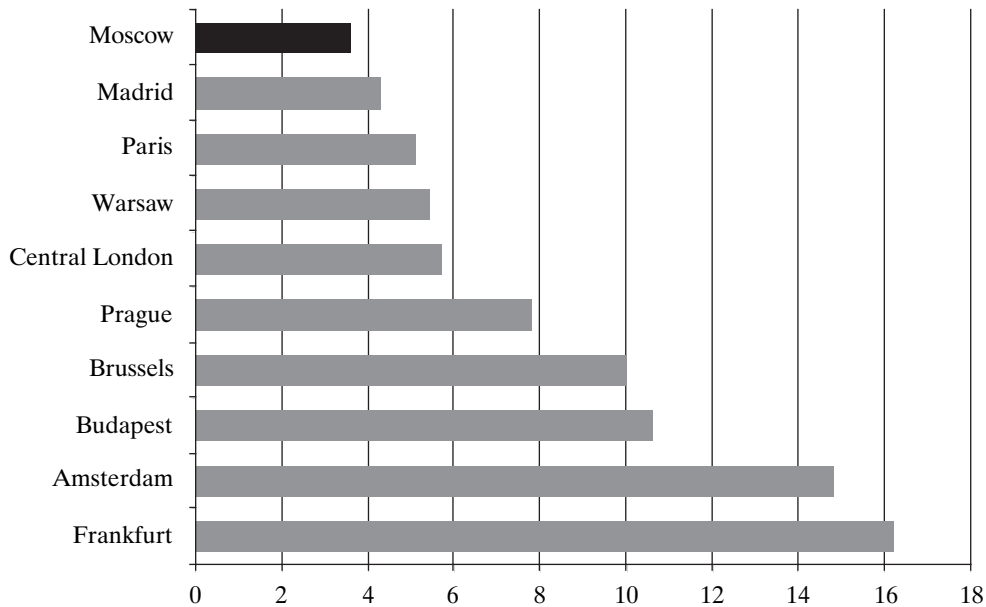


Source: Jones Lang LaSalle.

### Vacancy Rates

Despite the delivery of a substantial amount of new stock in 2005, vacancy rates declined to 0.9 per cent. for Class A office space and 4.2 per cent. for Class B office space as of 31 December 2006, the lowest figures in Europe.

### Class A and B Office Vacancy Rates (per cent.)



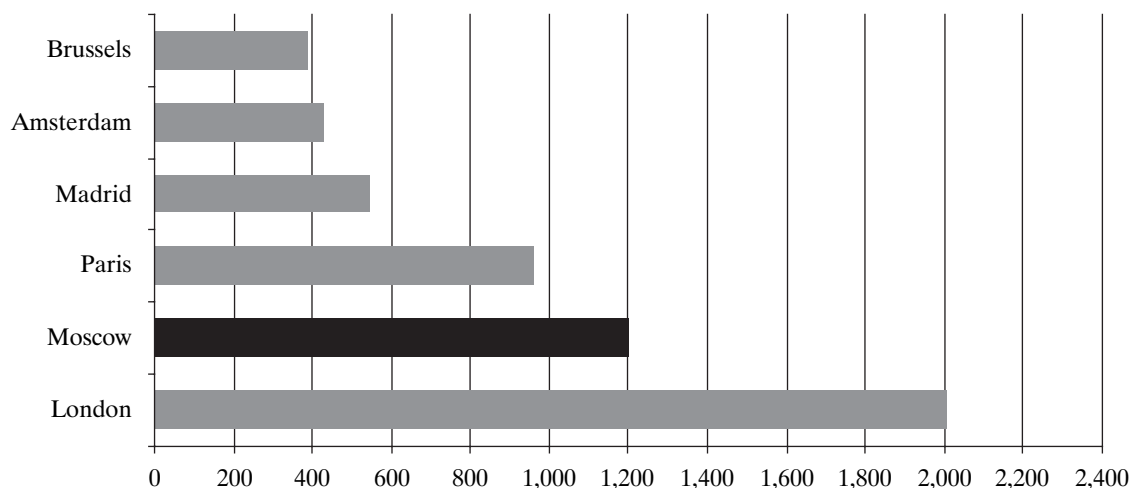
Source: Jones Lang LaSalle.

According to JLL, in 2007 and 2008 completions on the office market will be about 1 million square metres and in 2009 completions will be about 2.4 million square metres. In 2007 vacancy rates will reach approximately 4.5 per cent. due to the increase of supply; in 2008, they will be approximately 5.3 per cent. A significant amount of new stock will be delivered to the market in 2009 which is expected to increase vacancy rates to approximately 10 per cent.

## *Rental Rates and Yields*

Prime office space in Moscow currently commands one of the highest annual rents per square metre in Europe, less than London, but higher than other Eastern European capital cities and cities such as Paris, Milan, Stockholm and Madrid in 2006.

### **Prime Office Rents\* (US\$/square metre/year)**



Source: Jones Lang LaSalle.

\* Net of operating expenses and VAT.

As at 31 December 2006, prime yields for Class A office space in Moscow were approximately 9-9.5 per cent. exceeding prime yields in Warsaw (5.5 per cent.), Brussels (5.7-6.4 per cent.), Amsterdam (4.75-5.25 per cent.), London (3.5-4.25 per cent.) and Paris (4-4.25 per cent.), according to JLL. Prime yields for Class A office space in Moscow have fallen to current levels from 19-22 per cent. in 2000, according to JLL. This yield compression, attributable in part to rising purchase prices, is a function of scarcity of office space and increased demand from owner occupiers, private investors and funds.

JLL considers that the increased sophistication in the Moscow office market is further reflected in the increase in the number of leases that are both for longer terms and for greater areas. Leases for terms of longer than three years are becoming more common, and the number of tenants taking more than 3,000 square metres is also growing. The Moscow office market in 2006 is also characterised by the fact that a considerable proportion of new Class A projects is pre-leased.

## ***Moscow Retail Market***

### ***Demand***

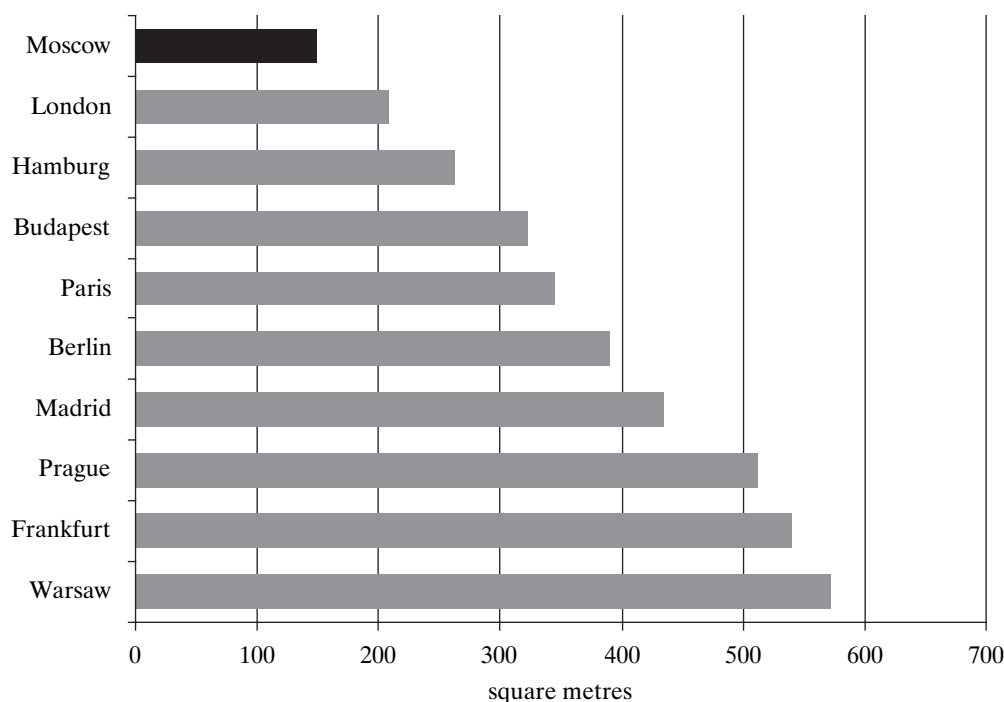
The Moscow retail real estate sector has grown significantly from 2000 through 2006, driven primarily by strong growth of the Russian economy and growing levels of personal income. Annual growth over this period was approximately 18 per cent., according to the Moscow State Committee of State Statistics.

### ***Supply***

As of 31 December 2006, total shopping centre stock in Moscow amounted to just over 1.2 million square metres, more than double the amount of retail space at the end of 2003 according to JLL. This translated into approximately 100 square metres of retail space per 1,000 inhabitants in Moscow, compared with approximately 200 square metres of retail space per 1,000 inhabitants in London and approximately 600 square metres of retail space per 1,000 inhabitants in Warsaw. JLL expects the current retail space in Moscow to double by 2008.

Developers have been responding to this demand from retailers and providing Moscow with additional shopping centre and other retail space. The stock of quality retail space in Moscow has increased from 0.09 million square metres in 2000 to 1.6 million square metres in 2006, according to JLL, with the number of shopping centres in Moscow increasing from 6 to 52 in the same period, although the stock of shopping centre space per capita is still the lowest in Europe.

### Quality Shopping Centre Stock per 1,000 Inhabitants, Q4 2006



Source: Jones Lang LaSalle.

According to JLL, shopping centre development projects scheduled for completion in 2007-2009 are expected to bring approximately 1.9 million square metres of quality shopping centre space to the Moscow market. The total stock of Moscow's high quality shopping centres is expected to reach 3.4 million square metres by the end of 2007. Because significant delays in completing projects are typical for the Moscow market, the actual stock figure at the end of 2009 is most likely to be lower than as presented above.

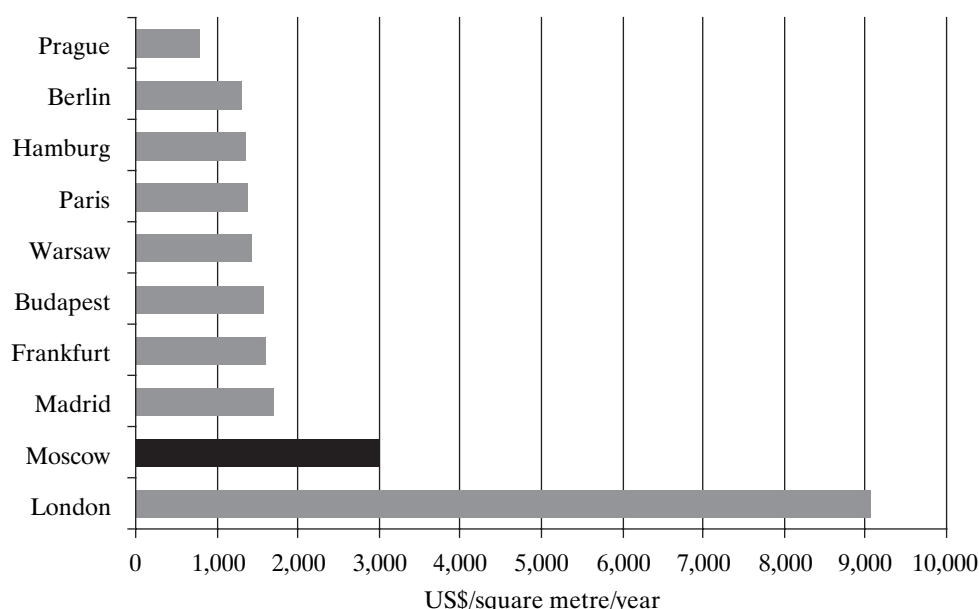
#### *Vacancy Rates*

Despite the continuous growth of shopping floor space in Moscow, the supply of quality shopping space still does not meet the demand. There is a limited number of high-quality projects delivered to the market annually. This, in turn, according to JLL, keeps vacancy rates in shopping centres close to zero.

#### *Rental Rates and Yields*

Rental rates in shopping centres vary depending on location, quality and concept design. According to JLL, in 2006, Moscow's high-quality shopping centre rents showed a 7 per cent. growth during 2006 and prime base rent level reached US\$2,700-3,000 per square metre per annum (excluding VAT and operating expenses). The level of prime base rents in Moscow is surpassed only by London among major European capitals.

## Prime Shopping Centre Base Rent Benchmarks, Q4 2006



Source: Jones Lang LaSalle.

As at 31 December 2006, prime yields for Moscow shopping centre space were approximately 9.5-10 per cent., exceeding the rental yields in Warsaw (5.75 per cent.), Brussels (4.75-5.5 per cent.), Amsterdam (4.5-5 per cent.), London (4.75 per cent.) and Paris (4.5-5 per cent.), according to JLL.

### **Moscow Residential Market**

The residential real estate market in Moscow can be divided into three main price categories: lower price segment (“panel housing”), medium price segment (“business class” apartments and town houses) and premium market segment (“elite” apartment buildings). In Moscow, we focus primarily on business class and elite residential developments.

#### *Demand*

Demand for new-built apartments in central Moscow remains strong, both from owner-occupiers and investors. Growth in real incomes has resulted in a significant increase in demand for residential space, particularly as Moscow residents seek to upgrade the quality of their living accommodations. In particular, the demand for higher quality residential properties in Moscow is expected to continue to grow rapidly in line with the economic growth and the increasing affluence of consumers.

In addition, the expansion of western enterprises has also led to a substantial increase in demand due to employee housing needs.

#### *Supply*

The market for residential property in Moscow is characterised by low supply per capita and ageing stock, with approximately 60 per cent. of Moscow’s housing stock in need of renovation as of December 2006, according to Russian Construction Review. The stock of total residential space in Moscow increased from 185.3 million square metres in 2000 to 203.8 million square metres in 2005, according to Moscow Department of Residential Stock and Residential Policy.

#### *Prices*

Anecdotal evidence suggests that apartments in well-located developments are likely to pre-sell prior to completion. Deposits paid by purchasers are often used by developers to fund construction, thus reducing the level of development finance required. In general, the mortgage market in Russia remains immature, but market commentators suggest that in the primary market, 20.0 to 30.0 per cent. of apartment purchases are now financed through mortgage debt.

## ***Moscow Hotels***

Since the 1990s, several well-known international hotel chains, including Radisson, Kempinski, Marriott Intercontinental, InterContinental Hotels Group, Best Western, Hyatt, Rocco Forte and Sheraton, have begun operating in several major Russian cities.

### ***Demand***

According to the Federal Security Service of the Russian Federation, in 2000, Moscow attracted approximately 1.5 million foreign tourists while, in 2006, the number of foreign visitors increased to an estimated 4.0 million, representing an average annual increase of 15.5 per cent. The number of Russian citizens using Moscow hotels has also increased over the last few years.

In Moscow, there is a large number of premium hotels compared to the number of budget and mid-tier hotels. To date, the market for mid-tier and budget hotels has not developed sufficiently to satisfy the demand of middle class business travellers and the increasing number of tourists. The highest level of unfulfilled demand is for quality three-star and economy hotels, representing one of the most unexplored investment niches in Russia.

### ***Supply***

The Moscow City Government is involved in the local hotel market. According to the Moscow Government Committee on Foreign Affairs, as of 31 December 2006, Moscow had 187 hotels, which were able to accommodate approximately 69,200 guests.

Hotels in Moscow can be divided into two broad categories: “modern-standard” properties and “Soviet-style” hotels. The latter, which date back to the 1950s-1980s, have inconsistent standards. According to Jones Lang LaSalle Hotels, as of December 2006, the stock of modern-standard hotel rooms in Moscow was approximately 9,500 rooms, which is one of the lowest among European capital cities.

### **Modern-Standard Hotel Rooms (as at 31 December 2006)**

<u>City</u>	<u>Number of Rooms</u>
Moscow . . . . .	9,500
Warsaw . . . . .	10,700
Budapest . . . . .	15,700
Frankfurt . . . . .	18,500
Amsterdam . . . . .	19,848
Prague . . . . .	25,729
Madrid . . . . .	40,124
Central London . . . . .	69,200
Paris . . . . .	75,000

*Source: Jones Lang LaSalle Hotels.*

With the realisation of various hotel projects in the current development pipeline, the number of modern-standard hotel rooms in Moscow is expected to increase to 16,000 by 2011, representing an increase of 68 per cent. compared to 2006. The City of Moscow’s hotel development plan envisions the construction of mainly four and five-star hotels in the central part of the city and the construction of mid-tier and budget hotels in areas outside the city centre.

### ***Occupancy and Average Rates***

In 2006, according to Jones Lang LaSalle Hotels, premium hotels (such as the Marriott Grand, Sheraton, Radisson Slavyanskaya, Ararat Park Hyatt and Le Royal Meridien National) achieved average occupancy rates of 72.7 per cent. and average room rates of US\$291 per night. These room rates are ahead of comparable rates in London (US\$229/night), Rome (US\$252/night), Amsterdam (US\$228/night), Madrid (US\$204/night) and Berlin (US\$183/night) and slightly behind those in Paris (US\$293/night). Occupancy rates at premium hotels in Moscow also compare favourably to other European cities.

## BUSINESS

### Overview

We are one of the leading real estate development companies operating in Russia. Our controlling shareholder is Africa Israel Investments Ltd., or Africa Israel, an international real estate investment and development group based in Israel with over 70 years of experience in real estate development. Incorporated in Cyprus in 2001, we are currently one of the few developers operating in Russia that build large scale, integrated and high profile commercial and residential properties to international standards. We offer an attractive portfolio of existing Russian development projects, a substantial pipeline of other real estate investment opportunities across Russia and a strong management team, comprising local professionals and international real estate experts.

We focus on developing and redeveloping high quality commercial and residential real estate assets in Moscow, the Moscow Region and other major Russian cities such as St. Petersburg, Perm and Volgograd. Our strategy is to sell the residential properties we develop and to either lease the commercial properties we develop or sell them if we are able to achieve a favourable return.

### Our Portfolio

We have an existing portfolio of 21 development projects in 12 locations in Russia expected to comprise over 3.2 million square metres of gross lettable area, or GLA, and gross sellable area, or GSA, including commercial, residential and mixed-use projects in Moscow, the Moscow Region and other major Russian cities. Our existing commercial projects focus on offices, shopping centres, hotels, and mixed-use properties. Our existing residential projects focus on upscale apartment buildings in prime locations in Moscow and on the development of residential districts in the Moscow Region aimed at the upper middle class segment of the market.

Our beneficial interests in the projects in our current portfolio in their existing state of development were valued by JLL at approximately US\$3.69 billion, as at 31 March 2007, subject to the assumptions set out in the valuation report attached as Annex A to this prospectus.

In addition to our portfolio of existing projects, as at 31 March 2007 we had a pipeline of 12 projects located in Moscow, the Moscow Region and other cities in Russia.

Going forward, we intend to invest in other Russian real estate development projects that match our objectives. We will select projects based on our assessment of economic conditions, location and potential for value creation, while seeking to maintain our diversification objective with regard to property type. It is also our intention that our portfolio retains a spread of properties at various stages of development.

### Strengths

We believe that we benefit from the following competitive strengths:

***We have established a unique portfolio of large-scale, integrated projects, which we expect to generate significant net asset value growth and cash flow.***

Our approach, which is focused principally on developing integrated projects rather than single buildings, has enabled us to build a unique portfolio of large-scale and high profile projects. Our focus on large, integrated landmark projects in attractive locations provides economies of scale and scope. We expect this, combined with disciplined execution of our current projects and subsequent exit or management for yield, to result in significant growth in net asset value through both capital appreciation and future cash generation.

***We have a proven track record and market recognition.***

In 2001, we were one of the first international real estate companies to successfully enter the Moscow real estate market and establish a local real estate platform.

Both our current portfolio and our successfully completed projects and exits demonstrate our ability to source, secure and design new developments, and to successfully execute our projects on a timely basis. As project manager, we have successfully completed for other investors four projects which we did not own, three of which were luxury residential projects in Moscow and the fourth a spa hotel in Kislovodsk. In addition, we have successfully completed and/or exited several projects owned by us, including the

Aquamarine I development at the Ozerkovskaya Embankment, which we sold in 2005, realising a profit of US\$31.6 million.

We believe that our successful track record has helped to establish our reputation for sourcing and executing integrated, large-scale and high profile projects to international quality standards which in turn has enhanced our access to new development projects.

***We benefit from a large and experienced local team with a broad network of relationships.***

We have a local team of approximately 100 people in Russia, employed by Stroyinkom-K, engaged in all aspects of the real estate development value chain, including mapping specialists, zoning specialists, project managers, engineers, analysts, marketing and sales specialists, lawyers, contract managers and finance and control personnel. Our team is led by Alexander Khaldey, the CEO of Stroyinkom-K, who has over 30 years of experience in the Russian real estate industry. We have been able to leverage Mr. Khaldey's extensive network of contacts and his reputation in Russia, particularly in Moscow, to source new developments, procure relevant permits and negotiate contracts on attractive terms.

Our team has substantial experience in the Russian real estate sector and benefits from the real estate development experience that certain of our key managers have gained with various companies engaged in the development and construction of real estate projects in Russia.

Our strong local presence has allowed us to develop key relationships with governmental and local authorities and accumulate extensive know-how with respect to property development procedures in Moscow. In addition, we have long-standing relationships with internationally recognised contractors and construction project managers such as Enka Insaat Sanayi A.S., or Enka and OOO "Danya Cebus Rus", or Danya Cebus, which have significant experience operating in the Russian real estate development market.

We believe that the experience and depth of knowledge of our local team, coupled with our relationships with the key participants in the Moscow real estate sector, allow us to take advantage of attractive property development opportunities in Russia and to execute our projects in a timely and efficient manner.

***We benefit from the real estate experience and expertise of our controlling shareholder.***

Our largest shareholder, Africa Israel, is an internationally recognised property developer with over 70 years of multinational experience in the development, construction and management of large and complex real estate projects to international standards. Lev Leviev, the chairman and controlling shareholder of Africa Israel, is well known and highly regarded in the international property development sector, particularly in Israel and Russia.

We benefit from our relationship with Africa Israel in a number of ways, including the continuous transfer of knowledge and relevant experience from Africa Israel based on its decades of property development and management experience. Furthermore, we benefit from Mr. Leviev's considerable personal experience and relationships.

***We have strong business and financial processes, controls and reporting standards.***

As a subsidiary of a publicly traded company we have, since our inception, implemented internal controls and recordkeeping, reporting, business and investment evaluation processes. We have also adopted methods for evaluating property development opportunities and monitoring the progress of our development projects in a disciplined manner. We believe that our well established structure for managing and monitoring our corporate, business and financial affairs provides us with an advantage over our competitors in relation to dealing with governmental authorities and minimising development costs.

## **Strategy**

We aim to maximise value for our shareholders by pursuing the following strategies:

***Build on our current market position and differentiate ourselves from many of our competitors by maintaining our strategy of proactively developing integrated large-scale and complex projects in attractive locations.***

We intend to create value by continuing to focus on integrated large-scale and complex projects, rather than single buildings. We further aim to enhance the value of our projects through the acquisition of additional land plots adjacent to our development sites and the consolidation of such land plots into our developments. Our approach will continue to be proactive: we will actively participate in property and land

tenders and auctions, and will also initiate discussions with both public authorities and private parties to propose potential development projects where we see opportunity.

An example of this approach is our Tverskaya Zastava project, where we approached the City of Moscow with an innovative mixed-use development concept in the central part of Moscow, which included an underground shopping centre and modern traffic solutions.

***Focus on the successful execution of our current development projects while seeking attractive investment opportunities for future development.***

We have an existing portfolio of 21 projects with a projected aggregate gross lettable area and gross sellable area of 3.2 million square metres, according to JLL, which we expect to complete between 2007 and 2012.

We are focused on the successful and timely execution of these development projects in a manner that is intended to maximise value for our shareholders. We aim to achieve this objective by applying the operational expertise and procedural familiarity of our local management team and by continuing to use our flexible, phased development approach. We believe that this will enhance our ability to leverage our development platform and complete our projects on a cost-efficient basis while making our projects cash-generative at the earliest possible opportunity.

We intend to continue to source and selectively evaluate potential high quality real estate developments and value enhancing acquisition opportunities that meet our project evaluation criteria.

***Target selective geographical expansion across major cities in Russia.***

While we will continue to focus on Moscow and the Moscow Region, we also plan to undertake selective geographical expansion in other major cities in Russia, either unilaterally or together with local partners. As part of this expansion strategy, we have established a local office in St. Petersburg, OOO “The North Investments”, and are executing development projects in St. Petersburg, Volgograd and Perm, each together with local partners.

When implementing our geographical expansion, we will look principally to cities in Russia with populations exceeding one million people, expected strong economic and demographic growth, potentially high occupancy rates and an existing undersupply of properties that meet international standards. Potential projects in such cities will be primarily evaluated based on their estimated rates of return on capital and profit margins.

***Form alliances with strong partners.***

We intend to form commercial alliances for certain projects with appropriate partners that possess the relevant local knowledge, technical expertise, relationships and resources to assist us in sourcing new developments, executing them and managing them in the longer term. In particular, we plan to partner with market leaders in certain attractive cities outside Moscow and the Moscow Region, benefiting from their local market knowledge and expertise, with the partnerships structured to provide us with an adequate level of control.

***Generate shareholder value through a flexible approach to managing our portfolio.***

We plan to employ a flexible management strategy for both our completed and development projects. Generally, our strategy is to sell the residential properties we develop and to lease the commercial properties we develop, subject to the continuous reassessment of such properties based on prevailing market conditions. We intend to actively market both our residential and commercial projects during the development stage. In particular, for our commercial projects, we will focus on securing long term leases with high profile anchor tenants, which brings higher security of rental income, as well as short term leases with smaller companies in cases where we expect rental rates to increase rapidly.

***Maintain a diversified property portfolio to maximise investment opportunities and reduce risks.***

In order to capitalise on the most attractive development opportunities while minimising the risks associated with any particular real estate sector, we intend to continue to maintain a diversified portfolio with regard to property type.

***Optimise our capital structure through a conservative level of debt financing.***

We expect the debt market in Russia to continue to develop, making debt an increasingly attractive financing option for us. We intend to access financing from both Russian and international financial institutions and, where appropriate, to seek to secure financing on a non-recourse basis to minimise risk.

We plan to implement a conservative level of leverage aimed at optimising our capital structure and expect an average future debt gearing of up to approximately 70 per cent. of the gross value of our assets. The use of leverage will differ in our commercial and residential portfolios. We intend to partially finance our commercial projects with a significant portion of debt. By contrast, the financing market for residential projects remains relatively underdeveloped in Russia; hence we expect to finance these projects principally with equity and the proceeds from presales in the development phases.

***Expand our property management capabilities.***

Our long term strategy is to expand our operations in the field of asset management, which will comprise the management and service of our property portfolio when developed.

**Ownership Structure**

On the closing date, assuming no exercise of the over-allotment option, Africa Israel will indirectly own at least 71.2 per cent. of our share capital (or at least 69.9 per cent. assuming exercise in full of the over-allotment option) and Nirro Group S.A., or Nirro Group, will own at least 9.7 per cent. of our share capital (or at least 9.5 per cent. assuming exercise in full of the over-allotment option). Accordingly, Africa Israel will retain a controlling interest in us following this offering. In April 2007, we entered into an agreement with Africa Israel, through its indirectly wholly owned subsidiary, Moonbeam Enterprises Limited, or Moonbeam Enterprises, and Nirro Group, to regulate certain aspects of the relationship between Moonbeam Enterprises and Nirro Group, including, among other things (i) that so long as Nirro Group owns at least five per cent. of our voting shares, Moonbeam Enterprises will use its best endeavours to ensure that Mr. Khaldey shall be a member of our board of directors as well as the chief executive officer of Stroyinkom-K, (ii) the transfer of shares held by Moonbeam Enterprises and Nirro Group, and (iii) tag along and drag along rights. The agreement is governed by Cypriot law.

We have entered into a relationship agreement with Africa Israel under which Africa Israel undertook that it will, among other things, allow us to carry on our business independently and in our best interests as a whole and use its best endeavours to prevent it and its subsidiaries from prejudicing our ability to carry on our business independently. A summary of this relationship agreement is set out in "General Information".

***Africa Israel***

Africa Israel was established in 1934 and is listed on the Tel Aviv Stock Exchange, with a market capitalisation of approximately US\$5.5 billion as at 12 April 2007, based on the Bank of Israel's official NIS-US Dollar exchange rate as of the same date, making it one of Israel's largest public companies. Africa Israel is involved in a broad range of activities, including investment in Israeli and international real estate (both commercial and residential projects), energy, fashion, telecommunications and media, infrastructure and industry.

Africa Israel has extensive international real estate experience, having developed large scale, high profile projects in Israel, Europe, North America and South-East Asia. As at 31 December 2006, Africa Israel rented, managed and had under development approximately 1.4 million square metres of commercial and industrial properties. In addition, Africa Israel owned and managed 8,119 residential units, 2,396 hotel rooms and had 1,006 hotel rooms under construction.

Africa Israel began investigating opportunities in the Russian real estate market in 2000 and operating in Russia through us in 2001. Prior to this offering Africa Israel indirectly held 88.0 per cent. of our issued share capital, and the remaining 12.0 per cent. was held by Nirro Group.

In 1997, Mr. Leviev, who is the chairman of the board of directors of Africa Israel, acquired a controlling interest in that company and as at the date of this prospectus holds a 75.7 per cent. interest in Africa Israel. Mr. Leviev is well known and highly regarded in the international property development sector, particularly in Israel and Russia.

Nirro Group is controlled by Mr. Khaldey. Mr. Khaldey is our co-founder and has over 30 years of experience in the real estate industry.

## Summary of our Business

We identify and develop projects from the idea or inception stage to completion. Our activities include the identification of opportunities in the Russian property market and the performance of feasibility studies, which are undertaken with the assistance of international consultants or using in-house expertise. In addition, we prepare business plans and obtain architectural designs from architectural firms. We also obtain the required construction permits and other permissions, engage general contractors and oversee construction, raise financing and engage in marketing activities.

Currently, our portfolio of real estate development projects comprises 21 projects in 12 locations. In addition we have 12 potential projects under consideration at various stages of evaluation, internal approval and negotiation. Upon completion, we may retain a project as an investment or sell it to a third party. Based on JLL's estimate of our gross lettable area and gross sellable area, approximately 89.4 per cent. of our portfolio projects are in Moscow and the Moscow Region, and 10.6 per cent. in other major cities in Russia. Moreover, out of a total of an estimated 3,206,911 square metres of gross lettable area and gross sellable area of our portfolio, approximately 46.7 per cent. is office, 19.5 per cent. is residential, 12.4 per cent. is retail, 1.2 per cent. is hotel, and 20.1 per cent. is parking space.

## Portfolio and Pipeline Projects

We categorise the development projects in which we are currently involved as either portfolio projects or pipeline projects based on our judgement of the business considerations and legal rights relating to the projects. We have obtained external valuations with respect to each of our portfolio projects. Our beneficial interests in the projects in our current portfolio in their existing state of development were valued by JLL at approximately US\$3.69 billion, as at 31 March 2007, subject to the assumptions set out in the valuation report attached as Annex A to this prospectus.

Our portfolio projects are at various stages of completion, ranging from concept stage to construction stage, and a small portion of our portfolio projects generate rental income. Approximately 57.6 per cent. of our portfolio projects by value are in the pre-construction stage, and we have not yet obtained leasehold or freehold rights to the land plots underlying certain of our projects. In many cases, we seek to postpone entering into leases with the relevant authorities until such time as we are ready to begin construction on the project as part of our overall strategy of reducing our development costs. Projects that satisfy one or more of the following criteria qualify as portfolio projects:

- We have (i) received resolutions from relevant governmental or municipal authorities granting us one or more of the following: the approval of our project concept documentation, the right to develop the project or part thereof, the right to conclude a land lease with respect to the project and/or the right to prepare town planning documentation with respect to the project or part thereof, and we have either obtained or management believes we will obtain, subsequent approvals or permits such as Acts of Permitted Use and construction permits; and/or (ii) acquired freehold or leasehold rights to structures and/or land plots within the area of the proposed development;
- We are the owners of the building or premises which comprise all or substantially all of the project or we have a lease agreement or investment contract with the City of Moscow relating to the area of the project; or
- We have entered into a binding agreement through which we have the right to acquire land rights to the project, including rights to acquire a controlling interest in entities that have land rights with respect to the development project.

In accordance with the above criteria, we have a portfolio of 21 projects, with respect to 10 of which we have not entered into an investment contract and/or a land lease agreement or otherwise secured rights to the underlying land. Under Moscow law, the winner of a tender for, or an auction of, a land plot must conclude either an investment contract for construction or a long term lease agreement with the City of Moscow prior to the commencement of construction. Failure to enter into land lease agreements could prevent us from completing these projects. See "Risk Factors—Risks Relating to Our Business—Failure to enter into an investment contract and/or a land lease agreement with the City of Moscow or any other relevant authority in a timely manner, or at all, may delay or prevent the development of our projects".

Pipeline projects consist of those projects in respect of which we have taken an internal decision to proceed with the project, subject to the satisfactory conclusion of our due diligence review, but which do not yet satisfy our criteria for classification as portfolio projects. With respect to most of our current pipeline projects, we are in negotiations to acquire rights from existing owners/tenants to land plots or

premises within the area of the expected project, but have yet to finalise our due diligence review of such projects. Accordingly, there can be no assurance that we will take the final decision to pursue such projects or, in the event we elect to pursue such projects, that they will be brought to a successful conclusion. Between the date of this prospectus and the closing date of this offering, we expect to spend approximately US\$25 million to secure the exclusive rights to certain of these projects.

### ***Portfolio Projects***

We have 21 projects at various stages of development. We characterise these projects as being part of our portfolio on the basis of our expectation that we will be able to secure all necessary legal rights to complete these projects as well as our past experience in progressing early-stage projects to completion. Of these 21 projects, 12 are at the concept stage of development, as defined below.

Any reference in this section to the City of Moscow includes reference to the relevant agencies and/or departments of the City of Moscow.

The stages of our developments are classified as concept, design, construction and yielding and, are generally characterised as follows:

- Concept—the preliminary stage, usually prior to the receipt of an Act of Permitted Use, which is required to prepare the requisite design documentation for the project;
- Design—the period from the receipt of the Act of Permitted Use until the commencement of construction;
- Construction—usually commences upon receipt of the required construction permit and extends through the period of construction until the facility is put into operation;
- Yielding—the final stage, where construction or renovation (as described below) has been completed, the facility is operational and generates revenues.

In addition, in certain cases we acquire existing buildings for the purpose of renovation. Our renovation projects consist of the renovation of an existing structure, generally where limited or no permits or approvals are required.

Our development costs generally include the costs of acquiring development rights and/or lease rights to the land, the costs of acquiring the City of Moscow's share in projects, the costs associated with design and construction, management fees paid to the project manager and financing costs.

For certain of our projects, in particular Kuntsevo, Tverskaya Zastava Plaza I, Plaza II and Plaza II(a), Otradnoye, Perm and Volgograd, we also face “corrective” costs, which include the costs of relocating existing tenants from the premises on the project site or the purchase of these premises from their owners. The relocation of tenants can be a lengthy process and is subject to the risk of legal challenges by tenants and reputational damage to our business. See “Risk Factors—Risks Relating to Our Business—We may be subject to the risk of owners of properties unwilling to sell at a reasonable price or at all and/or tenants unwilling to relocate away from the development, which may result in us incurring costs or delays in the development or the completion of certain of our projects”.

In addition, for certain of our projects, in particular Tverskaya Zastava Shopping Centre, Four Winds I and II and Otradnoye, we face additional costs associated with improving infrastructure and installing certain utilities. These costs are initially borne by us, but we will aim ultimately to set them off against any amount which we might be obligated to pay under our contractual arrangements with the relevant governmental authorities.

The table below sets forth information relating to the projects that we include in our portfolio and that have been valued by JLL as at 31 March 2007. Certain information set forth in the table contains current estimates and projections related to projects that are not yet completed and may only be at the early stages of development. In particular, Tverskaya Zastava Plaza I, Tverskaya Zastava Plaza II, Tverskaya Zastava Plaza II(a), Tverskaya Zastava Plaza IV, Kuntsevo, Ozerkovskaya Phase III, Ozerkovskaya Phase IV, Otradnoye, Ruza, Berezhkovskaya and Volgograd are at the concept or design stages of development. Estimates and projections in relation to any of our projects may change in the future.

The GLA/GSA figures in the table below are the figures used by JLL in computing income projections attributable to each of our projects in order to calculate their valuation of our portfolio. The figures have been calculated by JLL based upon, among other things, the City of Moscow's resolutions, construction

permits, our business models, field surveys and other documentation currently available in respect of these projects. In certain instances, the figures used by JLL differ from the figures used by us in our business models. Our figures that differ materially from those calculated by JLL (10 per cent. or more) are contained in footnote 4 to the table.

In addition, the estimated completion dates referred to in the table below are the dates used by JLL in computing income projections attributable to each of our projects in order to calculate their valuation of our portfolio. The dates were determined by JLL based upon, among other things, the resolutions of the City of Moscow, construction permits, our business models, field surveys and other documentation currently available in respect of these projects. In certain instances, the dates used by JLL differ from the dates we use in our business models. Our estimated completion dates that differ materially from those calculated by JLL (by more than one calendar quarter) are contained in footnote 5 to the table.

### Current Portfolio Overview

Development	Project	Description	Development Status	Legal Status <sup>(2)</sup>	Our Beneficial Ownership	Land (hectares)	Estimated Gross Lettable Area (GLA)/ Gross Sellable Area (GSA) (square metres) of the Entire Project <sup>(1)</sup>						Our Budgeted Project Cost (US\$ million)	JLL's Valuation of our Beneficial Ownership in Completed Projects <sup>(1)</sup> (US\$, excluding VAT)	JLL'S Valuation of our Beneficial Ownership in Projects in Existing State <sup>(1)</sup> (US\$, excluding VAT)	Expected Completion Date <sup>(5)</sup>
							Office	Retail	Hotel	Residential	Parking (square metres)	Total <sup>(3)</sup>				
Tverskaya Zastava	Shopping Centre	Retail	Construction	Land lease agreement, Act of Permitted Use	100%	3.4	—	36,279	—	—	34,427	70,706	382.0	605,770,600	200,365,000	1Q2010
	Plaza I	Mixed-use	Concept	Resolution from the City of Moscow	100%	1.6	47,663	5,132	24,555	12,989	52,764	143,103	332.9	871,124,400	333,830,000	3Q2011
	Plaza II	Mixed-use, primarily office	Concept	Resolution from the City of Moscow	100%	0.5	60,537	3,208	—	—	26,075	89,820	235.6	712,837,000	309,700,000	3Q2011
	Plaza II (a)	Primarily office	Concept	Resolution from the City of Moscow	100%	0.2	4,220	101	—	—	3,502	7,823	19.0	45,575,000	16,730,000	3Q2011
	Plaza IV	Mixed-use, primarily office	Concept	Preliminary agreement with non-related third party	50%	1.4	63,278	2,976	—	—	25,000	91,254	187.7	358,992,000	75,300,000	3Q2011
	Four Winds I	Office and retail	Construction	Investment contract; land lease agreement	50%	0.4	17,556	3,416	—	—	5,016	25,988	69.9 (Four Winds I and II)	200,141,000 (Four Winds I and II)	143,500,000 (Four Winds I and II)	1Q2008
	Four Winds II	Residential and retail	Construction	Investment contract; land lease agreement	50%	0.7	—	4,854 (includes a fitness centre of 3,846 sqm)	—	17,875	13,692	36,421				1Q2008
Moscow City Shopping Centre Kuntsevo	Shopping Centre	Retail	Construction	Investment contract; land lease agreement	75% <sup>(6)</sup>	4.4	3,246	111,743	—	—	—	114,989	384.0	1,376,955,000 <sup>(7)</sup>	889,000,000 <sup>(7)</sup>	1Q2009
		Mixed-use	Concept	Preliminary resolution from the City of Moscow	100%	22.2	933,314	125,100	—	—	217,000	1,275,414	3,168.2	5,721,121,500	650,000,000	1Q2012
Ozerkovskaya Embankment	Phase II	Mixed-use	Construction	Land lease agreement	50% <sup>(8)</sup>	1.5	12,460	685	7,380	17,982	22,338	60,845	76.7	189,856,700	142,700,000	Office—2Q2007 Residential and hotel—1Q2009

Development	Project	Description	Development Status	Legal Status <sup>(2)</sup>	Our Beneficial Ownership	Land (hectares)	Estimated Gross Lettable Area (GLA)/ Gross Sellable Area (GSA) (square metres) of the Entire Project <sup>(1)</sup>						Our Budgeted Project Cost (US\$ million)	JLL's Valuation of our Beneficial Ownership in Completed Projects <sup>(1)</sup> (US\$, excluding VAT)	JLL'S Valuation of our Beneficial Ownership in Projects in Existing State <sup>(1)</sup> (US\$, excluding VAT)	Expected Completion Date <sup>(5)</sup>
							Office <sup>(3)</sup>	Retail <sup>(3)</sup>	Hotel	Residential	Parking (square metres)	Total <sup>(4)</sup>				
Otradnoye	Phase III	Mixed-use, primarily office	Concept	Land lease agreement	50%	1.4	41,192	—	—	5,632	17,300	64,124	78.6	186,438,300	101,600,000	2Q2009
	Phase IV	Mixed-use	Concept	Framework agreement with the owner of buildings on the land	70%	—	23,000	—	—	—	7,820	30,820	84.1	133,074,000	49,300,000	3Q2009
		Mixed-use, primarily residential	Design	Investment contract	90%/94% <sup>(9)</sup>	37.9	17,960	22,000	—	450,100	106,400	596,460	786.8	1,483,812,400	370,000,000	3Q2012
Paveletskaya	Paveletskaya Embankment	Office	Renovation	Ownership of buildings on the land; land lease agreement	100%	5.1	67,000	—	—	—	—	67,000	128.5	210,063,600	45,300,000	3Q2009
Ruza	H <sub>2</sub> O	Office	Yielding	Ownership of building	100%	0.4	8,929	—	—	—	—	8,929	27.7	28,375,000	27,000,000	NA
Dinamo		Land plot	Concept	Ownership of land plots	100%	387.0 <sup>(10)</sup>	—	—	—	—	—	—	3.4	141,540,000	69,200,000	3Q2011
			Renovation	Framework agreement with non-related third party for joint development	100%	5.0	81,671	3,000	—	—	—	84,671	212.7	368,287,000	118,600,000	4Q2008
Berezhkovskaya		Office	Yielding + Concept	Framework agreement with non-related third party for acquisition	74%	1.5	74,600	—	—	—	25,000	99,600	222.6	374,839,000	117,700,000	3Q2008
St Petersburg		Retail	Concept	Share purchase agreement with a third party	76%	3.1	—	15,400	—	—	—	15,400	21.4	46,742,000	16,675,000	1Q2009
Perm		Mixed-use (in three phases)	Concept	Co-investment agreement with a third party	30%	3.0	16,205	11,100	—	122,232	59,047	208,584	97.6	141,865,500	10,260,000	4Q2009 4Q2010 3Q2011
Volgograd		Mixed-use	Concept	Co-investment agreement with a third party; land lease agreement	78%	6.6	25,500	54,100	7,360	—	28,000	114,960	143.6	188,745,000	4,500,000	1Q2010
Total							1,498,331	399,094	39,295	626,810	643,381	3,206,911	6,662.9	13,386,155,000	3,691,260,000	

Note: The valuation is based on our beneficial ownership in each project.

- (1) The GLA/GSA data represents the JLL estimates.
- (2) For additional information with respect to the legal status of the projects see the descriptions below.
- (3) Rental rates are included in the valuation report in Annex A of this prospectus.
- (4) Certain of the GLA/GSA data in the table calculated by JLL differs in certain instances from our estimates. JLL has not undertaken any measured surveys of our properties and has relied on the information as to site and floor areas and dimensions of existing and proposed developments as provided by us as well as on their own judgement. In certain projects, as a result of site visits and other evaluations of our properties conducted by JLL in the course of its preparation of the valuation report, JLL has arrived at estimates which differ materially from our own. The projects in which our figures for total GLA/GSA differ materially from those calculated by JLL (10.0 per cent. or more) are the following:
  - Ozerkovskaya Phase III—71,250 square metres;
  - Dinamo—96,217 square metres;
  - Perm—134,466 square metres;
  - Volgograd—150,000 square metres; and
  - Kuntsevo—1,466,450 square metres.
- (5) Certain of the estimated completion dates in the table calculated by JLL differ in certain instances from our estimates. In arriving at these dates, JLL has relied on information and documentation with respect to the projects provided by us and on their own judgement. In certain projects, as a result of site visits and other evaluations of our properties conducted by JLL in the course of its preparation of the valuation report, JLL has arrived at estimates which differ from our own. The projects for which our estimated completion dates differ materially from those calculated by JLL (more than one calendar quarter difference) are the following:
  - Tversakaya Zastava Plaza I—4Q 2010;
  - Tversakaya Zastava Plaza II—4Q 2010;
  - Tversakaya Zastava Plaza II(a)—4Q 2010;
  - Tversakaya Zastava Plaza IV—2009;
  - Four Winds I—2Q 2007;
  - Ozerkovskaya Phase II—4Q 2007;
  - Pavletskaya Embankment—1Q 2008;
  - Ruza—2010;
  - Dinamo—1Q 2008;
  - Berezhkovskaya—2007;
  - St. Petersburg—2008;
  - Perm—2008; and
  - Volgograd—2008.
- (6) With respect to the retail and office space of the Moscow City Shopping Centre project we are responsible for 100 per cent. of the costs and are entitled to 75.0 per cent. of the revenues. With respect to the concert hall, we are responsible for paying US\$20 million of the costs, but have no ownership rights.
- (7) With respect to the Moscow City Shopping Centre project, JLL has taken such costs into account in arriving at its valuation and has valued the property on the basis that we have a 100 per cent. share in the income received, with the exception of income from the concert hall, which is to be received by the City of Moscow. It is our intention to buy the 25 per cent. interest held by the City of Moscow, and we are currently in negotiations with the City of Moscow to have them pass a resolution entitling us to do so.
- (8) Our 50.0 per cent. beneficial ownership in the Ozerkovskaya Phase II project refers to the entire project with the exception of the hotel (with respect to which we are responsible for 100 per cent. of the costs and are entitled to 100 per cent. of the revenues), and 24 apartments and 48 parking places (with respect to which we are responsible for 50.0 per cent. of the costs and are entitled to 100 per cent. of the revenues).
- (9) Our contract provides that we will own 94.0 per cent. of the residential and 90.0 per cent. of the non-residential premises upon completion of the project.
- (10) We intend to parcel the land plot and develop upscale villas with a total area of approximately 200,000 square metres.

## **Tverskaya Zastava**

The Tverskaya Zastava development comprises seven projects, including:

- Tverskaya Shopping Centre, an underground shopping centre;
- Tverskaya Plaza I, a mixed-use development that is expected to include a five star hotel, retail shops and class A offices;
- Tverskaya Plaza II, a mixed-use development that is expected to include retail shops and class A offices;
- Tverskaya Plaza II(a), a class A office building and retail shops;
- Tverskaya Plaza IV, a mixed-use development expected to include Class A offices, a three star hotel and retail shops;
- Four Winds I, a mixed-use office development; and
- Four Winds II, a mixed-use residential complex.

All of these projects also include underground parking facilities.

The Tverskaya Zastava development is expected to consist of various land plots comprising 8.1 hectares in central Moscow in the vicinity of the Belorussky railway station and two metro stations, and is located adjacent to the motorway to Sheremetyevo International Airport. The principal portion of the development is located at the entry point to 1<sup>st</sup> Tverskaya-Yamskaya Street, one of Moscow's main shopping and administrative streets leading to Red Square.

Our wholly-owned Russian subsidiary, OOO "Avtostoyanka Tverskaya Zastava", or ATZ, is the main operating company for the Tverskaya Zastava development. In connection with the development, we have undertaken to the City of Moscow to finance and construct a new traffic interchange, as well as to redesign the flow of traffic in and around the development, in order to increase capacity and ease access to the centre of Moscow and the Belorussky railway station. Pursuant to the resolutions of the City of Moscow with respect to the development, we expect to set off the costs of the design and construction of the traffic interchange against the costs of the acquisition of the lease rights for Tverskaya Plaza I, Tverskaya Plaza II(a) and one of the land plots of Tverskaya Plaza II from the City of Moscow.

In respect of certain of the projects included in the development, we have already acquired the rights to a number of premises as part of our strategy of enhancing the value of our development projects through the strategic acquisition of land plots on or adjacent to our development sites and the consolidation of such land plots into our projects. To complete Tverskaya Plaza I and Tverskaya Plaza II, we will be required to purchase the premises or land rights of the existing tenants on the property. We expect to be able to set off the costs of purchasing such premises or land rights of existing tenants against the cost of acquiring the land rights to the project from the City of Moscow.

The Tverskaya Zastava development is expected to be completed in stages over the next four years:

- the Four Winds I and II projects are expected to be completed in the first quarter of 2008;
- the construction of the Tverskaya Shopping Centre has commenced and is expected to continue in stages and to be completed in the first quarter of 2010; and
- Plaza I, Plaza II, Plaza II(a) and Plaza IV are expected to be completed in the third quarter of 2011.

Further details of each development in the Tverskaya Zastava development are set out below.

### ***Tverskaya Shopping Centre***

#### ***Stage of Development***

The Tverskaya Shopping Centre is at the construction stage of development, with completion of construction expected in the first quarter of 2010.

#### ***Description of the Project***

The Tverskaya Shopping Centre development is located underneath Tverskaya Zastava Square, at the confluence of 1<sup>st</sup> Tverskaya-Yamskaya Street, Gruzinsky Val, Butyrsky Val and Leningradsky Prospect, one

of the busiest intersections in Moscow, and is approximately three kilometres from the Kremlin. It is expected to be the largest underground shopping centre in Moscow.

Upon completion, the Tverskaya Shopping Centre project is expected to include:

- 36,279 square metres of retail space; and
- 34,427 square metres of underground parking.

The design for the Tverskaya Shopping Centre is based on modern architectural concepts and was prepared by Mosproject-2, a leading Moscow design and architectural firm.

We have engaged Enka, a major Turkish construction company and one of the largest contractors in Moscow, as the general contractor for the construction of the Tverskaya Shopping Centre.

As of 31 March 2007, we had entered into letters of intent with prospective tenants in respect of four premises covering a total of approximately 7,600 square metres.

Total costs of completion for the project (excluding VAT) are estimated to be US\$382.0 million. As of 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$58.1 million.

JLL valued our beneficial ownership of the Tverskaya Shopping Centre development in its existing state of development at US\$200.4 million, as at 31 March 2007.

### *Legal Rights*

The Tverskaya Shopping Centre is being developed by ATZ on the basis of two resolutions of the City of Moscow, or the Tverskaya Zastava resolutions. The Tverskaya Zastava resolutions specifically refer to the construction of the Tverskaya Shopping Centre and the traffic interchange and grant ATZ the right to construct, between the years 2004 and 2010, an underground shopping centre with a total maximum area of 53,000 square metres, a parking garage that may include 1,410 parking places, and a traffic interchange in Tverskaya Zastava Square, on a land plot of 3.4 hectares. These figures are derived from the Tverskaya Zastava resolutions and are subject to changes based on the actual design documentation and the construction permit. The final figures will be determined upon obtaining the operational permit and the measurements performed by the relevant authorities. The Tverskaya Zastava resolutions provide a basis for entering into a land lease agreement with respect to a respective land plot with our wholly-owned Russian subsidiary Stroyinkom-K, in its capacity as project manager of the project. The Tverskaya Zastava resolutions further set out the respective ownership rights in the project such that we will own 100 per cent. of the shopping centre and parking garage and the City of Moscow will own 100 per cent. of the traffic interchange.

As an initial step to secure land rights in the development area, we obtained leasehold rights to a land plot with a total area of 0.3 hectares located on Tverskaya Zastava Square under short term land lease agreements entered into through ATZ. These leasehold rights, together with the Tverskaya Zastava resolutions, enabled us to commence the procurement of design documentation for this project, which has been approved by the relevant state authorities. In order to commence the construction of this project, we have also entered into three short term land lease agreements and one long term land lease agreement. These land lease agreements cover land plots with a total area of 2.9 hectares and are required for the initial construction phase. These leases expire in 2007 and 2008, respectively. We intend to enter into additional land lease agreements in order to secure the rights to the remaining part of the plot as construction progresses.

On 23 November 2006, we obtained a construction permit, which allows for the construction of the Tverskaya Shopping Centre and the traffic interchange. The Tverskaya Shopping Centre and the traffic interchange are being constructed simultaneously under the same construction permitting documentation.

### *Financing Arrangements*

In order to finance the project, we are currently in negotiations regarding a non-revolving credit line agreement with the Savings Bank of the Russian Federation, or Sberbank. Loans drawn under this facility would bear a floating rate of interest. Funds drawn under the agreement would be required to be used to finance the construction of the Tverskaya Shopping Centre and the traffic interchange at Tverskaya Zastava Square in Moscow. The loan would be secured by (i) a pledge of our rights to the premises under construction at the Tverskaya Shopping Centre in their entirety; and (ii) a mortgage of the premises of the

Tverskaya Shopping Centre, once completed, provided that the mortgage value of such premises shall not be less than a pre-agreed amount. Additionally, the loan would be secured by a pledge of 51.0 per cent. of the charter capital of ATZ. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Resources”.

### *Key Steps for Completion*

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. In addition, the long term lease agreement that we have entered into with respect to the construction of the project will need to be registered, and we will need to enter into additional lease agreements. See “Certain Aspects of Russian Real Estate Law and Practice”.

### ***Tverskaya Plaza I***

#### *Stage of Development*

Tverskaya Plaza I is at the concept stage of development; design and construction have not yet begun. Construction is expected to be completed in the third quarter of 2011.

#### *Description of the Project*

The project is located on 1<sup>st</sup> Tverskaya-Yamskaya Street at the entrance point to Tverskaya-Yamskaya Street and to 1<sup>st</sup> and 2<sup>nd</sup> Brestskaya Streets, directly opposite the Tverskaya Shopping Centre. Its address is 2<sup>nd</sup> Brestskaya Street 50/2 and 1<sup>st</sup> Brestskaya Street 64-66.

The Tverskaya Plaza I project is a mixed-use project that, upon completion, is expected to include:

- 47,663 square metres of Class A office space;
- a 24,555 square metre five star hotel consisting of 300 rooms;
- 5,132 square metres of retail space;
- 12,989 square metres of apartments (for sale or long term rental); and
- 52,764 square metres of underground parking.

The concept for the project includes the preservation of the buildings’ original 19th century facades. The concept is being developed by AEDAS, a design firm based in Hong Kong, and the Asadov workshop of Mosproject-2.

Total costs of completion for the project (excluding VAT) are estimated to be US\$332.9 million. As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$15.0 million.

JLL valued our beneficial ownership of the Tverskaya Plaza I development in its existing state of development at US\$333.8 million, as at 31 March 2007.

### *Legal Rights*

Tverskaya Plaza I is currently being developed by ATZ on the basis of the Tverskaya Zastava resolutions. The Tverskaya Zastava resolutions refer specifically to the construction of the Tverskaya Plaza I mixed-use development by ATZ between the years 2004-2010, but do not define the area of the Tverskaya Plaza I development. One of the Tverskaya Zastava resolutions grants us the right to conclude a 49 year land lease agreement with respect to a land plot with a total area of 0.4 hectares, for the purpose of constructing a mixed-use development, including a hotel. The second resolution, which does not refer to a specific area of the land plot, provides that ATZ is entitled to conclude a 49 year land lease agreement with respect to a land plot provided to ATZ by the City of Moscow as compensation for the expenses incurred by ATZ in the course of construction of the traffic interchange. The second resolution is preliminary in nature, and we will need to obtain the issuance of a further resolution or resolutions that would, among other things, define the area of the specified land plot and stipulate our right to carry out construction on such land plot. There can be no assurance that the City of Moscow will not subject the project to a tender or auction or otherwise reverse its decision with respect to its preliminary resolution. We believe, however, that it is unlikely that the project will be subject to an auction or tender at this stage, because we have completed the acquisition of certain properties on the larger land plot, as part of our strategy of acquiring

assets on our development sites in order to secure land rights in those areas. As at 31 March 2007, we acquired five properties occupying 998 square metres on land plots at 1<sup>st</sup> Tverskaya-Yamskaya, which are adjacent to our development site. We have not yet entered into any land lease agreements with respect to the project.

The Public Council of the Office of the Mayor of the City of Moscow, a committee that serves in an advisory capacity for the City of Moscow, has approved the concept documentation for the project.

#### *Key Steps for Completion*

One of the tenants currently located on the site owns several premises within the site of the project and additional premises adjacent to the site of the project. In order to complete the project as currently planned and potentially to further extend it, we intend to enter into an agreement with this tenant, pursuant to which the tenant would contribute such premises for the benefit of the project in exchange for an interest in a defined portion of the completed project. We are currently in negotiations with the tenant in order to finalise the terms of such agreement.

To initiate the design stage of the project, we must obtain an Act of Permitted Use with respect to the project.

To obtain lease rights to one of the land plots underlying the project, we will need to procure the issuance of a further resolution or resolutions from the City of Moscow that would, among other things, define the area of the specified land plot and stipulate our right to carry out construction on such land plot. On the basis of such final resolution on the allocation of the land plot for construction, we will need to conclude a land lease agreement. To obtain the lease rights to the other land plot, we will need to conclude a land lease agreement on the basis of the resolution that we have already obtained from the Moscow Government.

To begin construction of the project, we must also complete design documentation and have it approved by the relevant state authorities. We must then obtain a construction permit. In addition, we must complete the relocation of existing tenants from the development site.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. See “Certain Aspects of Russian Real Estate Law and Practice”.

### ***Tverskaya Plaza II***

#### *Stage of Development*

Tverskaya Plaza II is at the concept stage of development; design and construction have not yet begun. Construction is expected to be completed in the third quarter of 2011.

#### *Description of the Project*

The project is located at Gruzinsky Val 31, Gruzinsky Val 29 and Tverskaya Zastava Square 3, directly opposite the Tverskaya Shopping Centre project, and adjacent to the Belorussky railway station. The land plot on which the project will be developed is expected to comprise 0.5 hectares.

The Tverskaya Plaza II project is a mixed-use project that upon completion is expected to include:

- 60,537 square metres of Class A office space;
- 3,208 square metres of retail space; and
- 26,075 square metres of parking space.

The concept for the project includes the preservation of the buildings’ original 19th century facades. The concept is being developed by AEDAS, a design firm based in Hong Kong, Willmott & Associates SA, a design firm based in France, and the Asadov workshop of Mosproject-2.

Total costs for completion of the project (excluding VAT) are estimated to be US\$235.6 million. As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$27.4 million.

JLL valued our beneficial ownership of the Tverskaya Zastava Plaza II development in its existing state of development at US\$309.7 million, as at 31 March 2007.

### *Legal Rights*

Tverskaya Plaza II is currently being developed by ATZ on the basis of a resolution of the City of Moscow. The resolution refers specifically to the construction of the Tverskaya Plaza II mixed-use development at Gruzinsky Val 31 by ATZ in the years 2006-2010. The resolution does not refer to a specific area of the land plot, but provides that ATZ is entitled to conclude a 49 year land lease agreement with respect to a land plot provided to ATZ by the City of Moscow as a compensation for the expenses incurred by ATZ in the course of construction of the traffic interchange. This resolution is preliminary in nature and we will need to obtain the issuance of a further resolution or resolutions that would, among other things, define the area of the specified land plot and stipulate our right to carry out construction on such land plot. There can be no assurance that the City of Moscow will not subject the project to a tender or auction or otherwise reverse its decision with respect to its preliminary resolution. We believe, however, that it is unlikely that the project will be subject to an auction or tender at this stage, because we have completed the acquisition of certain properties on the larger land plot. We have not yet entered into any land lease agreement.

The Public Council of the Office of the Mayor of the City of Moscow has approved the concept documentation for the project.

We expect that our land rights in relation to Tverskaya Plaza II will also include lease rights to a land plot located at Gruzinsky Val 29 as rights arising from our acquisition of non-residential premises on the secondary market. In accordance with our strategy of acquiring rights to land plots adjacent to our development sites, we acquired a building with a total area of 242 square metres located on a land plot with a total area of 321 square metres, located at Gruzinsky Val 29. ATZ is the registered owner of this building.

Under Russian law, an owner of a building is vested with an exclusive right to buy or to lease the land plot underlying that building. Given that in practice ownership to land is relatively rare in Moscow, ATZ effectively has an exclusive right to lease the land plot underlying its building since ATZ is a registered owner of the building.

In addition, under Russian law the new owner of a building acquired from a previous owner acquires the same rights to the land plot underlying the building which the previous owner had. OOO Vetel, one of the previous owners of the building located at Gruzinsky Val 29, had lease rights to the land plot, pursuant to a land lease agreement concluded between the Moscow City Government and OOO Vetel scheduled to expire on 16 December 2007. Therefore, we believe that these rights will be transferred to ATZ by operation of law.

Finally, ATZ, OOO Vetel and the Moscow City Government executed a relevant addendum to the land lease agreement pursuant to which ATZ replaced OOO Vetel as tenant under the land lease agreement. However, this addendum has not been registered yet and requires state registration.

We obtained our rights to the non-residential premises at Tverskaya Zastava 3 in October 2006 when we acquired Bugis Finance Ltd., or Bugis, a company incorporated in the British Virgin Islands. Bugis owned non-residential premises with a total area of 4,578 square metres located at Tverskaya Zastava 3. These premises are currently yielding revenue in the form of rental income and are scheduled to be demolished as part of the development of this project. There are other owners and tenants occupying the building which we plan to relocate. We intend to consolidate these land plots in order to proceed with the development of the Plaza II project.

### *Key Steps for Completion*

To initiate the design stage of the project, we must obtain an Act of Permitted Use.

To obtain lease rights to the land plot at Gruzinsky Val 31, we will need to procure the issuance of a further resolution or resolutions from the City of Moscow that would, among other things, define the area of the specified land plot and stipulate our right to carry out construction on such land plot.

To commence construction at Gruzinsky Val 29 we will need to enter into a land lease agreement allowing for construction on the site. In addition, we plan to consolidate the adjacent land plots at Gruzinsky Val 31 and 29 and conclude a single land lease agreement for the consolidated land plot. We will need to enter into a land lease agreement with respect to the land plot at Tverskaya Zastava Square 3 allowing for construction at the site. To begin construction of the project, we must complete design documentation and have it approved. We will also need to enter into a long term lease agreement based on

the Tverskaya Zastava Resolutions. We must then obtain a construction permit. In addition, we must relocate existing owners and tenants from the development site.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. See “Certain Aspects of Russian Real Estate Law and Practice”.

### ***Tverskaya Plaza II(a)***

#### ***Stage of Development***

Tverskaya Plaza II(a) is at the concept stage of development; design and construction have not yet begun. Construction is expected to be completed in the third quarter of 2011.

#### ***Description of the Project***

The project will be located on Butyrsky Val 1 and Butyrsky Val 2/3 facing the Tverskaya Zastava Shopping Centre.

The Tverskaya Plaza II(a) project is a mixed-use project that upon completion is expected to include:

- 4,220 square metres of Class A office space;
- 101 square metres of retail space; and
- 3,502 square metres of parking space.

Total costs for completion of the project (excluding VAT) are estimated to be US\$19.0 million. As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$2.5 million.

JLL valued our beneficial ownership of the Tverskaya Plaza II(a) project in its existing state of development at US\$16.7 million, as at 31 March 2007.

#### ***Legal Rights***

Tverskaya Plaza II(a) is currently being developed by ATZ on the basis of a resolution of the City of Moscow. The resolution refers specifically to the construction of the Tverskaya Plaza II(a) mixed-use development by ATZ in the years 2006-2010. The resolution does not refer to a specific area of the land plot, but provides that ATZ is entitled to conclude a 49 year land lease agreement with respect to a land plot provided to ATZ by the City of Moscow as compensation for the expenses incurred by ATZ in the course of construction of the traffic interchange. This resolution is preliminary in nature, and we will need to obtain the issuance of a further resolution or resolutions that would, among other things, define the area of the specified land plot and stipulate our right to carry out construction on such land plot. There can be no assurance that the City of Moscow will not subject the project to a tender or auction or otherwise reverse its decision with respect to its preliminary resolution. We believe, however, that it is unlikely that the project will be subject to an auction or tender at this stage, since we have completed the acquisition of certain properties on the larger land plot. We have not yet entered into any lease agreements.

The concept documentation for the Tverskaya Plaza II(a) project was prepared by Mosproject-2. We have procured approval of the concept documentation from the Public Council of the Office of the Mayor of the City of Moscow.

#### ***Key Steps for Completion***

To initiate the design stage of the project, we must obtain an Act of Permitted Use.

To obtain lease rights to the land underlying the project, we will need to procure the issuance of a further resolution or resolutions from the City of Moscow that would, among other things, define the area of the specified land plot and stipulate our right to carry out construction on such land plot.

To begin construction of the project, we must complete design documentation and have it approved by the relevant state authorities. We will also need to enter into a long term lease agreement based on the Tverskaya Zastava Resolutions. We must then obtain a construction permit. In addition, we must relocate existing tenants from the development site.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. See “Certain Aspects of Russian Real Estate Law and Practice”.

### ***Tverskaya Plaza IV***

#### ***Stage of Development***

Tverskaya Plaza IV is at the concept stage of development; design and construction have not yet begun. Construction is expected to be completed in the third quarter of 2011.

#### ***Description of the Project***

The Tverskaya Plaza IV project will be located on Gruzinsky Val, adjacent to the Tverskaya Plaza II project.

The project is a mixed-use project that upon completion is expected to include:

- 63,278 square metres of Class A office space;
- 2,976 square metres of retail space; and
- 25,000 square metres of underground parking.

Total costs for completion of the project (excluding VAT) are estimated to be US\$187.7 million. As at 31 December 2006, we have not yet incurred any expenditures in connection with the project.

JLL valued our beneficial ownership of the Tverskaya Plaza IV development in its existing state of development at US\$75.3 million, as at 31 March 2007.

#### ***Legal Rights***

In February 2007 we entered into a preliminary agreement with a non-related third party, OOO “Sat Development”, or Sat Development, regarding our planned joint development of the Tverskaya Plaza IV project with our partner, a non-related third party.

Beslaville Management Limited, or Beslaville, a Cypriot corporation controlled by our project partner, is expected to serve as the joint venture entity for the project. Sat Development recently contributed its 100 per cent. interest in OOO “Zheldoruslugi”, a Russian company that owns seven land plots with a total area of 0.2 hectares and eight buildings with a total area of 2,064 square metres located at the project site, to Beslaville.

Pursuant to our preliminary agreement with Sat Development, we expect to contribute US\$60.0 million to acquire a 50.0 per cent. participatory interest in Beslaville. Our expected US\$60.0 million contribution would be paid in two equal installments. The second installment would be paid upon issuance of a resolution regarding the development of the project by the City of Moscow.

Upon completion of our due diligence of Zheldoruslugi, we expect to enter into a definitive shareholders’ agreement with our partner, which will set out the terms pursuant to which we will jointly fund and carry out construction of the Plaza IV project. We also expect to enter into a share purchase agreement for the purchase of a 50.0 per cent. participatory interest in the charter capital of the Cypriot entity.

#### ***Key Steps for Completion***

Before entering into the shareholders’ agreement with our partner, we need to complete our due diligence process satisfactorily. We must then enter into the shareholders’ agreement with our partner for the management of the construction of the project and of the completed building. In addition, we need to complete the purchase of our 50.0 per cent. interest in Beslaville.

In order to initiate the design stage of the project we must obtain an Act of Permitted Use.

In order to begin construction of the project, we must complete design documentation and have it approved by the relevant state authorities. We must then obtain a construction permit.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. See “Certain Aspects of Russian Real Estate Law and Practice”.

### ***Four Winds I and II***

#### *Stage of Development*

Four Winds I and II are at the construction stage of development. Construction of the Four Winds I and Four Winds II projects is expected to be completed in the first quarter of 2008.

#### *Description of the Project*

The Four Winds I and II projects form part of the Tverskaya Zastava development and are located in central Moscow at 69-71 Bolshaya Gruzinskaya Street, near the Belorussky underground and railway stations. Four Winds I is located in the vicinity of Tverskaya Zastava Square on 1st Tverskaya-Yamskaya Street, at the corner of Bolshaya Gruzinskaya Street, and Four Winds II is located on Bolshaya Gruzinskaya Street, between 1st Brestskaya and 2nd Brestskaya Streets.

The Four Winds I project is a commercial development that upon completion is expected to include:

- 17,556 square metres of Class A office space;
- 3,416 square metres of retail space; and
- 5,016 square metres of underground parking.

The Four Winds II project is a residential development that upon completion is expected to include:

- 17,875 square metres of residential apartments;
- 1,008 square metres of retail space;
- a 3,846 square metre fitness centre; and
- 13,692 square metres of underground parking.

We have engaged Mosproject-2 to prepare the design, and OOO “Rasen Construction” as general contractor, for the Four Winds I and II projects. ZAO “InvestStroy”, a non-related third party, is acting as project manager in connection with the projects. With respect to the Four Winds II project, as at 31 December 2006 we have entered into 33 contracts for shared participation in construction in respect of 56 units out of 119 units in the development.

Total costs for completion of both the Four Winds I and Four Winds II projects (excluding VAT) are estimated to be US\$69.9 million. As at 31 December 2006, the book value of the capitalised costs relating to the Four Winds I and Four Winds II projects was approximately US\$25.1 million.

JLL valued our beneficial ownership of the Four Winds I and II projects in their existing state of development at US\$143.5 million, as at 31 March 2007.

#### *Legal Rights*

We are developing the Four Winds I and II projects through Westec Four Winds Ltd., or Westec, a Cypriot company in which we hold a 50.0 per cent. interest and which operates in Russia through a branch. The other 50.0 per cent. interest is held in trust by the managing company of Westec Development Limited. On 15 August 1995, a non-related third party, AOOT “Duncan”, or Duncan, and the City of Moscow entered into an investment contract pursuant to which Duncan undertook to construct a multifunctional city complex at 69-71 Bolshaya Gruzinskaya Street. On 1 August 2001, Duncan assigned its rights and obligations under the investment contract to Westec. The investment contract entitles Westec to a 100 per cent. interest in the completed Four Winds I and II projects upon payment of US\$13.9 million, as compensation for the use of certain social, engineering and transport infrastructure, which Westec has already paid to the City of Moscow.

With respect to Four Winds I and II projects, Westec entered into a long term land lease agreement in August 2001 with the City of Moscow. The total area of the land plot leased by it under this land lease is 1.1 hectares, of which 0.4 hectares was designated for the construction of Four Winds I and 0.7 hectares for the construction of Four Winds II. The lease term is 49 years and expires in 2050.

The design documentation for the Four Winds I and II projects, prepared by Mosproject-2, was approved by the relevant state authorities in the third quarter of 2003. Westec has obtained a construction permit which allows for the construction of the Four Winds I and II projects. Construction of the Four Winds I and II projects is currently in progress and is scheduled for completion in the first quarter of 2008.

#### *Key Steps for Completion*

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. See “Certain Aspects of Russian Real Estate Law and Practice”.

### **Moscow City Shopping Centre**

#### *Stage of Development*

The Moscow City Shopping Centre is at the construction stage of development, with completion of construction expected in the first quarter of 2009.

#### *Description of the Project*

The Moscow City Shopping Centre is at the heart of the Moscow City compound, which is a 60.0 hectare office and administration district under development on the Moskva riverfront, approximately 6 km from the Kremlin. The Moscow City Shopping Centre is intended to comprise a covered city encircled by high-rise buildings including hotels, offices, entertainment and administration facilities, a parking garage, technical facilities and a metro station. Upon completion and at full occupancy, approximately 144,000 people are expected to work within the Moscow City compound.

The Moscow City Shopping Centre project is a commercial development that upon completion is expected to include:

- 111,743 square metres of retail space; and
- 3,246 square metres of office space.

In addition, the Moscow City Shopping Centre is expected to include a 12,738 square metre concert hall, the rights to which are held by the City of Moscow.

The Moscow City Shopping Centre is expected to have both above ground and underground areas which are to form a single architectural complex. The above ground area will include the Moscow City Shopping Centre, a public multifunctional concert hall and office space. The Moscow City Shopping Centre is expected to contain more than 300 retail outlets and an integrated concert hall. Once completed, the Shopping Centre is expected to have a mix of tenants on both short and long term leases, including internationally recognised retailers and restaurants, some of which will be new entrants to the Russian market, as well as strong domestic brands. The Moscow City Shopping Centre will also include a public square, which is expected to become one of the main venues for public events in the City of Moscow, and additional public spaces which will be used for recreational activities such as ice skating.

The concert hall is expected to include approximately 6,000 seats which can be converted into 3,000 seats and 18 luxury boxes. It is expected that the concert hall will host exhibitions, music concerts, fashion shows, corporate meetings and sporting events. When completed, the concert hall is expected to be the first of its kind in Russia.

The Moscow City Shopping Centre is expected to have efficient public transportation links including a recently opened on-site metro station with direct access to the lower retail concourse, a high-speed railway connection to Sheremetyevo and Vnukovo international airports (expected to open in 2009), and several bus routes. The Moscow City compound is expected to have direct access from the Third Ring Road and a link to Kutuzovsky Prospect, one of Moscow’s main traffic arteries.

Brisbin Brook Beynoon Architects, a Canadian company, with the assistance of a Russian architectural company, prepared the preliminary design for the Moscow City Shopping Centre, including the concert hall.

We have engaged Enka as a general contractor for the construction of the Moscow City Shopping Centre.

Total costs for completion of the project (excluding VAT) are estimated to be US\$384.0 million. As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$101.1 million.

JLL valued the Moscow City Shopping Centre in its existing state of development at US\$889.0 million, as at 31 March 2007.

In arriving at its valuation, JLL has taken such costs into account and has valued the property on the basis that we have a 100 per cent. share in the income received, with the exception of income from the concert hall, which is to be received by the City of Moscow.

### *Legal Rights*

Various portions of the Moscow City compound have been allocated by the City of Moscow to various developers. The core of the site was reserved by the City of Moscow, which completed the construction of its underground portion including the parking garage, the ownership of which it retained. The construction was conducted by the State Unitary Enterprise “Centre City”, or Centre City, a project management company established and controlled by the City of Moscow. Centre City acts as project manager for the core of the Moscow City compound. The City of Moscow then took the decision to parcel the above ground portion into three separate projects. The rights to develop the shopping centre were auctioned by the City of Moscow. Bellgate Constructions Ltd., or Bellgate, our wholly-owned Cypriot subsidiary which operates in Russia through a branch, was the successful bidder in the auction to develop the shopping centre, and has concluded an investment contract with the City of Moscow.

The investment contract grants us the right to develop the shopping centre. It also sets out the ownership rights in the project entitling us to a 75.0 per cent. interest in the completed project, with the remaining 25.0 per cent. interest being held by the City of Moscow. It is our intention to buy out this remaining 25.0 per cent interest from the City of Moscow and we are currently in negotiations with the City of Moscow to have them pass a resolution entitling us to do so.

Under the investment contract, we are obligated to contribute no less than US\$20 million to finance the development of the concert hall, the rights to which are currently held by the City of Moscow. We expect however, that we will be able to set off against this amount a deposit payment of RUB 83.5 million we made in connection with our participation in the investment auction, making our additional investment obligation approximately US\$17.0 million. To date, we have invested approximately US\$7.4 million in the preparation of design documentation for the overall project, of which US\$1.2 million is attributable to the design of the concert hall, in anticipation of ultimately obtaining ownership rights to the concert hall from the City of Moscow. We are currently negotiating the acquisition of such rights from the City of Moscow.

To control and manage the flow of visitors to the Moscow City Shopping Centre, we are in negotiations with the City of Moscow to enter into a joint venture which will provide management services for the parking garage. It is expected that we will establish a company together with the City of Moscow for this purpose in which we will hold a 51.0 per cent. interest.

As called for under the investment contract, Centre City, in its capacity as project manager, entered into a short term land lease agreement with the City of Moscow, dated 10 November 2005, which expires in August 2007. Upon expiration, the lease agreement must be renewed if construction has not yet been completed. The total area of the land plot leased under the land lease agreement is 4.4 hectares.

The preliminary design documentation for the Moscow City Shopping Centre, including the concert hall, has been approved by the relevant state authorities.

The necessary construction permits have been applied for and construction is currently being carried out on the basis of those applications.

### *Key Steps for Completion*

We must obtain necessary construction permits.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. We will also need to enter into a long term lease agreement. See “Certain Aspects of Russian Real Estate Law and Practice”.

In addition, we must satisfy our obligations under the investment contract referred to above which shall be evidenced in a document signed by us and the City of Moscow.

## **Kuntsevo**

### *Stage of Development*

Kuntsevo is at the concept stage of development; design and construction have not yet begun. Construction is expected to be completed in phases, with the last phase of the project expected to be completed in the first quarter of 2012.

### *Description of the Project*

The Kuntsevo project is expected to be an approximately 20 hectare development of an area in western Moscow near the Kuntsevo metro station and adjacent to the Rublevskoye highway. The project is expected to include 933,314 square metres of Class A office space as well as underground parking garages and an esplanade above the Rublevskoye highway. We also expect to participate in the reconstruction of the transportation hub near the Kuntsevo metro station as part of the project.

Upon completion the Kuntsevo project is expected to include:

- 933,314 square metres of Class A office space;
- 125,100 square metres of retail space; and
- 217,000 square metres of parking space.

Total costs for completion of the project (excluding VAT) are estimated to be US\$3,168.2 million. As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$0.4 million.

JLL valued our beneficial ownership of the Kuntsevo project in its existing state of development at US\$650.0 million, as at 31 March 2007.

### *Legal Rights*

On 5 July 2002, the City of Moscow issued a resolution that calls for the development and redevelopment of the Kuntsevo area. The resolution describes the proposed development as a mixed-use public centre comprising a transportation hub, hotel, office buildings, a cultural and recreation centre, administration buildings, parking garages and a Peugeot dealership. The resolution was issued following a decision of the Public Council of the Office of the Mayor of the City of Moscow dated 18 April 2002, which endorsed the development. In addition, the resolution specifically designates the owner of the Peugeot dealership, ZAO “Armand”, or Armand, as an entity which is to finance the preparation of town planning documentation for the Peugeot dealership, which occupies a portion of land at the project site. The resolution calls for the Prefect of the Western Administrative Circuit of the City of Moscow, one of eight administrative districts of the City of Moscow, to prepare a resolution that will describe more specifically how the area is to be developed. This resolution has not yet been issued.

On 17 February 2006, the Prefect of the Western Administrative Circuit of the City of Moscow issued a resolution that specifically gave OOO “MayStroy”, or MayStroy, our wholly-owned Russian subsidiary, permission to prepare preliminary town-planning documentation for the reconstruction of the transportation hub near the Kuntsevo metro station. We have procured the preparation of such preliminary town planning documentation and submitted it to the State Unitary Enterprise (GUP) NIPi Genplana which confirmed that our proposed concept for the project complies with the relevant zoning requirements for the area.

In accordance with our strategy and as part of our efforts to enhance our position in the project, on 28 February 2007 we acquired 100 per cent. of the share capital of Armand. As at the date of this prospectus, 100 per cent. of the share capital of Armand is pledged in favour of OOO “Auto Motor Group”, or Auto Motor Group, a non-related third party. In order to release the pledge, we will either need to enter into an agreement with Auto Motor Group by 1 June 2007 pursuant to which we must provide a suitable car dealership facility for Auto Motor Group or enter into an amendment agreement with Auto Motor Group to extend the 1 June 2007 deadline. We believe that as the sole entity designated to produce the town planning documentation with respect to the project combined with our ownership position resulting from the purchase of Armand, we are in a favourable position to be ultimately designated as the developer of the entire project.

Due to the scale and scope of this project, the process of obtaining rights to the land underlying the project is complex and requires time. As with some of our other projects, we expect to progress the

Kuntsevo development in multiple phases. While the City of Moscow has not yet issued resolutions enabling us to enter into lease arrangements with respect to the Kuntsevo project and the entire project may still be subject to tender, we believe that we are in a strong position to secure land rights to the Kuntsevo development in light of the approval of the City of Moscow of our preliminary town planning documentation and our acquisition of the shares of Armand. Although we have secured some legal rights in respect of the Kuntsevo development, these rights are preliminary and there can be no assurance that we will be able to complete this project within our expected timetable or at all. See “Risk Factors—Risks Relating to Our Business—We do not have any approvals from the Moscow Government to construct the Kuntsevo project”.

#### *Key Steps for Completion*

In order to continue our development of the project, we will also need to secure the release of the pledge, either by entering into an agreement with Auto Motor Group by 1 June 2007 pursuant to which we must provide a suitable car dealership facility for Auto Motor Group or enter into an amendment agreement with Auto Motor Group to extend the 1 June 2007 deadline. In addition, we will ultimately be required to secure land rights to the Kuntsevo development area or part thereof. We intend to acquire these rights on an as needed basis in order to optimise the economic efficiency of our involvement in the project as it develops. We intend to enter into investment contracts and/or lease agreements with respect to portions of the land as they become required by us for development. In order to secure such land rights, we expect to enter into further discussions with the City of Moscow as necessary. We also expect to undertake to complete certain infrastructure improvements such as the construction of a traffic interchange and the renovation of an existing administrative building in order to further secure our interest in the development. We expect that the costs of such infrastructure improvements would ultimately be set off against any obligations we incur under investment contracts that we expect to enter into with the City of Moscow in connection with the development.

Our town planning documentation is currently being reviewed by Moscomarkitektura, and we will require approval from both Moscomarkitektura and the Public Council of the Office of the Mayor of the City of Moscow on our town planning documentation before an Act of Permitted use with respect to the project may be issued. To initiate the design stage of the project, we must obtain an Act of Permitted Use.

To begin construction of the project, we must complete design documentation and have it approved by the relevant state authorities. We must also enter into a short term lease agreement. We must then obtain a construction permit. In addition, we have to relocate existing tenants from the development site. We will also need to enter into a long term lease agreement.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. See “Certain Aspects of Russian Real Estate Law and Practice”.

As we do not have any formal approvals that would permit us to construct the Kuntsevo project, this project is subject to greater risks than most of our other portfolio projects. See “Risk Factors—Risks Related to Our Business—We do not have any approvals from the Moscow Government to construct the Kuntsevo project”.

#### **Ozerkovskaya Embankment**

The Ozerkovskaya Embankment development is located on 3.0 hectares of riverfront real estate in Zamoskvorechye, a historic and picturesque area in the centre of Moscow. The area contains several foreign embassies, government buildings, the Central Bank of Russia and the headquarters of many international companies.

The Ozerkovskaya Embankment development is a complex project employing modern architectural concepts that currently consists of three projects, each of them at a different stage of completion. When completed, it is expected that the Ozerkovskaya Embankment development will comprise several mixed-use developments including residential buildings, a business class hotel, several Class A office buildings and parking facilities.

The Ozerkovskaya Embankment development, similar to the Tverskaya Zastava development, is illustrative of our overall business strategy of acquiring rights to a single land plot or a single building in the area, and of gradually acquiring rights to neighbouring plots with the aim of consolidating them into a large-scale complex development project rather than simply developing individual buildings.

We began our development of the Ozerkovskaya Embankment with our Phase I project which included two Class A office buildings located at 28 Ozerkovskaya Embankment, one with a total area of 12,788 square metres, which is known as Aquamarine-I, and one with a total area of 770 square metres. We completed this project and we sold the rights to both buildings in May 2005 to a non-related Cypriot company. The sale generated a capital gain of US\$32.1 million.

We are currently developing Phases II, III and IV of the development. Phase II is a mixed-use project which includes the Aquamarine-2 office building, residential buildings and a business class hotel. Phases III and IV are expected to include mixed-use commercial buildings. Phases II, III and IV of the Ozerkovskaya Embankment development are described in more detail below.

## ***Ozerkovskaya Phase II***

### ***Stage of Development***

Ozerkovskaya Phase II is at the construction stage of development, with completion of construction of the office building expected to be in the second quarter of 2007 and completion of construction of the residential building and the hotel expected to be in the first quarter of 2009.

### ***Description of the Project***

The Phase II project is a mixed-use development with a total area of 60,845 square metres. It is located on an address formerly known as 26 Ozerkovskaya Embankment and 35 Bolshaya Tatarskaya Street, buildings 17 and 19 and is expected to comprise an office centre known as Aquamarine-2, located at 28 Ozerkovskaya Embankment Building 3, residential developments and a business class hotel. The project is being conducted in two stages: the first stage being the construction of Aquamarine-2 and the second stage being the construction of the residential premises and the hotel.

Upon completion, the Ozerkovskaya Phase II project is expected to include:

- 12,460 square metres of Class A office space in Aquamarine-2;
- 685 square metres of retail space;
- 17,982 square metres of residential apartments;
- a 7,380 square metres (156 rooms) business class hotel; and
- 22,338 square metres of parking space.

As at 31 March 2007, we had entered into a preliminary lease agreement with a prospective tenant of the Aquamarine-2 office building.

Total costs for completion of the project (excluding VAT) are estimated to be US\$76.7 million. As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$46.6 million.

JLL valued our beneficial ownership of the Phase II project in its existing state of development at US\$142.7 million, as at 31 March 2007.

### ***Legal Rights***

The Phase II project, other than with respect to the hotel, is currently being developed by OOO “Krown Investments” or Krown Investments, our Russian subsidiary in which we hold a 50.0 per cent. interest but of which we maintain effective control by virtue of our contractual right to appoint the initial chairman of the board of directors and the management. The additional 50.0 per cent. interest was sold in the fourth quarter of 2006 to a non-related third party, Super Passion Investments Ltd., for a total consideration of US\$150.0 million and an undertaking on behalf of the buyer to finance 50.0 per cent. of the total remaining development costs of the Phase II and Phase III projects, not including the development costs associated with the hotel, which is being financed by our wholly-owned Russian subsidiary OOO “Semprex”, or Semprex, under a co-investment agreement with Krown Investments. We have also reserved the right to 100 per cent. of the proceeds from the sale of 24 apartments and 48 parking places. The transfer of the 50.0 per cent. membership interest in Krown Investments associated with this joint venture is pending State registration.

The hotel is being developed by Semprex, which has entered into a co-investment agreement with Krown Investments, pursuant to which Semprex will finance the construction of the hotel and will be entitled to ownership rights in the entire hotel upon its completion.

On 9 March 2007 we entered into a preliminary lease agreement with Techsnabexport, or the lessee, whereby it has been agreed that the parties shall enter into a lease agreement in relation to the office premises located at 28 Ozerkovskaya Embankment, Building 3, within 10 days from the receipt of a certificate confirming our title to the building, but not later than one year from the signing of the agreement. The term of the lease agreement shall be five years and the rent shall be US\$850 per square metre excluding VAT. Pursuant to the agreement the lessee shall have a pre-emptive right to purchase the premises upon the expiration of the lease agreement for their fair market price.

The Phase II project is currently being developed on the basis of four resolutions of the City of Moscow, which grant Krown Investments the right to construct a mixed-use development that includes an office building, an apartment block and a hotel on the relevant land plots and to conclude an investment contract with the City of Moscow.

Krown Investments entered into an investment contract with the City of Moscow in May 2006, pursuant to which Krown Investments is entitled to a 100 per cent. interest in this project upon its completion. The investment contract entitles Krown Investments to develop the project. Pursuant to the investment contract, Krown Investments is required to pay the City of Moscow compensation for the use of social, engineering and transport infrastructure relating to the project in the amount of US\$16.6 million, which has not yet been paid.

Krown Investments has entered into two short term land lease agreements with the City of Moscow in respect of the Phase II project:

- (i) a land lease agreement dated January 2007 and valid until 31 December 2007 related to the development of the Aquamarine-2 office building located at 35 Bolshaya Tatarskaya. The total area of the land plot leased under the land lease agreement is 0.3 hectares; and
- (ii) a land lease agreement dated 12 January 2007 and valid until 31 December 2008 related to the development of the residential buildings and the hotel located at 26 Ozerkovskaya. The total area of the land plot leased under the land lease agreement is 1.2 hectares.

The design documentation for the Phase II project was prepared by Mosproject-2 and has been approved by the relevant state authorities. Krown Investments has obtained a construction permit, which allows for the construction of the Phase II project. Construction of the Phase II project is currently in progress.

Krown Investments has engaged OOO “Danya Cebus Rus”, or Danya Cebus, an internationally recognised building contractor based in Russia and affiliated with Africa Israel, as general contractor for the Phase II project. See “Related Party Transactions—Construction Contracts with Danya Cebus”. Stroyinkom-K is acting as project manager with respect to the Phase II project.

#### *Key Steps for Completion*

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. We will also need to enter into a long term lease agreement. See “Certain Aspects of Russian Real Estate Law and Practice”.

In addition, we must satisfy our obligations under the investment contract referred to above which shall be evidenced in a document signed by us and the City of Moscow.

#### ***Ozerkovskaya Phase III***

##### *Stage of Development*

Ozerkovskaya Phase III is at the concept stage of development; design and construction have not yet begun. We expect construction to be completed in the second quarter of 2009.

##### *Description of the Project*

Phase III is a mixed-use project located at 22-24 Ozerkovskaya Embankment.

Upon completion the Phase III project is expected to include:

- 41,192 square metres of Class A office space;
- 5,632 square metres of residential apartments; and
- 17,300 square metres of parking space.

Total costs for completion of the project (excluding VAT) are estimated to be US\$78.6 million. As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$19.3 million.

JLL valued our beneficial ownership of the Ozerkovskaya Phase III project in its existing state of development at US\$101.6 million, as at 31 March 2007.

### *Legal Rights*

The Phase III project is currently being developed by Krown Investments, our Russian subsidiary in which we hold a 50.0 per cent. interest but of which we maintain effective control by virtue of our contractual right to appoint the initial chairman of the board of directors and the management. The additional 50.0 per cent. interest was sold in the fourth quarter of 2006 to a non-related third party, Super Passion Investments Ltd., for a total consideration of US\$150.0 million and an undertaking on behalf of the buyer to finance 50.0 per cent. of the total remaining development costs of the Phase II and Phase III projects, not including the development costs associated with the hotel that is part of Phase II, which is being financed by our wholly-owned Russian subsidiary OOO “Semprex”, or Semprex, under a co-investment agreement with Krown Investments. The transfer of the 50.0 per cent. membership interest in Krown Investments associated with this joint venture is pending State registration.

Krown Investments holds the leasehold rights to the land plot located at 22-24 Ozerkovskaya Embankment with a total area of approximately 1.5 hectares under a 49 year land lease agreement concluded with the Moscow Land Committee as landlord which expires on 15 July 2046. These leasehold rights were acquired on the basis of an agreement entered into in April 2004, pursuant to which ZAO “Rista”, or Rista, the original lessee under the foregoing land lease agreement, ceded its leasehold rights to Krown Investments. The assignment of the lease rights of Rista to Krown Investments was approved by the Moscow Land Committee and confirmed by a tripartite additional agreement dated 22 September 2004 entered into between the Moscow Land Committee, Rista and Krown Investments that was registered in September 2006. The leasehold rights were originally obtained pursuant to a resolution of the Committee on Granting Land Plots and City Construction of the City of Moscow dated 15 May 1997, which granted Rista the right to conclude a long term lease agreement allowing construction of a mixed-use development on the land plot.

The 22-24 Ozerkovskaya Embankment land lease agreement requires Krown Investments to procure design documentation for the Phase III project. The land lease with respect to the land underlying 22-24 Ozerkovskaya Embankment currently provides that construction on the plot was to have been completed as of 31 December 2006. We must negotiate with the City of Moscow to amend the existing lease agreement to extend the construction deadline to match our expected completion date (in the second quarter of 2009), in order to complete this project.

In 2006, OOO “Sergei Tchoban i Partnery”, a firm led by the German architect Sergei Tchoban, prepared preliminary concept documentation for construction of the Phase III project, which has been approved by the relevant state authorities.

### *Key Steps for Completion*

To initiate the design stage of the project we must obtain an Act of Permitted Use.

We will need to enter into an amendment to the lease agreement with respect to the land underlying 22-24 Ozerkovskaya Embankment that would extend the construction deadline, currently fixed at 31 December 2006, to match our plans for the project.

To begin construction of the project, we must complete design documentation and have it approved by the relevant state authorities. We must then obtain a construction permit.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. See “Certain Aspects of Russian Real Estate Law and Practice”.

## *Ozerkovskaya Phase IV*

### *Stage of Development*

Ozerkovskaya Phase IV is at the concept stage of development; design and construction have not yet begun. Construction is expected to be completed in the third quarter of 2009.

### *Description of the Project*

The Phase IV project relates to the redevelopment of property consisting of a four-storey office building located at 3 Ozerkovskaya Lane, which is owned by our wholly-owned Russian subsidiary Ozerkovka, and one office building that is located at 22/24 Ozerkovskaya Embankment, which is occupied by a Russian federal government institution and owned by the Russian Federation and is adjacent to our building at 3 Ozerkovsky Lane.

Upon completion the Phase IV project is expected to include:

- 23,000 square metres of Class A office space; and
- 7,820 square metres of parking space.

We also expect the project to include retail space.

These figures are subject to reduction to account for the expected share of the Russian federal government institution referred to below. Total costs for completion of the project (excluding VAT) are estimated to be US\$84.0 million. As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$6.0 million.

JLL valued our beneficial ownership of the Ozerkovskaya Phase IV project in its existing state of development at US\$49.3 million, as at 31 March 2007.

### *Legal Rights*

Our wholly-owned subsidiary Ozerkovskaya owns the building at 3 Ozerkovsky Lane. We also lease a land plot with a total area of 0.04 hectares underlying this building pursuant to a land lease agreement effective until 26 October 2007. The land lease agreement provides for its termination if the relevant building is demolished.

In the first quarter of 2007, we entered into a framework agreement with the occupant of the building located at 22/24 Ozerkovskaya Embankment, a Russian federal government institution that has a right to manage the building and a right of permanent use in respect of the land plot underlying this building. Pursuant to this framework agreement we and the federal government institution will jointly prepare pre-design documentation in relation to the Phase IV project and conclude a tripartite investment agreement between Krown Investments, the Russian federal government institution and the Russian Federation, represented by the Federal Agency on Management of Federal Property (which is not a party to the framework agreement), for the development of Phase IV project under which we are to retain ownership rights to not less than 70.0 per cent. of the completed project. The Russian Federation owns the building at 22/24 Ozerkovskaya Embankment as well as the land plot underlying this building.

As part of the Phase IV project we intend to demolish the building that Ozerkovka owns at 3 Ozerkovsky Lane in order to build a mixed-use development. In the interim, however, we continue to lease the building on a short term basis to various tenants. Under the current lease, the property generates annual rental income of approximately US\$0.8 million.

### *Key Steps for Completion*

We must obtain the consent of the Russian Federation to enter into the tripartite investment agreement described above with the federal government institution that currently occupies the 22-24 Ozerkovskaya Embankment building and the Russian Federation. We will need to enter into a new (or amend the existing) land lease agreement for 3 Ozerkovskaya Lane to demolish the building and begin reconstruction on the site.

To initiate the design stage of the project we must obtain two Acts of Permitted Use.

To begin construction of the project, we must complete design documentation and have it approved by the relevant state authorities. We must then obtain a construction permit.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. We will also need to enter into a long term lease agreement. See “Certain Aspects of Russian Real Estate Law and Practice”.

## **Otradnoye**

### *Stage of Development*

Otradnoye is at the concept stage of development and design and construction have not yet begun. We expect construction to be completed in the third quarter of 2012.

### *Description of the Project*

The development will be located in Odintsovo, a suburban town with a population of approximately 130,000 people situated eight kilometres west of the Moscow ring road. Odintsovo is surrounded by woodlands and is regarded as an upscale, commuter belt community. The Otradnoye project is expected to include a residential neighbourhood with high quality housing for approximately 11,000 people, together with all public amenities, including schools, a medical centre and a library.

Upon completion the Otradnoye residential development is expected to include:

- 450,100 square metres of residential apartments, comprising nine residential apartment buildings containing 5,988 apartments of various configurations;
- 22,000 square metres of retail space;
- 17,960 square metres of office space;
- 106,400 square metres of parking space;
- two schools with capacity for 1,680 students;
- two kindergartens with capacity for 480 children;
- a medical centre; and
- a library.

We plan to implement the Otradnoye project in two stages. We plan to construct four residential buildings in the first stage and five in the second.

Total costs for completion of the project are estimated to be US\$786.8 million. As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$79.0 million.

JLL valued our beneficial ownership of the Otradnoye residential development in its existing state of development at US\$370.0 million, as at 31 March 2007.

### *Legal Rights*

Otradnoye is being developed by our wholly-owned Russian subsidiary, OOO “Regionalnoe Agropromizvodstvennoe Obyedinenie”, or RAPO, on the basis of an investment contract between ZAO “Land-Service”, or Land-Service, a non-related third party, the Moscow Region and the municipal authority of the Odintsovo District of the Moscow Region, dated 24 August 2004. In October 2004, Land-Service assigned its rights and obligations under the investment contract to RAPO. The investment contract grants RAPO the right to construct a neighbourhood consisting of residential and commercial premises, public facilities and amenities and parking on a land plot with a total area of 34.6 hectares. It also sets out the ownership rights in the project such that, upon completion, RAPO will be entitled to a 94.0 per cent. interest in the residential premises and a 90.0 per cent. interest in the non-residential premises. The remaining interests will belong to the Odintsovo District.

Under the investment contract, RAPO is entitled to purchase the Odintsovo District’s six per cent. share in the residential premises for approximately RUB 405 million. In addition, we expect to be able to purchase the Odintsovo District’s share in the non-residential premises at the prevailing market price. In both cases, however, we can buy out the Odintsovo District’s share only with the consent of the Odintsovo District authorities.

The planning documentation for the project provides that the development include schools and kindergartens, and we intend to construct two of each. The two schools and two kindergartens, when completed, are expected to constitute or to exceed the Odintsovo District's 10.0 per cent. share in the non-residential premises. Upon completion of the entire project, although not expressly provided for in the investment contract, we expect that an assessment will be conducted in order to ascertain any excess or shortage of the premises transferred to the Odintsovo District in relation to its 10.0 per cent. share and any such excess or shortage to be reconciled.

Under the investment contract, we are obligated to procure allocation of a land plot with a total area of 8.0 hectares for a cemetery, provide financing for and procure construction of an administrative office building with a total area of approximately 2,500 square metres, provide financing for renovation of the existing engineering infrastructure in the amount of RUB 81.8 million before 2012 and procure the relocation of the owners and tenants of buildings currently located on the land designated for construction. In consideration for the performance of our obligations, the Odintsovo District is obligated to allocate to us the land required for construction of the Otradnoye project. The land is to be allocated on the basis of short term leases for the period of construction and on the basis of ownership and/or long term leases upon completion. We have not yet entered into a land lease agreement for the purpose of constructing the Otradnoye project.

We have already performed some of our obligations under the investment contract. For example, we have already completed the construction of the administrative office building and have paid RUB 6.0 million for renovation of the engineering infrastructure.

We have procured town planning documentation from OAO "TSNIIP Zhilische", a Russian architectural design company, and such documentation has been approved by the relevant state authorities.

Stroyinkom-K will act as project manager of the project.

#### *Key Steps for Completion*

To initiate the design stage of the project we must prepare and gain approval of the concept documentation. We must also procure the relocation of certain owners and occupiers of garage space currently located on the land designated for construction. We intend to do this by constructing a parking garage in which current owners will be given a parking place and current occupiers will be given the option to purchase a parking place.

To begin construction of the project, we must complete design documentation and have it approved by the relevant state authorities. We will also need to enter into short term land leases and obtain a construction permit.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. We will also need to enter into a long term lease agreement. See "Certain Aspects of Russian Real Estate Law and Practice".

In addition, we must satisfy our obligations under the investment contract referred to above which shall be evidenced in a document signed by us, the Moscow Region of Odintsovo District administration.

#### **Paveletskaya Embankment**

The Paveletskaya Embankment development comprises the Paveletskaya Embankment project and the H<sub>2</sub>O project. The development is located in the southern part of Moscow along the Moskva River between the Garden Ring and the Third Transport Ring.

#### *Paveletskaya Embankment*

##### *Stage of Development*

Paveletskaya Embankment is at the pre-renovation stage of development. Renovation is expected to be completed in the third quarter of 2009.

### *Description of the Project*

The Paveletskaya Embankment project relates to the renovation of a group of commercial buildings, which, upon completion, is expected to include 67,000 square metres of total gross lettable area located at 8 Paveletskaya Embankment, in Moscow for the purpose of accommodating a business park, including Class B office premises, outdoor parking and other facilities.

Total costs for completion of the project (excluding VAT) are estimated to be US\$128.5 million. As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$34.6 million.

JLL valued our beneficial ownership of the Paveletskaya Embankment project in its existing state of development at US\$45.3 million, as at 31 March 2007.

### *Legal Rights*

We own 98.2 per cent. of OAO “Moskovsky Kartonazhno-Poligrafichesky Kombinat”, or MKPK, which owns the commercial buildings at the development site.

MKPK holds leasehold rights to the land plot at 8 Paveletskaya Embankment under a land lease agreement with the Moscow Land Committee for a term of 25 years which expires in 2026. The land plot underlying the Paveletskaya buildings comprises a total area of 5.5 hectares.

On 17 October 2006, MKPK and the international packaging company Alcan Inc., or Alcan, entered into a series of agreements under which one of the two production lines utilised by MKPK was transferred to a subsidiary of Alcan, including production equipment, business contacts, know-how, production technologies, inventory, finished goods and all other equipment required to operate MKPK’s business.

### *Key Steps for Completion*

As part of our acquisition of MKPK, we acquired an operational manufacturing facility with 360 employees. As part of the project, we must either sell or relocate two production lines at this facility. We have sold one of the production lines of this manufacturing facility to Alcan, and Alcan is obligated to relocate the production line which it now owns. We must secure the sale or relocation of the second production line in order to begin renovation.

## **H<sub>2</sub>O**

### *Stage of Development*

H<sub>2</sub>O is at the yielding stage of development.

### *Description of the Project*

The H<sub>2</sub>O project relates to a Class B office building located at 8/6 Paveletskaya Embankment, Moscow, that we acquired in 2006 as part of a larger development of a business park in Paveletskaya Embankment in accordance with our strategy of enhancing value by acquiring land plots adjacent to our development sites. At the time of the purchase, the building had already been renovated by the previous owner. Currently, approximately 70.0 per cent. of the gross building area is leased and is expected to generate annual rental income of US\$5.4 million once the building is fully let. The building is in the yielding phase and forms part of the Paveletskaya Embankment development. No further development is planned as this building was renovated by its previous owner and is now generating rental income.

Total costs for completion of the project are estimated to be US\$27.7 million. As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$23.1 million.

JLL valued our beneficial ownership of the H<sub>2</sub>O project in its existing state of development at US\$27.0 million, as at 31 March 2007.

### *Legal Rights*

We own the H<sub>2</sub>O building through our wholly-owned Russian subsidiary, OOO “Aristeya”, or Aristeya.

We have entered into a contract with a non-related Russian company OOO “MDF-Cont”, or MDF-Cont, pursuant to which MDF-Cont acts as leasing agent for the building and provides property management services, such as maintenance and repair.

### *Key Steps for Completion*

As the owner of the H<sub>2</sub>O building, we have an exclusive right to use the land plot underlying this building. While we have not concluded a related land lease agreement yet, we plan to conclude it in the near future.

## **Ruza**

### *Stage of Development*

Ruza is at the concept stage of development; design and construction have not yet begun. Construction is expected to be completed in the third quarter of 2011.

### *Description of the Project*

The Ruza project is located in Ruza, a rapidly developing area of the Moscow Region approximately 100 km west of Moscow. The project is expected to be a development of 1,840 upscale residential villas, each set on 0.1-1.4 hectares of land. Once completed, the total floor area of the villas is expected to be 200,000 square metres.

As at 31 December 2006, the book value of the capitalised costs relating to the project was approximately US\$3.5 million.

JLL valued our beneficial ownership of the Ruza project in its existing state of development at US\$69.2 million, as at 31 March 2007.

### *Legal Rights*

Through our wholly-owned Russian subsidiary, OOO “PSO Dorohovo”, or Dorohovo, we hold the freehold interest in five land plots comprising approximately 387.0 hectares located in Ruza. We acquired the rights to the Ruza land plots through the purchase of Dorohovo in 2006 for US\$3.4 million. Upon the acquisition of these rights, we successfully converted the title from a right of perpetual use to ownership. All of the land plots currently fall within the category of agricultural lands.

### *Key Steps for Completion*

Because the Ruza land plots are zoned for use as agricultural land, before commencing development work on the land, we will need to apply for the land to be rezoned for residential use.

To initiate the design stage of the project we must prepare and approve the preliminary design documentation.

To begin construction of the project, we must complete design documentation and have it approved by the relevant state authorities. We must then obtain a construction permit.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. See “Certain Aspects of Russian Real Estate Law and Practice”.

## **Dinamo**

### *Stage of Development*

Dinamo is at the pre-renovation stage of development. Renovation is expected to be completed in the fourth quarter of 2008.

### *Description of the Project*

The Dinamo project includes a planned renovation of existing buildings for the purpose of accommodating a business park, including several Class B office buildings, located on the left bank of the Moskva River opposite the Paveletskaya Embankment. The total area of the land plot on which this project is being executed is 5.0 hectares, and the buildings currently have a gross lettable area of 81,671 square metres.

Total costs for completion of the project are estimated to be US\$212.7 million and comprise the acquisition costs of OOO “Milinar”, or Milinar, a Russian limited liability company which holds certain

ownership rights to buildings located within the project site, and costs for renovation of the buildings. As at 31 December 2006, we had not incurred any costs on the project.

JLL valued our beneficial ownership of the Dinamo project in its existing state of development at US\$118.6 million, as at 31 March 2007.

#### *Legal Rights*

On 12 February 2007, we entered into a framework agreement with Ramis Limited, a Seychelles Islands company, or Ramis, regarding our planned purchase of a 100 per cent. participatory interest in the charter capital of Milinar, a Russian limited liability company, which, as of 2002, had ownership rights to buildings and premises located at Leninskaya Sloboda St., 19 and 26 with a total area of 27,337 square metres and is expected to obtain ownership rights to buildings located at Leninskaya Sloboda St., 19 and 26 with a total area of 96,218 square metres. Under the framework agreement, Ramis has undertaken to procure the entering into a long term lease agreement by Milinar for 49 years for the land plot underlying these buildings and the adjacent territory. We have agreed to carry out all required actions for our purchase of the participatory interest in Milinar, provided that Milinar owns the buildings at Leninskaya Sloboda St., 19 and 26 and Ramis has agreed to carry out all of the required actions for the acquisition by us of 100 per cent. interest in the charter capital of Milinar and by Milinar of ownership rights to the buildings located at Leninskaya Sloboda st., 19 and 26. Under the framework agreement, our total investment in the acquisition of a 100 per cent. participatory interest in Milinar would be approximately US\$149 million. In addition, we are obligated to finance the renovation of the buildings which will be undertaken by Ramis or its affiliates at a cost of US\$600 per square metre, which, including the acquisition price, in the aggregate amounts to approximately US\$207 million. The legal structure of the acquisition and the payment of the outstanding amount of our contribution to Milinar is to be specified in a separate share purchase agreement which we have undertaken to enter into with Ramis or its affiliates upon completion of our due diligence of Milinar, which is currently ongoing. Pursuant to the framework agreement, we have made an advance payment of approximately US\$30 million to Ramis. Because we have not currently completed our due diligence review of Milinar's rights with respect to the project site and Milinar has not yet cured certain defects in relation to some of their ownership certificates that we have identified during our due diligence review, we cannot be certain that we will proceed with the project or, that if we proceed, precisely what rights to the project site we will obtain.

#### *Key Steps for Completion*

Before entering into a share purchase agreement with respect to the shares of Milinar, we must satisfactorily complete our due diligence process. We must then enter into a share purchase agreement with respect to the shares of Milinar which will be subject to certain conditions precedent, including that Milinar must provide us with duly registered certificates of ownership with respect to all of the buildings which it owns and which are located on the project site. Then we must comply with the technical requirements of Russian law regarding the acquisition, including registration of a new or amended charter of Milinar. We must then undertake and complete the renovation of the buildings.

#### **Berezhkovskaya**

##### *Stage of Development*

Berezhkovskaya is at the yielding and concept stages of development. Renovation is expected to be completed in the third quarter of 2008.

##### *Description of the Project*

The Berezhkovskaya project relates to the acquisition and renovation of an existing Class A office space, located in central Moscow between the Moscow Boulevard Ring and the Third Ring. The development is also expected to include a total of 25,000 square metres of parking space. The gross lettable area of office space is expected to be 74,600 square metres. We intend to buy and renovate 11,610 square metres of existing Class A office premises and to develop the remaining area.

Total costs for completion of the project are estimated to be US\$222.6 million. As at 31 December 2006, we had not incurred any costs on the project.

JLL valued our beneficial ownership of the Berezhkovskaya project in its existing state of development at US\$117.7 million, as at 31 March 2007.

#### *Legal Rights*

On 12 February 2007, we entered into a framework agreement with an affiliate of Senco Limited, or Senco, a Seychelles Islands company. Pursuant to this framework agreement, we agreed to conclude a series of transactions that would result in our acquiring from Senco a 74.0 per cent. interest in OOO “Bizar”, or Bizar, a Russian limited liability company that is expected to own two buildings located at the Berezhkovskaya project site. Pursuant to the framework agreement, the aggregate consideration to be paid for our 74.0 per cent. stake in Bizar is US\$37.0 million. In March 2007, we entered into a share purchase agreement with Senco to acquire from Senco a 50.0 per cent. interest in Bizar. Pursuant to the agreement, Senco is obligated to transfer to Bizar as an injection of assets two additional buildings located at the Berezhkovskaya project site. In total, the four buildings to be owned by Bizar comprise 11,612.2 square metres of total floor area. The agreement further provides that upon completion of the transfer of the additional two buildings to Bizar, Senco is obligated to conclude an agreement with us under which we will acquire an additional 24.0 per cent. of Bizar. Pursuant to the framework agreement, Senco or its affiliates will retain a 26.0 per cent. interest in Bizar.

We understand that neither Bizar nor Senco have concluded land lease agreements for the land plots underlying the buildings. However, under Russian law, the owner of the building has the exclusive right to use the land plot underlying that building.

#### *Key Steps for Completion*

We must complete our acquisition of a 50.0 per cent. interest in Bizar under the share purchase agreement entered into between us and Senco in March 2007. Bizar must finalise its ownership rights to the first two buildings. Senco must then complete the transfer of its ownership rights in two of the four buildings on the project site to Bizar. Following the transfer of these ownership rights, we must enter into a share purchase agreement with Senco for an additional 24.0 per cent. interest in Bizar, taking our total interest in the company to 74.0 per cent. With respect to the third building on the project site, we must prepare concept and design documentation, obtain the relevant construction permits and enter into a land lease agreement.

### **St. Petersburg**

#### *Stage of Development*

St. Petersburg is at the concept stage of development; design and construction has not yet begun. We expect construction to be completed in the first quarter of 2009.

#### *Description of the Project*

The St. Petersburg project is our first in St. Petersburg and is expected to consist of a retail shopping outlet, in close proximity to the St. Petersburg ring road, opposite a compound on which an IKEA store is situated. The total area of the land plot on which this project is being executed is 3 hectares and the gross lettable area of project is expected to be 15,400 square metres.

In addition, a metro station is planned to be constructed in proximity to the St. Petersburg development.

Total costs for completion of the project are estimated to be US\$21.4 million. As at 31 December 2006, we had not incurred any costs on the project.

JLL valued our beneficial ownership of the St. Petersburg project in its existing state of development at US\$16.7 million, as at 31 March 2007.

#### *Legal Rights*

Our wholly owned Cypriot subsidiary, Buildola Properties Limited, or Buildola Properties, owns 100 per cent. of OOO “KO Proekt”, or KO Proekt. KO Proekt owns a 76.0 per cent. interest in OOO “KO Development”, or KO Development, which will provide development services for the St. Petersburg project. The remaining 24.0 per cent. interest in KO Development is currently held by our local partner, Ritek Group, in St. Petersburg.

In March 2007, we entered into a share purchase agreement to acquire 100 per cent. of Keyiri Trading & Investment Limited, or Keyiri Trading, a non-related Cypriot company that, through its wholly-owned subsidiary, Favorit, holds a 76.0 per cent. interest in the land plot on which the St. Petersburg project will be located.

In addition, KO Development intends to enter into a land lease agreement with Favorit with respect to the land plot on which the St. Petersburg project will be located, for the period of the construction.

#### *Key Steps for Completion*

A land lease agreement must be entered into between KO Development and Favorit.

To initiate the design stage of the project, we must prepare and approve the concept documentation.

To begin construction of the project, we must complete design documentation and have it approved by the relevant state authorities. We must then obtain a construction permit.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities, which will entitle us to occupy and utilise the premises, and register our ownership rights in the building with the Russian federal registration authority. See “Certain Aspects of Russian Real Estate Law and Practice”.

### **Perm**

#### *Stage of Development*

Perm is at the concept stage of development; design and construction have not yet begun. We expect to complete construction of the three buildings comprising the project in stages during the fourth quarter of 2009, the fourth quarter of 2010 and the third quarter of 2011.

#### *Description of the Project*

The Perm project is the first to be undertaken by us in Perm and is expected to be a three phase, mixed-use development with a large residential component, in Perm city centre. The Perm project is expected to consist of three buildings, each featuring office, retail and residential space, in varying proportions, and a parking facility.

We expect the total gross lettable area to be 208,584 square metres of which 16,205 square metres are for offices, 11,100 square metres are for retail use, 122,232 square metres are for residential use and 59,047 square metres comprises parking space.

We are developing the Perm project jointly with an indirect subsidiary of Danya Cebus Limited, an entity controlled by Africa Israel, and a non-affiliated local partner OOO “Prospekt”, or Prospekt, which currently holds lease rights to one of the five land plots underlying the project. As part of the project, we and Danya Cebus Limited established Krusto Enterprises Limited, or Krusto, a Cypriot company, in which we hold a 60.0 per cent. interest and Danya Cebus Limited holds a 40.0 per cent. interest. In turn, each of Krusto and Prospekt is expected to hold a 50.0 per cent. interest in ZAO “Kama Gate”, or Kama Gate, a newly established Russian company, after the registration of the shares of Kama Gate with the relevant regulatory authorities. Furthermore, in February 2007, Kama Gate and Prospekt entered into a co-investment agreement pursuant to which the parties have agreed that Kama Gate will finance the project in full and Prospekt will contribute its lease rights to the land plot underlying the project to Kama Gate. Kama Gate and Prospekt have agreed to develop all of our future projects in the Perm region together. Due to the failure to register the shares on time, we intend to establish a new company to fulfil the role of Kama Gate under the co-investment agreement.

Total costs for completion of the project are estimated to be US\$97.6 million. As at 31 December 2006, we had not incurred any costs on the project.

JLL valued our beneficial ownership of the Perm project in its existing state of development at US\$10.3 million, as at 31 March 2007.

#### *Legal Rights*

Pursuant to the co-investment agreement with Prospekt, Kama Gate will provide 100 per cent. of the financing of the Perm project while Prospekt will contribute its lease rights to the land plots located on the

project site. In addition, Prospekt will procure the relocation of existing tenants from the development site at our cost.

Prospekt executed five land lease agreements with the City of Perm for three year lease terms. Under Russian law, these lease agreements require state registration in order to be deemed concluded. As of the date of this prospectus, Prospekt had procured state registration of one out of the five land lease agreements. We expect that the remaining land lease agreements will be registered when Prospekt procures relocation of the existing tenants. However, there can be no assurance that Prospekt will register these agreements.

### *Key Steps for Completion*

To initiate the design stage of the project we must prepare and gain approval of the concept documentation. In addition, Prospekt must register its lease rights with the relevant state authorities.

To begin construction of the project, we must complete design documentation and have it approved by the relevant state authorities. In addition, Prospekt must relocate existing owners and tenants from the development site. We must then obtain a construction permit.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. We will also need to enter into a long term lease agreement. See “Certain Aspects of Russian Real Estate Law and Practice”.

## **Volgograd**

### *Stage of Development*

Volgograd is at the concept stage of development; design and construction have not yet begun. We expect construction will be completed in the first quarter of 2010.

### *Description of the Project*

The Volgograd development is the first to be undertaken by us in Volgograd and is expected to be a multi-phase development complex located in the Volgograd city centre with 800 parking slots.

Upon completion the Volgograd project is expected to include:

- 54,100 square metres of retail space;
- 25,500 square metres of office space;
- a 7,360 square metre hotel; and
- 28,000 square metres of underground parking.

Total costs of the project are estimated to be US\$143.6 million. As of 31 December 2006, we had not incurred any costs on the project

JLL valued our beneficial ownership of the Volgograd project in its existing state of development at US\$4.5 million, as of 31 March 2007.

### *Legal Rights*

The Volgograd project is being developed by “OOO Volga Stroyinkom”, or Volga Stroyinkom, our wholly owned Russian subsidiary, jointly with our non-affiliated partner, a Russian company OOO “Avtograd”, or Avtograd.

Volga Stroyinkom entered into a co-investment agreement with Avtograd, pursuant to which upon completion of the project, Volga Stroyinkom will hold 78.0 per cent. of the Volgograd project and Avtograd will own 22.0 per cent., from which it will contribute an amount required to be paid to the City of Volgograd. Under the co-investment agreement, Volga Stroyinkom has a right of first refusal in the event that Avtograd elects to dispose all or any part of its interest in the property.

Under the co-investment agreement Volga Stroyinkom is obligated to finance the project and Avtograd is obligated to contribute the lease rights to the land and the ownership rights to the buildings

currently located thereon and to procure all of the necessary development documentation for the project, under our control and supervision.

Avtograd entered into a 49 year land lease agreement with the City of Volgograd, which expires in 2048. The total area of the land plot to which the land lease agreement relates is 1.5 hectares.

This lease allows only for the conduct of retail operations on the plot and we will need to apply to the City of Volgograd to amend the lease to allow for construction activities.

#### *Key Steps for Completion*

In order to initiate the design stage of the project we must prepare and gain approval for the concept documentation.

In order to begin construction of the project, we must complete design documentation and have it approved by the relevant state authorities. We must also amend the existing lease to allow for construction activities and to enter into an additional land-lease to cover the part of the land plot not covered under the existing 49 year lease. We must then obtain a construction permit. In addition, we have to relocate existing tenants from the development site.

Upon completion of construction, we must obtain an operational permit from the relevant government authorities and register our ownership rights in the building with the federal registration authority. See “Certain Aspects of Russian Real Estate Law and Practice”.

#### *Pipeline Projects*

We currently have 12 potential projects under consideration at various stages of evaluation, internal approval and negotiation. The table below sets forth information relating to the projects that we include in our pipeline.

Nearly all of the pipeline projects summarised below are at a very preliminary stage. We have not yet finalised the negotiations with respect to such projects, and we have not yet finalised or in some cases commenced our formal due diligence. We can give no assurance that any of these projects will be entered into and/or successfully completed.

## Overview of Pipeline Projects

Location	Project/ Strategy	Description	Expected Beneficial Ownership	Estimated GLA (square metres)					Total	Parking (square metres)	Land (hectares)	Status
				Office	Retail	Hotel	Warehouses	Residential				
Tverskaya Zastava	Plaza III	Mixed-use development	To be determined	260,950	20,000				280,950	6,000	8.5	Concept prepared, advanced negotiations
Ozerkovskaya	Phase V	Acquisition of existing office buildings adjacent to Ozerkovskaya development. Intended for the development of Class A office premises	100%	118,500					118,500	1,683	3.5	Advanced negotiations, MOU agreed not yet signed
Northern Moscow	Business park	Acquisition of a plant located in Northern Moscow in the vicinity of Leningradsky Prospect (the highway to Sheremetyevo airport). The sellers undertake to remove the production lines. Intended for the development of Class B office premises	100%	129,184	4,535				133,719	1,390	2.9	Advanced negotiations, MOU agreed not yet signed
Kislovodsk	Resort	The development is scheduled to include the improvement of the Old Lake in Kislovodsk, including its regeneration, development of recreational facilities, hotels and villas	100%					31,500	31,500		7.5	Negotiation of an investment contract
Farmland in Northern Moscow	Resort	The project will be acquired as a land bank for future development intended for combined resort/villas/recreational development	100%								2,600.0	Advanced negotiations, SPA agreed not yet signed
Ruza	Resort	Acquisition of a land plot for the development of a resort	78%			26,000			26,000		24.0	Negotiations
Novosibirsk	Regional	3 projects in Novosibirsk to be developed with a local partner. 2 residential projects—one for a business segment, one for a more upscale segment. Our first logistics project	80%	4,000	3,600		76,000	397,400	481,000		166.9	Negotiations
Volgograd	Regional	Phase II of Volgograd development—residential at the same location	78%					35,043	35,043		14.0	Advanced negotiations
Southern Moscow	Embassy/ existing assets scheduled for development	The project will be acquired as a land bank for future development	100%	20,000		3,000			23,000		4.0	Advanced negotiations
Ryabinovaya	Existing assets scheduled for development	The project will be acquired as a land bank for future development	100%	50,000					50,000		18.0	Advanced negotiations
Western Moscow	Residential	Acquisition of a plant located in Western Moscow in woodland area. The sellers have already procured the concept and preliminary approvals for upscale residential development. We plan to improve the zoning and the ratios and develop a larger upscale neighbourhood	100%		9,600			212,320	221,920	1,857	9.9	Advanced negotiations
Eastern Moscow	Business park	Acquisition of existing buildings	100%	112,000					112,000		8.8	Letter of intent
Total				694,634	37,735	29,000	76,000	676,263	1,513,632	10,930	2,868	

### ***Tverskaya Plaza III***

We are currently in negotiations with respect to the Tverskaya Plaza III project, which is expected to comprise a number of multifunctional facilities, containing Class A offices, hotels and entertainment and recreational facilities, located between the Belorussky and Savelovsky railway stations including the following:

- 260,950 square metres of Class A office space;
- 20,000 square metres of retail shops; and
- 220,000 square metres of parking.

The project consists of a number of buildings, which will be constructed over the existing above ground portion of the railway line running from the Belorussky station to the Savelovsky station.

The concept for this project has been developed by prominent Russian architect Alexander Asadov, who heads the Asadov workshop of Mosproject-2.

We have procured approval of the concept documentation from the Public Council of the Office of the Mayor of the City of Moscow, a committee which includes members of the public and the Moscow City government that serves in an advisory capacity to the City of Moscow, pursuant to which the Public Council has agreed that Stroyinkom-K may proceed with the design of the Tverskaya Plaza III project.

The land on which the project is being planned is held by the national railway company OAO “Russian Railways”, or Russian Railways. We intend to conclude an agreement with Russian Railways for the joint development of the Tverskaya Plaza III project.

### ***Ozerkovskaya Phase V***

We are currently at an advanced stage of negotiations for the acquisition of a 100 per cent. interest in a 3.5 hectare plot of land with five existing yielding office buildings comprising over 41,000 square metres, located at Ozerkovskaya Embankment, adjacent to our Ozerkovskaya development. We have agreed with the sellers on the terms of a memorandum of understanding for the purchase of the interest in the land plot, but this memorandum of understanding has not yet been signed. Under the agreed terms of the proposed memorandum of understanding, we plan to demolish the existing office buildings and, upon procurement of the necessary permits, to construct a Class A office space on the site, which is expected to have a total area of 118,500 square metres and 1,683 parking places.

### ***Northern Moscow***

We are currently at an advanced stage of negotiations for the acquisition of a 100 per cent. interest in a 2.9 hectare plot of land with an existing plant, located in northern Moscow, in the vicinity of Leningradsky Prospect (the highway to Sheremetyevo airport). We have agreed with the sellers on the terms of a memorandum of understanding for the purchase of the interest in the land plot, but this memorandum of understanding has not yet been signed. Under the agreed terms of the proposed memorandum of understanding, we expect the sellers to undertake to remove the production lines from the plant. We intend to construct on the site Class B office space with a total area of 129,184 square metres, retail outlets with a total area of 4,535 square metres and 1,390 parking places.

### ***Kislovodsk***

We are currently negotiating an investment contract with the local administration for the long term leasehold rights in a 7.5 hectare plot of land, located in Kislovodsk surrounding the Old Lake, which is the only body of water located in this resort town. Under the proposed investment contract, we would undertake to improve and regenerate the Old Lake, and in return, we would be granted the leasehold rights and the rights to develop recreational facilities, hotels and villas on the land plot.

### ***Farmland in Northern Moscow Region***

We are currently at an advanced stage of negotiations for the acquisition of a 100 per cent. interest in a 2,600 hectare plot of agricultural land, located in the Northern Moscow Region, approximately 100 km from the city boundaries. We aim to acquire the land plot as a land bank for future development. We agreed with the sellers on the terms of a share purchase agreement for the purchase of our interest in the land plot, but this share purchase agreement has not yet been signed. We intend for the future

development on the land plot to include a resort, recreational facilities and villas. We will need to procure the approval of the alteration of the designated use of the land plots in order to start the development.

#### ***Ruza***

We are currently negotiating the acquisition of a 78.0 per cent. interest in a 24.0 hectare plot of land, located in Ruza, in the vicinity of the Ruza project that we hold as a land bank. We intend to develop a 26,000 square metre hotel and resort on the land plot.

#### ***Novosibirsk***

We are currently negotiating the acquisition of a 80.0 per cent. interest in three land plots located in different locations in Novosibirsk and comprising approximately 166.9 hectares in total. We intend the future development on the land plots to comprise several mixed-use developments, including office buildings with a total area of 4,000 square metres, retail outlets with a total area of 3,600 square metres, warehouse projects with a total area of 76,000 square metres and a residential development of 397,400 square metres.

#### ***Volgograd Phase II***

We are currently negotiating the acquisition of a 78.0 per cent. interest in a 14.0 hectare plot of land, located in Volgograd, at the same location of our Volgograd project. This acquisition, if completed, would increase the aggregate area of land under development in central Volgograd to approximately 20.0 hectares. We intend to develop on the land plot residential premises with a total gross sellable area of 35,043 square metres.

#### ***Embassy***

We are currently at an advanced stage of negotiations for the acquisition of a 100 per cent. interest in a 4.0 hectare plot of land, located in a park area in Southern Moscow. If our negotiations are successful, we will acquire the land plot as a land bank for future development. The land plot is currently occupied by yielding properties comprising office space with a total area of 20,000 square metres and a hotel with a total area of 3,000 square metres.

#### ***Ryabinovaya***

We are currently at an advanced stage of negotiations for the acquisition of a 100 per cent. interest in a 18.0 hectare plot of land located in Western Moscow. If our negotiations are successful, we will acquire the land plot as a land bank for future development. The land plot is currently occupied by yielding properties comprising office space with a total area of 50,000 square metres.

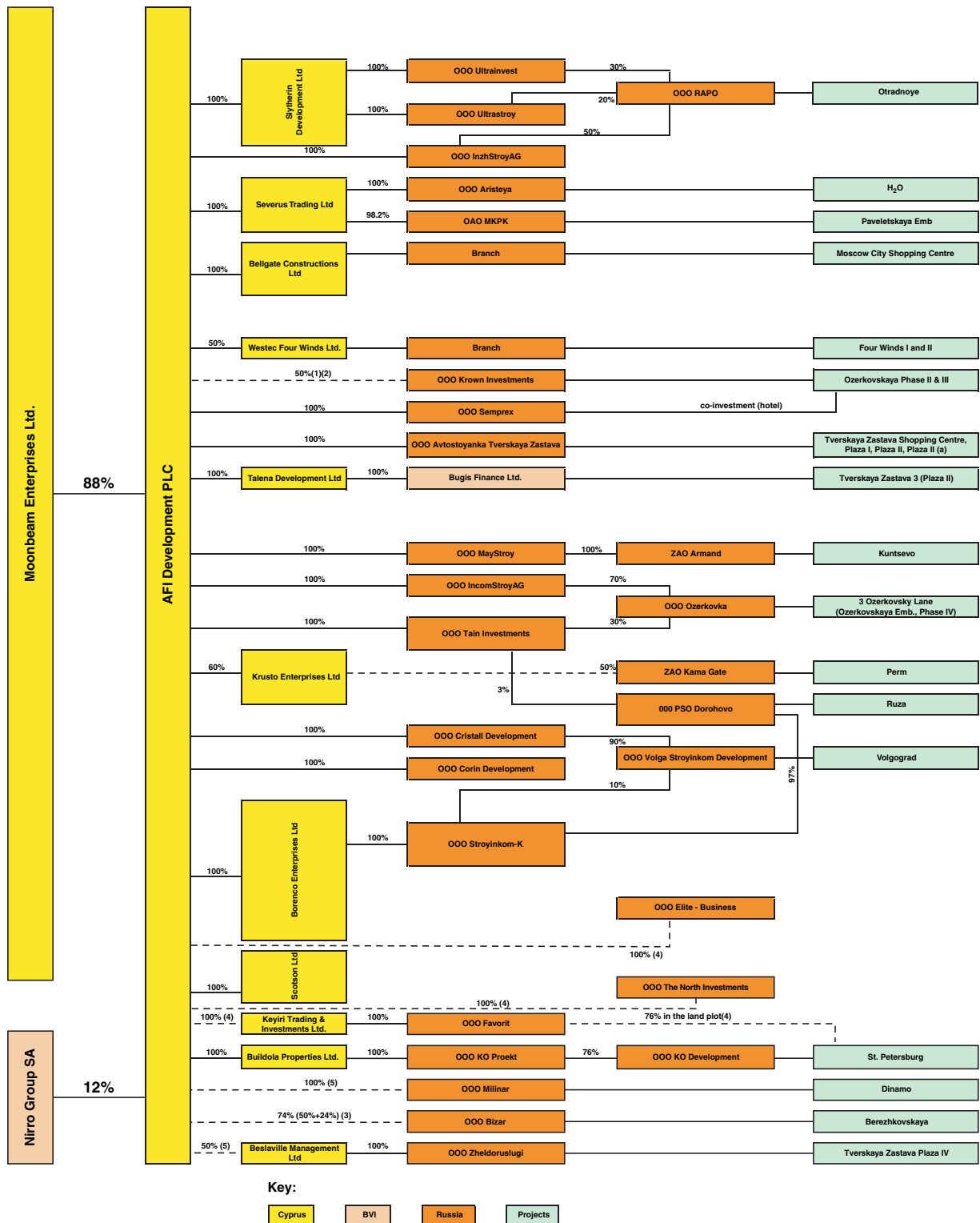
#### ***Western Moscow***

We are currently at an advanced stage of negotiations for the acquisition of a 100 per cent. interest in a 9.9 hectare plot of land in western Moscow. We plan to construct on the site residential premises with a total area of 212,320 square metres and retail outlets with a total area of 9,600 square metres. The sellers of the land plot have already procured the concept and preliminary approvals for upscale residential development. We intend to improve the zoning and develop a larger upscale neighbourhood.

#### ***Eastern Moscow***

We are currently negotiating the acquisition of 100 per cent. interest in a 8.8 hectare plot of land with existing buildings comprising 112,000 square metres, located in eastern Moscow. We have agreed with the seller on the terms of a letter of intent for the purchase of the interest in the land plot.

## AFI Development PLC Legal Structure



- (1) The other 50.0 per cent. in the charter capital has been sold to a partner; the transaction is pending state registration.
- (2) The related share purchase agreement entered into in connection with our partner in Krown Investments envisages incorporation of the joint venture in Cyprus instead of the Russian Federation.
- (3) See “—Portfolio Projects—Berezhkovskaya”
- (4) Pending registration.
- (5) Preliminary agreement subject to entering into a share purchase agreement.
- Note: “- - - -” denotes purchase/registration is yet to be completed.

Set out below is a list of our operating entities and the development projects that they are involved in:

### **Operating Entities Involved in Development Projects**

*Borengo Enterprises Ltd* . . . . . We own 100 per cent. of Borengo Enterprises, a Cypriot company. Borengo Enterprises holds 100 per cent. of Stroyinkom-K.

*OOO “Stroyinkom-K”* . . . . . We own 100 per cent. of Stroyinkom-K, a Russian limited liability company, through Borengo Enterprises. Stroyinkom-K holds a project manager license and is appointed as project manager for virtually all of our projects. It also has ownership interests in PSO Dhorokhovo and Volga Stroyinkom which are involved in the Ruza and Volgograd projects, respectively. The employees of Stroyinkom-K make up virtually all of our employees and include project managers, economists, zoning specialists, lawyers and accountants.

### ***Tverskaya Zastava Shopping Centre, Plaza I, II, and II(a)***

*OOO “Avtostoyanka Tverskaya Zastava” (ATZ)* . . . . . We own 100 per cent. of ATZ, a Russian limited liability company. ATZ is involved in the development of Tverskaya Zastava Shopping Centre, Plaza I, II and II(a) pursuant to the Tverskaya Zastava Resolutions and other resolutions of the City of Moscow.

### ***Tverskaya Zastava Plaza II***

*Bugis Finance Ltd.* . . . . . We own 100 per cent. of Bugis Finance, a British Virgin Islands company, through our wholly-owned Cypriot subsidiary Talena Development Ltd. Bugis Finance is the owner of non-residential premises located at Tverskaya Zastava II. We acquired Bugis Finance in October 2006 for US\$22.0 million.

### ***Tverskaya Zastava Plaza IV***

*Beslaville Management Ltd.* . . . . We intend to purchase a 50.0 per cent. interest in Beslaville Management Ltd., a Cypriot company. Beslaville Management Ltd. owns 100 per cent. of Zheldoruslugi. The remaining 50.0 per cent. of Beslaville Management Ltd. will be held by a non-related third party.

*OOO “Zheldoruslugi”* . . . . . We will own 50.0 per cent. of Zheldoruslugi, a Russian limited liability company, if the purchase of Beslaville Management as currently contemplated is completed. Zheldoruslugi holds the rights to the land and buildings on the Plaza IV project site.

### ***Four Winds I and II***

*Westec Four Winds Ltd.* . . . . . We own a 50.0 per cent. interest in Westec Four Winds Ltd, or Westec, a Cypriot company. Westec operates in Russia through a branch established in October 2004. The branch is currently entitled to operate in Russia until 11 October 2007. In August 2001, Westec assumed the rights to construct a multifunctional city complex at 69-71 Bolshaya Gruzinskaya Street from AOOT “Dunkan”. In September 2006, Westec entered into an addendum agreement with the City of Moscow to develop a commercial and residential complex on the land plot.

### ***Moscow City Shopping Centre***

*Bellgate Constructions Ltd.* . . . . We own 100 per cent. of Bellgate Constructions, a Cypriot company. Bellgate Constructions operates in Russia through a branch which was established in July 2005. The branch is currently entitled to operate in Russia until 14 July 2010 and acts as developer, project manager and constructor of the Moscow City Shopping Centre project pursuant to an investment contract with the City of Moscow.

### ***Kuntsevo***

OOO “MayStroy” ..... We own 100 per cent. of MayStroy, a Russian limited liability company. Pursuant to a resolution issued by the Prefect of the Western Administrative Circuit of the City of Moscow, MayStroy was granted permission to prepare preliminary town-planning documentation for the reconstruction of the transportation hub near the Kuntsevo metro station.

ZAO “Armand” ..... We own 100 per cent. of Armand, a Russian closed joint stock company, through MayStroy. As at the date of this prospectus, 100 per cent. of the share capital of Armand is pledged in favour of OOO “Auto Motor Group”, or Auto Motor Group, a non-related third party. In order to release the pledge, we will either need to enter into an agreement with Auto Motor Group by 1 June 2007 pursuant to which we must provide a suitable car dealership facility for Auto Motor Group or enter into an amendment agreement with Auto Motor Group to extend the 1 June 2007 deadline. Armand has certain land rights reserved to it under a resolution by the City of Moscow at the Kuntsevo project site.

### ***Ozerkovskaya Phase II & III***

OOO “Krown Investments” .... We own 50.0 per cent. of Krown Investments, a Russian limited liability company. Krown Investments is party to an investment contract with the City of Moscow to develop the Ozerkovskaya project. Krown Investments was established in April 2002. In August 2003, we became the sole owner of Krown Investments. In September 2006, we sold a 50.0 per cent. interest in Krown Investments to Super Passion Investments Limited for US\$150.0 million plus certain additional costs. The transfer of the 50.0 per cent. interest is pending state registration.

OOO “Semprex” ..... We own 100 per cent. of Semprex, a Russian limited liability company. Semprex is party to a co-investment contract with Krown Investments to develop the hotel in Ozerkovskaya Phase II.

### ***Ozerkovskaya Phase IV***

OOO “IncomStroy AG” ..... We own 100 per cent. of IncomStroy AG, a Russian limited liability company. In December 2005, IncomStroy AG acquired a 70.0 per cent. interest in Ozerkovka from OOO “Belans” for RUB 39.8 million.

OOO “Tain Investments” ..... We own 100 per cent. of Tain Investments, a Russian limited liability company. In December 2005, Tain Investments acquired a 30.0 per cent. interest in Ozerkovka from OOO “Belans” for RUB 17.1 million. Tain Investments was established in Russia in October 2001.

OOO “Ozerkovka” ..... We own 100 per cent. of Ozerkovka, a Russian limited liability company, through Tain Investments and IncomStroy AG. Ozerkovka is the owner of the building at 3 Ozerkovsky Lane.

### ***Otradnoye***

OOO “UltraInvest” & OOO “UltraStroy” ..... We own 100 per cent. of UltraInvest and UltraStroy, both Russian limited liability companies, through Slytherin Development Limited, our wholly-owned Cypriot subsidiary. UltraInvest and UltraStroy are currently involved in the Otradnoye project through their respective 30.0 per cent. and 20.0 per cent. ownership interests in RAPO (see below). Slytherin acquired 100 per cent. of their share capital in June 2006 from a non-related third party for US\$20.0 million and US\$13.3 million, respectively.

*OOO “InzhStroy AG”* . . . . . We own 100 per cent. of InzhStroy AG, a Russian limited liability company. InzhStroy AG is currently involved in the Otradnoye project through ownership of a 50.0 per cent. interest in RAPO (see below).

*OOO “Regionalnoe Agropromyshlennoe Obyedinenie” (RAPO)* . . . . . We own 100 per cent. of RAPO, a Russian limited liability company, through InzhStroy (50.0 per cent.), UltraStroy (20.0 per cent.) and UltraInvest (30.0 per cent.). RAPO is party to an investment contract with the Moscow Region and the municipal authority of the Odintsovo District of the Moscow Region for the development of Otradnoye.

***Paveletskaya Embankment***

*OOO “Moskovsky Kartonazhno-Poligrafichesky Kombinat” (MKPK)* . . . . . We own 98.2 per cent. of MKPK, a Russian open joint stock company. MKPK is a cardboard printing company which owns commercial buildings on and leasehold rights to a land plot at the Paveletskaya Embankment project. MKPK was established by privatisation in June 1994. In March 2006, we, through our wholly-owned Cypriot subsidiary Severus Trading Ltd., acquired our interest in MKPK from a number of non-related third parties for approximately US\$34.5 million.

***H<sub>2</sub>O***

*OOO “Aristeya”* . . . . . We own 100 per cent. of Aristeya, a Russian limited liability company. Aristeya is the owner of an office building at 8/6 Paveletskaya Embankment, Moscow, known as the H<sub>2</sub>O building. In June 2006, we, through our wholly-owned subsidiary Severus Trading Ltd., acquired Aristeya from a non-related third party for US\$26.6 million.

***Ruza***

*OOO “PSO Dorohovo”* . . . . . We own 100 per cent. of PSO Dorohovo, a Russian limited liability company. PSO Dorohovo is located in Moscow oblast and holds the freehold rights to the land where the Ruza project is expected to be developed. PSO Dorohovo was established in July 1992 in the form of a limited liability partnership and reorganised into a limited liability company in June 2001. We acquired PSO Dorohovo through Stroyinkom-K (97.0 per cent.) and Tain Investments (3.0 per cent.) for approximately US\$3.2 million in April 2004.

***Dinamo***

*OOO “Milinar”* . . . . . We intend to purchase 100 per cent. of Milinar, a Russian limited liability company. Milinar is in the process of obtaining certain rights to the buildings and land in the Dinamo project.

***Berezhkovskaya***

*OOO “Bizar”* . . . . . In March 2007, we entered into a framework agreement for the acquisition of 50.0 per cent. of Bizar, a Russian limited liability company. The transfer of the 50.0 per cent. interest is pending registration. Bizar is expected to own two buildings located at the Berezhkovskaya commercial development project site. We plan to purchase an additional 24.0 per cent. interest in Bizar upon completion of the transfer by Senco of two additional buildings to Bizar. Pursuant to the framework agreement, the aggregate consideration to be paid for our 74 per cent. interest is US\$37.0 million.

### ***St. Petersburg***

*Buildola Properties Limited*. . . . . We own 100 per cent. of Buildola Properties, a Cypriot company. We intend for Buildola Properties to manage all of our activities in the St. Petersburg project. Through Buildola Properties, we own a 100 per cent. interest in KO Proekt. KO Proekt in turn owns a 76.0 per cent. interest in KO Development.

*OOO “KO Development”*. . . . . We own 76.0 per cent. of KO Development, a Russian limited liability company, through Buildola Properties and KO Proekt. KO Development will provide development services for the St. Petersburg project. The remaining 24.0 per cent. of KO Development is currently held by our local partner in St. Petersburg.

### ***Keyiri Trading & Investments***

*Limited and OOO “Favorit”*. . . . . We acquired Keyiri Trading & Investments, a Cypriot company that owns 100 per cent. of Favorit, in March 2007. The transfer of the 100 per cent. interest is pending registration. The purchase price was set as US\$2.7 million plus an additional amount of RUB 11.2 million to cover Favorit’s obligations to the seller of the land plot on which the St. Petersburg project will be located. Favorit is a Russian limited liability company that owns a 76.0 per cent. participatory interest in such land plot.

### ***Perm***

*Krusto Enterprises Ltd.*. . . . . We own 60.0 per cent. of Krusto Enterprises Ltd, or Krusto Enterprises, a Cypriot company. Krusto Enterprises is expected to hold 50.0 per cent. of Kama Gate after the registration of the shares of Kama Gate with the relevant regulatory authorities. The remaining 40.0 per cent. of Krusto Enterprises is held by a related party, Danya Cebus.

*ZAO “Kama Gate”*. . . . . Our 60 per cent. owned subsidiary Krusto is expected to own 50.0 per cent. of Kama Gate, a Russian closed joint stock company after the registration of the shares of Kama Gate with the relevant regulatory authorities. OOO “Prospekt” owns the remaining 50.0 per cent. interest in Kama Gate. Kama Gate is party to a co-investment agreement with OOO “Prospekt”, a non-affiliated local partner, pursuant to which Kama Gate and Danya Cebus, an affiliate, have agreed to finance the Perm project and Prospekt has agreed to contribute the lease rights to the land plot at Perm. Kama Gate was established in January 2007. Due to our failure to register the shares on time, we intend to establish a new company to fulfil the role of Kama Gate under the co-investment agreement.

### ***Volgograd***

*OOO “Cristall Development”*. . . . . We own 100 per cent. of Cristall Development, a Russian limited liability company. Cristall Development, together with Stroyinkom-K, formed Volga Stroyinkom.

### ***OOO “Volga Stroyinkom***

*Development”*. . . . . We own 100 per cent. of Volga Stroyinkom, a Russian limited liability company, through Stroyinkom-K (10.0 per cent.) and Cristall Development (90.0 per cent.). Volga Stroyinkom is party to a co-investment contract with our non-affiliated partner OOO “Avtograd” under which Volga Stroyinkom has agreed to provide the financing and OOO “Avtograd” has agreed to provide the leasehold and ownership rights to the land and buildings for the Volgograd project. Volga Stroyinkom was established in February 2007 by Stroyinkom-K and Cristall Development.

## Other Operating Entities

*OOO “Elite-Business”* . . . . . In February 2007, we entered into a share purchase agreement to acquire 100 per cent. of Elite-Business, a Russian limited liability company; the transfer is pending registration. Elite-Business was originally established to facilitate the process of managing our Russian property development subsidiaries and joint ventures. For this purpose, Elite-Business has entered into separate management agreements with, among others, IncomStroy AG, ATZ, Krown Investments, InzhStroy AG, Tain Investments, Aristeya, RAPO, PSO Dorohovo, IlanStroy and Ozerkovka. Under such agreements, Elite-Business acts as a management company and performs the function of sole executive body of the companies for which it acts. Elite-Business also provides accounting services for certain of our Russian subsidiaries.

*OOO “The North Investments”* . . We entered into a share purchase agreement to acquire 100 per cent. of The North Investments, which will facilitate the process of managing our property development subsidiaries and joint ventures in St. Petersburg. As at the date of this prospectus, we are in the process of registering our rights to The North Investments.

## Completed projects

Set out below are details of each of the projects which we have completed and for which we have achieved an exit, either in whole or in part.

### *Ozerkovskaya Embankment*

In the fourth quarter of 2006, we sold a 50 per cent. interest in OOO “Krown Investments”, the company that holds the rights to the Ozerkovskaya Phase II and the Ozerkovskaya Phase III projects, to a non-related third party, Super Passion Investments Ltd., for a total consideration of US\$150.0 million and an undertaking on behalf of the buyer to finance 50.0 per cent. of the total remaining development costs of the Ozerkovskaya Phase II and the Ozerkovskaya Phase III projects, not including the development costs associated with the hotel relating to Phase II, which is being financed by our wholly-owned Russian subsidiary OOO “Semprex”. We recorded a gain on the sale amounting to US\$111.8 million and a US\$0.5 million foreign exchange gain in connection with the sale.

### *Aquamarine I*

In 2006, we completed development of the Aquamarine I office building, which forms part of the Ozerkovskaya development in Zamoskvorechye, a historic picturesque part of Moscow. The Aquamarine I office building comprises two Class A office buildings, one with a total area of 12,788 square metres and one with a total area of 770 square metres. The first building was designed by a local architectural firm and has an underground car park for 86 cars, modern climate control and communications systems and advanced engineering systems, as well as a high quality, international standard fit-out. We acquired and developed the site for a project cost of US\$22.6 million. In May 2005, we sold 100 per cent. of the share capital of Blaster Plus, which, at the time of sale held the rights to both buildings, to a non-related Cypriot company, for US\$54.2 million. We recorded a gain on the sale amounting to US\$31.6 million and a US\$519 thousand foreign exchange gain in connection with the sale.

### *Udaltsova*

In 2006, we completed the procurement of a set of permits for the Udaltsova project, a residential and mixed-use project. The project, which is located in Udaltsova, an area in the south-western part of Moscow known for its high quality infrastructure, comprised of construction of residential premises, with a total area of 33,461 square metres. We acquired and developed the site for a cost of US\$11.8 million. In June 2006, we sold OOO “Techinvestgroup”, or Techinvestgroup, which, at the time of the sale, held the development rights for the Udaltsova project, to a group of Russian entities for US\$22 million. We recorded a gain on the sale amounting to US\$10.2 million and a US\$468 thousand foreign exchange gain in connection with the sale.

In December 2003, our wholly owned Cypriot subsidiary Bellgate Constructions Ltd. sold Moint to a non-related third party. At the time of sale, Moint held construction rights for a large residential complex with an underground car park at Nejinskaya in the western part of Moscow, with a total area of 170,791 square metres. The site was acquired and developed for a cost of US\$17.4 million and was sold for US\$40.0 million. We recorded a gain on the sale amounting to US\$22.6 million, US\$9.7 million of which we recognised in 2004, and a US\$197 thousand foreign exchange gain in connection with the sale in 2003.

In addition, we, through our subsidiary Stroyinkom-K, have acted as project manager on a number of significant development projects that have been completed in recent years. In our role as project manager, we would, among other things, hire and instruct the general contractor, procure permits, procure design documentation and perform general management consulting services with respect to the project. Such projects included:

- Patriarshy Ponds. A neighborhood development in the centre of Moscow which included 24,235 square metres of luxury apartments that was completed in 2005.
- Palaty Muravievkh. A development of luxury town houses in a prime location in Moscow covering 8,490 square metres that was completed in 2002.
- House of Lions. A development of luxury residences in the centre of Moscow covering 4,100 square metres that was completed in 2003.
- Kislovodsk. A 400-room four star hotel in the city of Kislovodsk in south-eastern Russia covering 25,998 square metres. The hotel began operating in 2006.

Beginning in 2006, we no longer act as project manager with respect to development projects which are owned/financed by third parties, but continue to act as project manager for our own development projects.

### **Competition**

The Russian real estate market is large, both in terms of geographic scope and opportunities available for development. Competition is largely fragmented. We are currently one of the relatively few developers in Russia to build large scale, high profile, international quality commercial and residential properties. We believe that the limited number of development companies in the Russian real estate market focusing on such large scale projects and operating in accordance with international standards has created, and continues to create, the opportunity for us to access attractive investment opportunities. In addition, we believe that our established relationships with the Russian authorities provide us with a comparative advantage over many of our potential competitors. In Moscow, where most of our projects are located, and in St. Petersburg, where one of our current projects is located, our principal competition is from international real estate developers and well established local developers, such as Mirax, Sistema-Hals and Capital Group. Since the limited number of large investors that develop international standard projects focus primarily on real estate projects in Moscow and St. Petersburg, our potential competitors in other regions in Russia in which we operate or expect to operate are mostly local developers. We believe that our experience in Moscow and our broader economic capabilities will enable us to successfully operate and compete in those regions. See “Risk Factors—Risks Related to Our Business—We may be unable to compete effectively with real estate companies and developers”.

### **Valuation**

We retained JLL to value certain of our real estate properties, each of which we generally refer to herein as a “property” or together as the “properties”. The valuations and a discussion of JLL’s valuation methodology and other assumptions and methodologies are contained in JLL’s valuation report included elsewhere in this prospectus. The properties in the valuation report are valued as of 31 March 2007.

Each property has been valued on the basis of “Market Value” in accordance with both the current Practice Statements and the United Kingdom Practice Statements contained in the RICS Appraisal and Valuation Standards, 5th Edition, published by the Royal Institution of Chartered Surveyors, or the Red Book. In the Red Book, “Market Value” is defined 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”.

JLL has prepared their valuation report as “External Valuers” as defined in the Red Book and are qualified for the purpose of preparing the valuation. JLL has not previously been the signatory to any valuations provided to us for the same purposes as the valuation report.

The properties consist of our portfolio properties. According to JLL as of 31 March 2007, the aggregate market value of our beneficial interest in the projects in our portfolio in its existing state of development was approximately US\$3.69 billion, subject to the assumptions set out in the valuation report attached as Annex A to this prospectus.

The valuations stated above represent the aggregate of the current values attributable to each property and should not be regarded as a valuation of the portfolio as a whole in the context of a sale as a single lot. The values ascribed to each property are set out in the valuation report.

### *Valuation Methodology*

The properties were valued using the income approach, and in particular, the residual approach to valuation. The residual valuation approach involves the calculation of the value of the property upon completion of the development, through the capitalisation of an anticipated rental income at a relevant yield, from which all costs required to develop the property are deducted, including an allowance, where appropriate, for a profit payment to the developer. This approach is particularly suitable for those properties which are in the course of construction. This method has its limitations, especially in Russia, and we urge you to read the valuation report for a full discussion of these limitations. Below we have generally described the basic premises of the residual approach to valuation.

One methodology for the income approach is to undertake a discounted cash flow within prospective cash flows from a property and the costs associated with being able to generate those cash flows are discounted back to the present using an appropriate discount rate. The resulting net present value would reflect an indication of the market value. Specifically, with respect to our portfolio properties, such market value would be the net present value of all future income streams less the net present value of all future costs. The costs would include all the development costs still outstanding in respect of the property and future incomes are assessed based on current returns for completed projects 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.

Alternatively, a standard residual approach can be adopted, and JLL has adopted this method in the valuation report using Circle Visual Developer valuation software. Under this method, the value of the property upon completion as at the valuation date is estimated and then all costs necessary to be incurred in order to realise the development of the property, allowing for an element of the developer’s profit, are deducted to leave a sum which represents the market value of the site.

### *Certain Assumptions and Methodologies*

The valuations are based on various assumptions and methodologies. We urge you to read the valuation report for a full discussion of these assumptions and methodologies. In general, JLL has assumed a number of matters relating to the nature of the properties and the development process, including:

- the information provided by us and our professional advisers in respect of the properties is both full and correct;
- land leases from the City of Moscow are capable of being extended, will be extended as necessary and that no circumstances will arise to permit the City of Moscow to rescind the land lease or to not grant a renewal;
- where we are still in the process of acquiring rights to a property, that these rights will be obtained;
- where tenants are involved, that each tenant is capable of meeting its leasehold obligations and that there are no undisclosed breaches of covenant;
- vacant possession of all parts of the properties required prior to redevelopment is obtained;
- any required variations will be granted without extraordinary cost or delay by landlords in cases where the planned development differs from that anticipated by the land lease;
- properties possess good and marketable title, free from encumbrances, mortgages and charges;

- 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;
- for properties where only an investment contract with the governmental authorities exists, a ground lease and an ownership certificate with respect to the building will be obtained by the developer upon completion of the development;
- where properties are held in part ownership, that these interests are capable of sale in the open market without any restriction from the co-owner and that there are no encumbrances within the share agreements which would impact upon the ability to sell the properties concerned;
- where properties are held by way of ground leases held by an SPV, that the shares in each of these SPVs can be sold and, in addition, that there are no further assets or liabilities held by each SPV which might affect the ability to sell the shares in the vehicles;
- existing properties have been erected and are being occupied and used in accordance with all necessary consents and that there are no outstanding statutory notices;
- buildings comply with all statutory and local authority requirements including building, fire and health and safety regulations;
- all necessary planning consents will be obtained within a reasonable and standard timescale and that there will be no extraordinary issues which may delay the receipt of the necessary consent and which may impact on the value or marketability of the property;
- properties are not, nor are likely to be, affected by land contamination and that there are no ground conditions which would affect the present or future use of the properties;
- no deleterious materials have been used in the construction of any of the properties;
- all plant and machinery, fixtures and specialist trade fittings are in good working order and in compliance with any relevant statute, bylaw or regulation;
- there will be no unforeseeable additional costs or delays in comparison to those generally experienced; and
- that upon completion, the properties will be let in line with market practices in terms of lease lengths, indexation of rents and recoverability of costs.

JLL has also used various valuation methodologies intended to remove certain variables from the valuations. These valuation methodologies include, for example:

- in those instances where the nature of the project has been agreed with the City of Moscow, JLL has assumed that the subject property will be developed in accordance with this blueprint unless it has considered it prudent to adopt its own assumed concept;
- where they have considered it appropriate, JLL has assumed that the proposed projects will be developed in phases in order to bring a manageable amount of supply to the market at one stage;
- construction costs have been assessed by JLL in accordance with budgeted costs provided by us; however, they have also taken into account current rates passing in the market which a prospective purchaser may deem appropriate to adopt in construction of each individual project. Although in some instances they have adopted our budgeted costs, in some instances they have adopted their own opinions of costs;
- where there are outstanding payments to be made in respect of the acquisition of rights or costs of permitting, JLL has adopted those figures provided by us. In addition, with regard to outstanding costs for the provision of utilities together with the undertaking of any road or transport works, JLL has adopted those figures provided by us and assumed that those costs are accurate;
- rental values have been assessed as at the date of the valuation but JLL have taken into account the existing occupational markets and the likely supply and demand dynamics anticipated during the expected development periods;
- upon completion of the construction of each property, JLL has adopted a relevant holding period prior to the sale of the property based on their opinion of the period a developer would hold the

property in order to reach a target occupancy level and to be able to demonstrate a stable income flow;

- in arriving at its estimates of gross development value, JLL has capitalised its opinion of net operating income, having deducted any anticipated non-recoverable expenses, such as property tax and permanent void allowance, which has been capitalised into perpetuity;
- in terms of residential accommodation, the sales prices per square metre have been adopted to reflect current market conditions and represent those levels JLL considers to be achievable at present; and
- the valuations take into account the requirement to pay property tax and ground rental payments and this is assumed not to be recoverable from the occupiers.

In addition, the valuations are based on the information which we have supplied to JLL, including information regarding our ownership interests in, or rights to revenues relating to, the properties. JLL has relied on such information as being correct and complete, without independent verification.

See also “Risk Factors—Risks Relating to Our Business—The valuation of our properties is inherently uncertain and may be inaccurate”.

## Licenses

The following table sets forth a list of material licenses held by certain of our key operating subsidiaries:

<b>Licensee</b>	<b>Licensed Activity</b>	<b>License Number</b>	<b>Expiry Date</b>
Stroyinkom-K	Preparatory work (clean up of project site, construction of temporary facilities), earthwork operations, mason’s work, casting and installation of concrete and metal constructions, execution of the functions of general contractor and customer-developer. Construction of buildings up to 40 metres high.	GS-1-99-02-27-0-7732110251-019126-1	9 November 2009
Westec Four Winds	Acquisition of initial data for development project, preparation of development project, technical supervision over the project, execution of permits, licenses and approvals, preparation of the project site, organisation of construction management, technical supervision.	GS-1-77-01-27-0-9909016822-022854-1	11 July 2010
Krown Investments	Exploitation of heating networks.	D-381630 No. 60011977	27 July 2008
Krown Investments	Exploitation of electrical networks.	D-020685 No. 50012035	27 July 2008

## Investment Criteria and Process

### Identification

To date, our investment opportunities have arisen from a variety of sources, primarily:

- our existing relationships;
- approaching local authorities on our own initiative to discuss development concepts that enhance public utilities; the Tverskaya Zastava development is an example of this approach;
- local relationships with developers, financial institutions, third party real estate investors and, to a lesser extent, professional advisers; and
- direct approaches from third party owners.

Although we intend to be opportunistic in identifying investment opportunities, the Board of Directors will closely examine certain core investment criteria, such as the sufficiency of land for the

purpose of future development, the potential for further acquisitions in the same location in accordance with our strategy, the geographic location of the relevant property, the balance of commercial/residential properties in the portfolio, expected yields and margins, the ability to make improvements to surrounding infrastructure, transport links and the availability of appropriate debt financing.

We typically acquire properties which are either at a beginning stage of Russian regulatory approval for development, or that are at an intermediate stage of the approval process but where the approvals have not yet been granted. We also acquire properties that we believe will enable us to secure required rezoning in connection with our developments or will increase the total size of those developments.

We plan to establish an investment committee, initially comprising certain executive officers from our principal operating subsidiary, Stroyinkom-K, which will be responsible for reviewing and reporting to our Board of Directors on substantial investments into, and disposals from, our portfolio.

In evaluating potential investment opportunities, the following steps will typically be undertaken:

- Preparation of an initial feasibility study, including mapping, engineering, architectural, legal and marketing studies as the case may be.
- Site visits, a full due diligence exercise, preparation of business plans including establishing the construction budget, verification of permits, obtaining appropriate financing and preparation a cashflow analysis of the project.
- Presentation of a final report to the Board of Directors for approval. If appropriate, such report will be accompanied by a third party market study. Where the investment is anticipated as a joint venture or partnership, the final report will contain information about the partner and the contractual relations with the partner.

If the initial assessment of a development opportunity is approved by our Board of Directors, we will engage external architects and other professionals to prepare more detailed concept design alternatives for a particular development. Discussions with the various City of Moscow authorities will normally commence at this stage to determine various preliminary issues such as whether there are or may be any issues relating to utility supplies to the relevant site, zoning particularities, requested public facilities, etc. If we decide to proceed with a development, we may then enter into an agreement with one or more third parties to provide for their respective participation interests in the development. We intend to have at least a 50 per cent. economic interest in future developments and, to the extent possible, to maintain control over development and decision making rights in respect of future developments.

The preliminary design suggestions for each development must be approved by various federal and City of Moscow authorities. This includes obtaining approval from the Department on Environmental Protection of the City of Moscow. Any environmental issues arising during the course of development will be addressed with the appropriate environmental authority.

For a description of some of the authorisations and certifications required during the stages of development, please see the section entitled “Certain Aspects of Russian Real Estate Law and Practice”.

### ***The Construction Process***

Construction of our projects is typically managed by Stroyinkom-K, in its capacity as licensed project manager. Once the decision has been made to proceed with a particular development, external architects would be engaged to prepare the final detailed concept design and plan. External architects would be retained to ensure that a contemporary approach is brought to the design of new projects. Stroyinkom-K, as project manager, will manage the process of obtaining the necessary development approvals and permits from the relevant federal and City of Moscow authorities.

An external general contractor will typically be engaged to carry out the actual construction work. The project management teams and the project management department will maintain control of the construction process by adopting a construction management and technical supervisory role over the development which is coordinated through a project manager. The project management department, subject to the review of the contracts department, which reports to the internal controller, will also generally oversee the choice of subcontractors and the procurement of materials by the general contractor in order to maintain our quality standards. The general contractor’s scope of work will typically be agreed with the project management department at defined stages of construction of the development. This allows the project management team to monitor the progress and quality of construction and replace the general

contractor or specify performance enhancements should this be required. The progress of construction is also monitored by the internal control department, based on performance reports provided under each construction related contract.

Upon completion of construction, all of the appropriate regulatory authorities involved in the development process will inspect the completed development to ensure that we and the general contractor have complied with the terms and conditions of any federal and City of Moscow approvals and regulations. We will generally deliver developments to tenants on a “shell and core” basis, which is common in the Moscow real estate market where a property is to be let to multiple tenants. This means that the project management team will procure the fit-out of common areas and individual tenants will be responsible for the fit-out of their respective leased areas.

### ***Post-construction***

We intend to establish an asset management subsidiary which will be responsible for the management and service of our property portfolio once we have a sufficient number of yielding properties. Disposals from our portfolio will be subject to the prior approval of our Board of Directors.

### **Internal expertise**

We benefit from the expertise of members of our Board of Directors and senior managers who have gained significant real estate experience at Africa Israel.

We believe in the value of local management and employ local managers and other personnel as required for each project from the relevant locality. We benefit from the expertise of such local managers who have gained significant experience in the local market.

We, through Stroyinkom-K (which acts as the management company for our projects), operate a local office in Moscow from which we centrally manage and facilitate operations and from which we have developed relationships with various professionals in the Russian real estate market.

### **Material Agreements**

#### ***Investment Contracts***

##### ***Bellgate Investment Contract***

On 24 June 2005, our wholly-owned subsidiary Bellgate Constructions Ltd., or Bellgate, entered into an investment contract with the City of Moscow pursuant to which we agreed that Bellgate would finance the construction of the aboveground part of the central core of the Moscow City International Business Centre which forms part of the Moscow City Shopping Centre project. The project comprises up to 150,000 square metres of property, with construction and other obligations relating to the construction scheduled to be completed by 1 January 2008. The contract provides that the completed facility will be 75.0 per cent. owned by Bellgate and 25.0 per cent. owned by the City of Moscow.

Under the investment contract, the City of Moscow would procure the provision of the relevant rights to the land required for the performance of the project and the connection of the project to all necessary infrastructure utilities. In return, Bellgate would prepare the design documentation for the project, procure insurance against damage to the project and register our property rights to the completed project. The contract further stipulates that the City of Moscow would enter into a land lease agreement for the construction of the project with the State Unitary Enterprise “Centre City”, or Centre City, and Bellgate would in turn contract with Centre City to act as project manager.

Under the investment contract, we are obligated to contribute no less than US\$20 million to finance the development of the concert hall, the rights to which are currently held by the City of Moscow. We expect however, that we will be able to set off in part against this amount a deposit payment of RUB 83.5 million we made in connection with our participation in the investment auction, making our additional investment obligation approximately US\$17.0 million.

The investment contract does not provide any rights to Bellgate to buy out the interests of the City of Moscow in the project. However, it is our intention to buy out the City of Moscow’s 25.0 per cent. interest, and we are currently in negotiations with the City of Moscow to have them pass a resolution entitling us to do so.

Under the investment contract, Bellgate may assign the development rights to third parties upon consultation with the City of Moscow. Any such assignment of rights would take the form of an additional agreement to the investment contract between Bellgate, the assignee and the City of Moscow and the assignee must undertake all obligations under the investment contract without extending the date of completion of construction.

#### *Krown Investments Investment Contract*

On 3 May 2006, our wholly-owned subsidiary, OOO “Krown Investments”, or Krown Investments, entered into an investment contract with the City of Moscow pursuant to which we agreed that Krown Investments would finance the construction of a multifunctional complex located at 26 Ozerkovskaya Embankment and 35 Bolshaya Tatarskaya Street, buildings 17 and 19. Under the investment contract, Krown Investments also agreed to finance the preparation of the design documentation and the rehabilitation of the area (including the demolition of existing buildings).

Under the investment contract, the ownership rights to 100 per cent. of the total residential area, parking places and related service areas as well as 100 per cent. of the total non-residential area are to belong to Krown Investments, whereas the City of Moscow is to acquire 100 per cent. of the total area of the structures constructed for engineering and public services. The project is scheduled to be completed by April 2009.

Pursuant to the investment contract, the City of Moscow would assist Krown Investments in connecting the complex to the necessary infrastructure utilities. In return, Krown Investments agreed to fully finance the investment project including a payment of US\$16.6 million to the City of Moscow as compensation for providing engineering, transport and social infrastructure.

Rights to the relevant land plots during the preparation of the design documentation and construction are to be provided in the form of short term lease agreements to be entered into within one month upon the signing of the investment contract.

The investment contract may be terminated by mutual consent of the parties, upon expiry of the term of the contract (1 April 2009), pursuant to a decision of the Commercial Court of Moscow, or upon fulfilment of all the obligations under the contract by both parties. In addition, the City of Moscow may unilaterally terminate the contract on one month’s notice if Krown Investments fails to comply with the time schedule for construction, or if Krown Investments fails to provide the City of Moscow with a bank guarantee in the event that further execution of the project is affected by reason of its lack of financial capacity.

Under the investment contract, partial assignment of rights may be executed with the City of Moscow’s consent. Such partial assignment of rights must be executed in the form of an additional agreement to the investment contract between Krown Investments, the assignee and the City of Moscow, and the assignee must undertake all obligations under the investment contract in relevant proportion to the assigned rights without extending the date for completion of construction. Moreover, the City of Moscow cannot be held liable under the investment contract for any contractual relations between Krown Investments and third-party assignees.

#### *RAPO Investment Contract*

On 24 August 2004, the Ministry of Construction of the Moscow Region, the municipal authority of the Odintsovo District of the Moscow Region and ZAO “Land-Service”, or Land-Service, a non-related third party, entered into an investment contract pursuant to which the parties undertook to construct the residential development complex “Otradnoye” in Odintsovo on the basis that Land-Service would be granted the right to demolish the existing buildings, to provide financing of the project and to construct residential and non-residential buildings and structures.

On 24 August 2004, the parties further agreed under an additional agreement that the construction would be completed in or about 2012. The additional agreement also provided that the amount of investment in the construction project would be approximately RUB 9.3 million and the total area of the land plot for the investment project would be 34.6 hectares. Under the additional agreement, Land-Service is to provide financing in the amount of RUB 81.8 million for the renovation of the existing engineering infrastructure before 2012.

On 14 October 2004, Land-Service assigned its rights and obligations under the investment contract in favour of OOO “Regionalnoe Agropromizvodstvennoe Obyedinenie”, or RAPO, our wholly-owned subsidiary.

Under the investment contract, we are obligated to procure allocation of a land plot with a total area of 8.0 hectares for a cemetery, provide financing for and procure construction of an administrative office building with a total area of approximately 2,500 square metres, provide financing for renovation of the existing engineering infrastructure in the amount of RUB 81.8 million before 2012 and procure the relocation of the owners and tenants of buildings currently located on the land designated for construction. In consideration for the performance of our obligations, the Odintsovo District is obligated to allocate to us the land required for construction of the Otradnoye project. The land is to be allocated on the basis of short term leases for the period of construction and on the basis of ownership and/or long term leases upon completion. We have not yet entered into a land lease agreement for the purpose of constructing the Otradnoye project.

Upon completion of the project, the total residential premises are to be 94.0 per cent. owned by RAPO and the total non-residential premises are to be 90.0 per cent. owned by RAPO. The remaining ownership rights are to be held by the Ministry and the Odintsovo municipal authority. In addition, RAPO is entitled to buy out the Odintsovo municipal authority's 6.0 per cent. share in the residential premises for approximately RUB 405 million. While the investment contract provides that the Odintsovo municipal authority is entitled to a 10.0 per cent. share in the non-residential premises of the project, we expect to be able to purchase the interest at the prevailing market price.

Pursuant to the investment contract, short term lease agreements are to be concluded with respect to the relevant land plots for the duration of the construction period. Upon the completion of the project, long term land lease agreements are to be entered into between the relevant state authority and RAPO.

The investment contract also stipulates that the Ministry and the Odintsovo municipal authority may unilaterally terminate the investment contract if RAPO fails to commence construction within six months of approval of the project documentation.

#### *Westec Investment Contract*

On 15 August 1995, a non-related third party AOOT “Dunkan”, or Dunkan, and the City of Moscow entered into an investment contract pursuant to which Dunkan undertook to construct a multifunctional city complex with a total area of 158,000 square metres at 69-71 Bolshaya Gruzinskaya Street. On 1 August 2001, Dunkan assigned its rights and obligations under the investment contract in favour of Westec Four Winds Ltd., or Westec.

On 13 September 2006, the City of Moscow and Westec entered into an addendum agreement under which they undertook to construct a commercial development on the land plot with a total area of 4,102 square metres and a residential development on the land plot with a total area of 7,094 square metres. Westec also agreed to relocate the present tenants, demolish the existing buildings and reconstruct the relevant city communication networks.

Under the investment contract, Westec is to own 100 per cent. of the completed project upon payment to the City of Moscow of approximately US\$13.9 million as compensation for the use of social, engineering and transportation infrastructure provided by the City of Moscow.

Pursuant to the investment contract, Westec entered into a long term lease agreement described below.

Rights arising from the investment contract may be assigned by Westec to a third party. The City of Moscow has a right to unilaterally terminate the investment contract if Westec fails to commission the project by 31 December 2008.

#### *Land Leases*

##### *Westec Long Term Land Lease Agreement*

On 7 August 2001, Westec entered into a long term lease with the Moscow Land Committee for a land plot located at 69-71 Bolshaya Gruzinskaya Street with a total area of 1.1 hectares. The land plot comprises two detached land plots (one with a total area of 0.4 hectares designated for the Four Winds I project and the other with a total area of 0.7 hectares designated for the Four Winds II project). The lease is for the

construction and operation of a residential and commercial development. The lease is for a term of 49 years beginning from the date of registration, which was 31 October 2001.

Pursuant to the lease agreement, rent accrues from 1 November 2001 and is to be paid in equal instalments on a quarterly basis. The current annual rent is approximately RUB 5 million as determined in accordance with an annex to the agreement. Rental rates may be adjusted without the consent of Westec in accordance with changes to market rates and/or any governmental rent rate index. However, Westec is required to be notified of any increase in rental payments by means of publication in mass media.

Westec may not assign its rights under the lease without the prior consent of the Moscow Land Committee. The Moscow Land Committee may unilaterally terminate the lease if, among other things, Westec fails to pay the rent for two subsequent quarters, if Westec uses the leased land plots for purposes other than that provided in the lease agreement or if Westec assigns its rights under the lease agreement without the consent of the Moscow Land Committee.

#### *MKPK Long Term Land Lease Agreement*

On 27 April 2001, OAO “Moskovsky Kartonazhno-Poligrafichesky Kombinat” or MKPK, entered into a long term lease with the Moscow Land Committee for a land plot located at 8 Paveletskaya Embankment to house MKPK’s administrative and industrial facilities. The land plot has a total area of 54,683 square metres. The lease is for a term of 25 years beginning from the date of registration, which was 20 July 2001. The permitted use of the land plot may be amended by resolution of the relevant Moscow government authority.

Under the lease agreement, rent accrues from 21 July 2001 and is to be paid in equal instalments on a quarterly basis. The annual rent may be adjusted, without the consent of MKPK, in accordance with market rates and/or any governmental rent rate index. However, MKPK is required to be notified of any increase in rental payments by means of publication in mass media. In 2004, the annual rent was set at approximately RUB 10 million.

MKPK may not assign its rights under the lease without the prior consent of the Moscow Land Committee. The Moscow Land Committee may unilaterally terminate the lease if, among other things, MKPK fails to make rental payments for two consecutive quarters, if MKPK uses the leased land plots for purposes other than that provided by the lease agreement or if MKPK assigns its rights under the lease without the consent of the Moscow Land Committee.

#### *Krown Investments Long Term Lease Agreement*

On 15 July 1997, ZAO “Rista”, a non-related third party, entered into a long term lease with the Moscow Land Committee for a land plot located at 22-24 Ozerkovskaya Embankment. The total area of the land plot is 1.5 hectares and is to be used for construction and subsequent operation of a mixed-use development. The lease is for a term of 49 years beginning on the date of registration, which was 15 July 1997. The lease was assigned to Krown Investments pursuant to a lease rights sales and purchase agreement dated 29 April 2004 and relates to the Ozerkovskaya Phase II project.

The annual rent of approximately RUB 9 million is to be paid in equal instalments on a quarterly basis. The rent may be adjusted, without the consent of Krown Investments, in accordance with changes to market rates and/or any governmental rent rate index. It may also be adjusted without the consent of Krown Investments.

The lease agreement requires Krown Investments to procure the design documentation for the construction of the mixed-use development on the land plot within one year of the signing of the lease agreement and construction was to have been completed by no later than 31 December 2006. We must amend the existing lease agreement to extend the construction deadline to match our expected completion date. However, we also plan to obtain an Act of Permitted Use in the near future, after which we expect the City of Moscow to issue a new resolution to approve a new construction schedule.

Krown Investments may not assign its rights under the lease without the prior consent of the Moscow Land Committee. The lease agreement may be terminated unilaterally by the landlord if, among other things, Krown Investments fails to pay the rental payments for at least two consecutive quarters, if Krown Investments uses the leased land plots for purposes other than the purposes provided by the lease agreement or if Krown Investments fails to comply with its obligation to develop the land plot on the terms and conditions provided for in the agreement.

## *Preliminary Agreements*

### *Ozerkovskaya Phase IV*

On 28 February 2007, we entered into a framework agreement with the occupant of the building located at 22/24 Ozerkovskaya Embankment, a federal government institution that has a right to manage the building and a right of permanent use in respect of the land plot underlying this building. Pursuant to the framework agreement, we and the federal government institution are obligated to jointly prepare pre-design documentation in relation to the Phase IV project and conclude a tripartite investment agreement between Krown Investments, the federal government institution and the Russian Federation represented by the Federal Agency on Management of Federal Property (which is not party to the framework agreement) for the development of the Phase IV project under which we are to retain ownership rights to not less than 70.0 per cent. of the completed project. The Russian Federation owns the building at 22/24 Ozerkovskaya Embankment as well as the land plot underlying this building.

### *Tverskaya Plaza IV*

On 7 February 2007, we entered into an agreement with a non-related third party OOO “Sat Development”, or Sat Development, for the joint development of Tverskaya Plaza IV.

Pursuant to this agreement, the Tverskaya Plaza IV project is to be developed on land plots at Gruzinsky Val, 11. The land plots have a total area of 2,145 square metres, with the buildings located on the land plots having a total area of 2,067 square metres. The land plots and the buildings are owned by OOO “Zheldoruslugi”, or Zheldoruslugi, a wholly-owned subsidiary of Beslaville Management Ltd., or Beslaville, in which we intend to acquire a 50 per cent. participatory interest. The Tverskaya Plaza IV project may also extend to neighbouring land plots that may be acquired by Zheldoruslugi or its affiliates in the future. Pursuant to the agreement, the total area of the completed development must be at least 100,000 square metres.

The agreement provides that, upon completion of the project, we would jointly operate Tverskaya Plaza IV with Sat Development and our interest in the completed development would be based on our relative shareholding interest in a Cypriot entity through which the parties have agreed to fund the project.

Beslaville, a Cypriot corporation controlled by our project partner, is expected to serve as the joint venture entity for the project. Sat Development recently contributed its 100 per cent. participatory interest in OOO “Zheldoruslugi”, a Russian company that owns seven land plots with a total area of 0.2 hectares and eight buildings with a total area of 2,064 square metres located at the project site, to Beslaville.

### *Berezhkovskaya Project*

On 12 February 2007, we entered into a framework agreement with an affiliate of Senco Limited, a Seychelles Islands company, or Senco. Pursuant to this framework agreement, we agreed to conclude a series of transactions that would result in our owning a 74.0 per cent. interest in OOO “Bizar”, or Bizar, a Russian limited liability company which is expected to own two buildings located at the Berezhkovskaya project site. Pursuant to the framework agreement, the aggregate consideration to be paid for our 74.0 per cent. stake in Bizar is US\$37.0 million. On 21 March 2007, we entered into a sale and purchase agreement with Senco to acquire from Senco a 50.0 per cent. interest in Bizar. Pursuant to the agreement, Senco is obligated to transfer to Bizar, as an injection of assets, two additional buildings located at the Berezhkovskaya project site. In total, the four buildings to be owned by Bizar comprise 11,612.2 square metres of total floor area. The agreement further provides that upon completion of the transfer of the additional two buildings to Bizar, Senco is obligated to conclude an agreement with us under which we will acquire an additional 24 per cent. of Bizar. Pursuant to the framework agreement, Senco or its affiliates will retain a 26.0 per cent. interest in Bizar.

### *Dinamo Project*

On 12 February 2007, we entered into a framework agreement with Ramis Limited, a Seychelles Islands company, or Ramis, regarding our planned purchase of a 100 per cent. participatory interest in the charter capital of OOO “Milinar”, or Milinar, a Russian limited liability company, which, as of 2002, had ownership rights to buildings and premises located at Leninskaya Sloboda St., 19 and 26 with a total area of 27,337 square meters and is expected to obtain ownership rights to buildings located at Leninskaya Sloboda St., 19 and 26 with a total area of 96,218 square metres. Under the framework agreement, Ramis has undertaken to procure the entering into a long term lease agreement by Milinar for 49 years for the

land plot underlying these buildings and the adjacent territory. We have agreed to carry out all required actions for our purchase of the participatory interest in Milinar provided that Milinar owns the buildings at Leninskaya Sloboda St., 19 and 26 and Ramis has agreed to carry out all of the required actions for the acquisition by us of 100 per cent. in the charter capital of Milinar and by Milinar of ownership rights to the buildings located at Leninskaya Sloboda St., 19 and 26. Under this agreement, our total investment in the acquisition of a 100 per cent. participatory interest in Milinar would be approximately US\$149 million. In addition, we are obligated to finance the renovation of the buildings which will be undertaken by Ramis or its affiliates at a cost of US\$600 per square metre, which in the aggregate amounts to approximately US\$207 million. The legal structure of the acquisition and the payment of the outstanding amount of our contribution to the charter is to be specified in a separate agreement which we have undertaken to enter into with Ramis or its affiliates upon satisfactory completion of our due diligence of Milinar, which is currently ongoing. Pursuant to the agreement, we have made an advance payment of approximately US\$30 million to Ramis.

### ***Share Purchase Agreements***

#### ***Krown Investments Participatory Interest Sale and Purchase Agreement and Shareholders Agreement with Super Passion Investments Limited***

On 12 September 2006, we entered into a share purchase agreement with Super Passion Investments Limited, or Super Passion, pursuant to which we agreed to sell a 50.0 per cent. interest in Krown Investments for a purchase price of US\$150 million. In addition, Super Passion has undertaken to finance 50.0 per cent. of the total development costs incurred by us since 1 September 2006 in relation to Ozerkovskaya Phase II (not including the development costs associated with the hotel, which is being financed by our wholly-owned Russian subsidiary OOO “Semprex” under a co-investment contract) and Ozerkovskaya Phase III. Under the terms of the agreement, we were granted the right to 100 per cent. of the proceeds from the sale of 24 apartments and 48 parking places in Ozerkovskaya Phase II, while being responsible for 50.0 per cent. of the costs with respect to such apartments and parking places. With respect to the hotel that is part of Ozerkovskaya Phase II, which is being developed by our wholly-owned subsidiary Semprex, we retained 100 per cent. of the rights.

We also entered into a shareholders’ agreement with Super Passion wherein Super Passion agreed, among other things, to cooperate in the development of a complex of residential and office properties on 2.7 hectares of land located on the Ozerkovskaya Embankment, which is currently leased by Krown Investments. Under the shareholders’ agreement, we, together with Super Passion, agreed to provide US\$20.0 million in loans to Krown Investments and would, from time to time, provide Krown Investments with equity and/or loans necessary to complete the development. Such financing obligations would be borne between us and Super Passion based on our shareholding interest in Krown Investments at the relevant time. We and Super Passion would also cause Krown Investments to seek financing from banks or other financial institutions as well.

#### ***MKPK Share Purchase Agreements***

In connection with the Paveletskaya project, our subsidiary Severus Trading Limited, or Severus, acquired 96.8 per cent. of MKPK’s ordinary shares from non-related third parties. The acquisition was made pursuant to a share purchase agreement dated 20 February 2006. Severus Trading Limited paid a consideration of US\$34.4 million under the agreement.

In March 2006, Severus acquired a further 1.407 per cent. of MKPK’s ordinary shares from Lias Trade pursuant to a second share purchase agreement dated 20 February 2006. The consideration payable by Severus under the agreement was a Rouble equivalent of US\$72,000.

### ***Agreements Related to the Paveletskaya Embankment Development***

#### ***Agreement on Sale and Purchase of Equipment***

On 17 October 2006, MKPK and the international packaging company Alcan Inc., or Alcan, entered into a series of agreements under which one of the two production lines was transferred to Alcan including production equipment, business contacts, know-how, production technologies, inventory, finished goods and all other equipment required to operate MKPK’s business. Pursuant to one of these agreements, Alcan may use the premises of MKPK where the transferred equipment is currently situated until 17 September 2007. Upon expiration of the lease period, Alcan is required to remove all of its equipment

from the MKPK premises within three months of such expiration. If this requirement is not complied with, MKPK can remove or destroy any equipment belonging to Alcan that remains on the producing premises and charge Alcan for all expenses incurred.

#### *Agreement on MKPK's Personnel Services*

On 17 October 2006, MKPK entered into an agreement with Alcan, pursuant to which MKPK is to provide its employees for the performance of certain duties within the framework of their occupation until 17 September 2007, at the request of Alcan. Within the term of this agreement, Alcan is obligated to make an offer to conclude labour contracts with at least 100 MKPK employees. The remuneration to be offered by Alcan to the employees must not be less than the remuneration currently provided under the existing labour agreements that MKPK has with its employees.

#### **Construction Contracts**

##### *Danya Cebus Construction Agreement I*

On 14 September 2006, our subsidiary, Stroyinkom-K, and OOO "Danya Cebus Rus", or Danya Cebus, an affiliate of our controlling shareholder, Africa Israel, entered into a construction agreement pursuant to which Danya Cebus agreed to construct the aboveground part of the residential sections "B" and "V" and the hotel (section "G") of the Ozerkovskaya mixed-use development. Danya Cebus also undertook the obligation to act as building contractor and to complete the construction for approximately US\$52 million (including VAT). The value of the agreement may be increased (and the agreement may accordingly be amended by mutual consent of the parties) if higher quality construction materials are used. Danya Cebus also undertook to complete the construction of the project within twenty five months.

There is a defect liability guarantee period for the equipment, construction materials and construction work starting from the date of signing of the act of acceptance. The guarantee covers all construction elements and works executed by Danya Cebus. More specifically, Danya Cebus guaranteed that the quality of all works performed by it would comply with the terms and conditions and technical specifications set out in the agreement, the design documentation, as well as the working documentation. Danya Cebus also guaranteed that it would promptly remedy all imperfections, deficiencies and defects that appear during the defect liability period. Upon expiry of the defect liability period, the parties are required to sign the act of termination of the defect liability period.

Under the agreement, Stroyinkom-K may unilaterally engage subcontractors for the completion of construction works that have not been assigned to Danya Cebus under the agreement, but it bears all of the risks arising from works completed by its subcontractors. The terms of the cooperation between Danya Cebus and such subcontractors are to be set out in future additional agreements. Danya Cebus may also unilaterally appoint subcontractors but it bears all of the risks arising from works completed by its subcontractors.

Under the agreement, Stroyinkom-K is required to provide Danya Cebus with an all-risks insurance policy.

##### *Danya Cebus Construction Agreement II*

On 1 September 2006, Stroyinkom-K and Danya Cebus entered into a construction agreement pursuant to which Danya Cebus agreed to construct and install a supporting wall at 28 Ozerkovskaya Embankment for the Phase II project located at 26 Ozerkovskaya Embankment. Stroyinkom-K agreed to pay approximately RUB 14 million (including VAT) for the construction. The term for completion of the construction and installation works is set for 55 business days. Under the construction agreement, Danya Cebus may appoint subcontractors with Stroyinkom-K's consent.

Danya Cebus also agreed to promptly eliminate any defects discovered within the defect liability period which commences on the date the act of work acceptance is signed. The defect liability period covers the totality of construction and installation works conducted by Danya Cebus.

Under the agreement, Danya Cebus, with Stroyinkom-K's approval, must enter into an all-risks insurance policy with Stroyinkom-K providing insurance for accidental destruction/damage, materials, equipment and other property used for completion of construction and installation works as well as in connection to liability arising from death and injuries or property damage caused to third persons as a result of the construction and installation.

### *Enka Construction Agreement I*

On 15 September 2006, Stroyinkom-K and Enka Inaat ve Sanayi Anonim Sirketi, or Enka, a Turkish construction company, entered into a construction agreement pursuant to which Enka agreed to act as general contractor and to develop the design documentation for the construction of the Tverskaya Shopping Centre project located at Tverskaya Zastava Square, including the traffic interchange and any other documentation and approvals necessary for the pre-construction of the project. The contractor undertook to complete the construction within 35 months.

The contract price is approximately US\$268 million (including VAT). Pursuant to the agreement, Stroyinkom-K must make an advance payment of US\$26.8 million (including VAT) with the balance being payable on a monthly basis.

Under the agreement, Enka guaranteed that the quality of all the construction work performed would comply with (i) the terms and conditions and technical specifications as set out in the agreement; (ii) the design documentation; (iii) the working documentation; and (iv) applicable Russian law. Enka also guaranteed that it would promptly remedy all imperfections, deficiencies and defects which appear during the defect liability period. The defect liability period commences on the date of execution by the parties of the transfer and acceptance certificate and ends within 18 months thereof. The duration of the guarantee period depends on the type of work completed.

Under the agreement, Enka may not engage subcontractors without Stroyinkom-K's written consent. Enka is also liable for all acts or defaults of any subcontractors, its agents, employees or companies employed by it. The approval by Stroyinkom-K of any subcontractor may not be considered as the establishment of any contractual relations between the subcontractor and the customer.

Pursuant to the agreement, Enka must procure professional indemnity insurance, insurance for construction equipment equal to the replacement or acquisition cost of damaged or lost construction equipment, employer's liability insurance, third party liability insurance and all-risk construction insurance.

### *Enka Construction Agreement II*

On 26 December 2006, Bellgate and Enka entered into a construction agreement pursuant to which Enka agreed to act as general contractor and to develop the design documentation and to perform the actual construction of a portion of the aboveground part of the central core of the Moscow International Business Centre which forms part of the Moscow City Shopping Centre project. Enka has undertaken to complete the construction of the project no later than 30 December 2008.

The contract price is approximately US\$228 million (including VAT).

Under the agreement, Enka agreed that it will comply with the terms and conditions and technical specifications set out in the agreement as well as the design documentation and working documentation. It also undertook to promptly remedy all imperfections, deficiencies and defects which may appear during the defect liability period which extends for 18 months after the completion of the project.

Under the agreement, Enka is not allowed to engage subcontractors without our written consent. Also, Enka is liable for damages caused by its subcontractors, agents, employees and companies employed by it. It was further provided in the agreement that our approval of any subcontractor is not be considered as the establishment of any contractual relations between us and the subcontractor.

Pursuant to the agreement, Enka is required to procure professional indemnity insurance, construction equipment insurance, employer's liability insurance, third-party liability insurance and all-risk construction insurance.

### *Rasen Construction Agreement*

On 22 March 2005, our subsidiary, Westec, and OOO "Rasen Construction", or Rasen Construction, a non-related third party, entered into a construction agreement pursuant to which Rasen Construction undertook to design and construct a property located at Bolshaya Gruzinskaya 69-71, comprising residential premises and a multifunctional complex for a total consideration of US\$77.8 million (including VAT). In November 2006, the contract was amended to reflect a new contract price of US\$84.5 million (including VAT). Under the construction agreement, Rasen Construction was obligated to complete the design and construction of the residential premises by 17 March 2007 and the non-residential premises by 17 July 2006. We have agreed to extend the deadline for the completion of the design and construction of

the property at Bolshaya Gruzinskaya 69-71. In the event that Rasen Construction fails to comply with the terms of work under the construction agreement, delay penalties are deductible from the total amount of consideration for each day of delay in the completion of the multifunctional complex and/or the residential premises.

Pursuant to the construction agreement, Rasen Construction is obligated to provide Westec, within 120 days of the signing the construction agreement, with an irrevocable bank guarantee that must remain valid until the bank issuing the guarantee is provided confirmation from Rasen Construction that its obligations under the construction agreement have been completed. Westec is entitled to claim payments under the guarantee in the event that Rasen Construction fails to fulfill its obligations under the construction agreement.

The construction agreement provides that Rasen Construction may not engage any subcontractors in connection with the construction of the property without the prior written consent of Westec.

#### ***Relationship Agreement and Demarcation Agreement***

In April 2007, we entered into a relationship agreement with our controlling shareholder, Africa Israel, to regulate the relationship between us and Africa Israel. In April 2007, we entered into an activity demarcation agreement with Africa Israel, delineating the scope of Africa Israel's real estate activities in Russia.

For a description of these agreements, see "General Information".

#### **Litigation**

There are no governmental, legal or arbitration proceedings against our group (including any such proceedings which are pending or threatened of which we are aware), during the 12 months preceding the date of this prospectus which may have, or have had in the recent past, significant effects on our financial position or profitability.

#### ***Litigation involving Lev Leviev***

In February 2006, Lev Leviev and other companies wholly owned by him signed an agreement with Bank Leumi pursuant to which, in March 2006, Mr. Leviev and those companies purchased Bank Leumi's holdings in Africa Israel Investments Ltd. The purchase price for those holdings, which constituted 15.83 per cent. of the issued share capital and voting rights of Africa Israel as at 31 December 2005 (on a non-diluted basis), was NIS1.12 billion (or approximately US\$240 million at the exchange rate in effect at the time), reflecting a price per share of NIS150 (or approximately US\$32.25 per share).

In March 2007, a shareholder of Bank Leumi filed a petition to bring a derivative action against Mr. Leviev and certain officers and directors of Bank Leumi, claiming that the transaction described above was carried out at a value which did not reflect the true value of Africa Israel at the time of the purchase, resulting in Bank Leumi suffering damages. The claimant argues that the true value of Africa Israel's Russian real estate business, which is owned by us, was not disclosed to the bank. Neither we nor Africa Israel is a party to this action, which claims monetary damages of NIS158 million (or approximately US\$38 million, at the current exchange rate) plus legal expenses.

## Employees

The following table sets forth the number of our employees by department, as at 31 December 2004, 2005 and 2006.

	Number of Employees		
	As at 31 December		
	2004	2005	2006
Management .....	3	3	4
Finance .....	10	16	25
Marketing and Sales .....	2	5	4
Business Development including Project Management Division .....	29	30	32
Legal .....	6	7	6
Administration .....	15	17	27
MKPK <sup>(1)</sup> .....	—	—	313
<b>Total</b> .....	<b>65</b>	<b>78</b>	<b>411</b>

(1) As part of our acquisition of MKPK, we acquired a manufacturing facility with 360 employees. As part of our development of the Paveletskaya Embankment project, we are required to either sell or relocate two production lines at this facility. We have sold one of the production lines to Alcan Inc., an international packaging company. Under an agreement between MKPK and Alcan dated 17 October 2006, Alcan undertook to enter into employment agreements with not fewer than 100 employees who are currently employed by MKPK, and to offer such employees a remuneration package that is at least as good as that currently provided to the employees by MKPK. We intend to secure a purchaser for the other production line and to transfer the remaining employees to such purchaser on the same terms as those agreed with Alcan.

We and our subsidiaries make mandatory contributions to the governmental pension scheme in the Russian Federation. Historically, we have not provided any additional benefits to employees upon their retirement, or afterwards.

None of our employees is a member of a trade union.

## Properties

We lease our office premises which are located at 29, 1st Brestskaya St., 125047 Moscow, Russia. Under the terms of the lease, the annual rent payable to the City of Moscow is US\$1.4 million. The current term of the lease expires on 31 December 2010.

## Environmental

We are not aware of any environmental issues that may affect our utilisation of our tangible fixed assets.

## CERTAIN ASPECTS OF RUSSIAN REAL ESTATE LAW AND PRACTICE

The following discussion summarises certain relevant provisions of Russian federal and regional law relating to real estate, including areas of our business activities such as construction. This summary is not all encompassing and is qualified by reference to applicable Russian federal and regional law.

### **General Provisions of Russian Law**

Russian federal real estate law is primarily based on:

- the Civil Code of the Russian Federation, or the Civil Code;
- the Land Code of the Russian Federation, or the Land Code;
- the Federal Law on State Registration of Rights to Immovable Property and Transactions therewith, or the State Registration Law;
- the Federal Law on Mortgages; and
- the Federal Law on Turnover of Agricultural Land.

Some provisions of the Federal Water Code, the Federal Forestry Code, the Federal Law on Environmental Protection and other statutes may also touch upon real estate matters.

In addition, Russian regional authorities, including divisions of the Moscow City Government, are entitled to regulate matters relating to real estate. In the City of Moscow, the sale and lease of land is governed principally by the Moscow Law on Land Use and Construction in the City of Moscow, or the Moscow Land Law, and the Moscow Law On Obtaining Permits for Construction and Reconstruction of Town-Planning Objects in the City of Moscow, or the Moscow Law on Construction Permits, which is administered by the Moscow City Government. Regional legislation should not contradict Russian federal law; in practice, however, certain aspects of Russian regional legislation may contradict federal law.

### ***Ownership of Real Estate***

Russian law recognises the right to own, to use and to dispose of real estate, such as buildings and underlying land. Russian law makes an important legal distinction between land and buildings, which are treated as separate legal interests.

Both the Civil Code and the Land Code permit private land ownership and the transfer of land from one person to another. The Land Code generally provides that foreigners may own land on the same terms as Russian nationals, save for certain exceptions. The most notable exception is a prohibition on foreigners owning land near Russia's borders and in certain other territories specified by federal law. In addition, Russian law prohibits foreign owners, as well as Russian companies with more than 50.0 per cent. foreign charter capital, from acquiring ownership title to agricultural lands in Russia.

Only land plots with a state cadastre number, which is given upon registration of a land plot in the unified federal cadastre that records the details of land plots such as their measurements and boundaries, may be subject of sale and purchase agreements. Most land in Russia has not yet been incorporated into the cadastre.

The Land Code establishes the procedure for privatising both state and municipally owned land. The Federal Law on Entry into Force of the Land Code establishes the maximum price owners of buildings on a plot of land may be required to pay for such underlying land. The price depends on the size of the population in the area where the land plot is located. In the City of Moscow, for instance, the maximum price for the purchase of land plots underlying buildings is thirty times the amount of the applicable land tax.

Under the Land Code, legal entities may generally have one of the following rights with regard to land plots: (i) freehold ownership; (ii) leasehold right; or (iii) right of perpetual use. Legal entities may also have a right of free use for a fixed term or a private servitude. Public servitudes may be imposed and upheld by federal or local authorities. Although freehold ownership of land is increasing, it remains relatively rare in most parts of Russia. The Moscow City Government, for instance, owns the majority of the underlying land in Moscow, and owners of buildings typically enter into lease agreements with the Moscow City Government.

Most of the land earmarked for private development is currently held by investors who have acquired a lease from the relevant state or municipal authorities. Although some legal entities may also have

obtained a right to perpetual use of land prior to the enactment of the Land Code, such an interest in land is relatively rare in connection with property development markets in Moscow and major cities. In addition, the Land Code generally provides that legal entities (excluding certain state-owned enterprises and state, regional and municipal authorities) using land pursuant to a right of perpetual use must either purchase the land from, or enter into a lease agreement relating to the land with, the state or municipal owner of the land by 1 January 2008.

In general, anyone may own a building without any discriminatory restrictions, including foreign companies. An owner of a building is generally allowed to sell or lease it without any requirement to obtain state consent unless such sale falls within the remit of the Federal Antimonopoly Service, in which case consent is required.

Under Russian law, the ownership of a structure, such as a building, can be separate from the ownership of the underlying land on which the structure stands. However, the sale of a building automatically gives the purchaser a right to use the underlying land on the same conditions and to the same extent as the previous owner of a building. In such a case, the owner of a building has to formally establish the right to use the land plot by virtue of an ownership right or lease right, as applicable, by entering into contractual arrangements with the land owner. In addition, the owner of a building located on another party's private land has a priority right to buy or lease such underlying land.

The Moscow Land Law provides that the preferred method of granting rights to land by the Moscow City Government is by a grant of leasehold interests to such land (as opposed to a freehold interest). Pursuant to this law, leasehold rights to the land are considered as a predominant form of rights to the land in Moscow. In practice, developers generally become owners of the buildings/structures on the land in Moscow, but do not become owners of the land on which such buildings/structures are located. At the same time, there is also private ownership to the land in Moscow, which, however, remains relatively rare.

Russian and non-Russian persons and legal entities may acquire land held by federal, regional or municipal authorities for the development and construction of new buildings. The Land Code prohibits refusal by state or local authorities to grant rights to land plots for construction purposes except where the sale of a land plot is prohibited (for example, certain land plots have been specifically withdrawn from circulation and thus are prohibited from being leased) or restricted (certain land plots may not be transferred into ownership but may be leased) by federal law, or the land plots are reserved for state or local needs. Any such refusal can be appealed in the Russian courts.

Russian law provides that private land or buildings may be expropriated for "state or municipal needs". The owner of expropriated real estate is entitled to one year's advance notice together with payment of the full market value and compensation for any other losses suffered. Current court practice is to construe "state or municipal needs" narrowly, restricting expropriation to where there is an obvious need, thus limiting attempts by public authorities to apply the rule widely.

### *Categorisation of Use*

Land in the Russian Federation is divided into the following specific categories depending on the designated purpose of such land: (i) agricultural land; (ii) settlement land; (iii) industrial land; (iv) protected land; (v) forestry land; (vi) water front land; and (vii) reserve land.

The Land Code requires that each category of land must be used in accordance with its designated purpose. Normally, to carry out a commercial or residential development, property developers need to have the land plots on which their buildings/structures are located designated as settlement or industrial land. The main procedures for changing the designated purpose of land are set forth in the Land Code and the Federal Law on Change of the Category of Land and Land Plots which was adopted at the end of 2004. As a part of implementation of Ruza project, we intend to change the designated purpose of five land plots located in the Moscow Region which currently fall within the category of agricultural land.

It should be noted, however, that Russian law attaches a high value to agricultural land plots and affords them special protection. As a rule, only poor quality agricultural land plots can be re-designated for non-agricultural use, and any re-designation of agricultural land plots is subject to certain restrictions and requirements, including payment of compensation for the loss of agricultural production, which is calculated using rates that are generally determined according to the quality of the land plots concerned and by using other methods set by the Russian government. By contrast, the withdrawal of good quality agricultural land plots from agricultural use is permitted only where the land plots cannot be used for agricultural purposes or their cadastre value is lower than the average regional cadastre value of the land.

Land plots demonstrating outstanding agricultural production are among those land plots which cannot be withdrawn from agricultural use under any circumstances.

In practice, a change of the designated purpose of the land located in the Moscow Region can take from five to nine months depending on the size of the land plot and its location within the Moscow Region.

Land within each particular category is also subject to specific requirements established by federal, regional and local laws regarding the use of such land. For example, settlement land is subject to specific town-planning zoning, including residential, administrative and business, industrial, engineering and transport infrastructure, recreational, agricultural, special purpose and military zones.

### ***State Registration of Rights to Immovable Property***

Since 1998, under Russian law, ownership rights to and certain transactions with immovable property require state registration and require registration in the Unified State Register of Rights to and Transactions with Immovable Property, or the register of immovables. The rights and the transactions that are subject to state registration in the register of immovables include, but are not limited to, the following: the right of ownership to newly-built buildings and facilities, the right of ownership to land plots, transfer of title to immovable property through a sale and purchase transaction, mortgage agreements and land plot and building lease agreements for terms of over one year. Rights to immovable property and transactions therewith are registered by the department of the registration authority (i.e., the Federal Registration Service) in the relevant territory where the property is located. Rights to immovable property that are subject to registration only arise at the time of the relevant state registration. Absent state registration, rights to immovable property are deemed void.

Information about the register of immovables is publicly available and can be utilised to confirm registered ownership rights. The register of immovables contains important information about the registered property, including, among other things, a description of the immovable property, the owner's name and any registered encumbrances on the property. State registration is evidenced by a Certificate of State Registration as well as an extract from the register of immovables. Registration in the register of immovables represents an entitlement to the issuance of a Certificate of Registration of Rights. Registered rights to the immovable property may be challenged in court if the grounds for provision of the ownership rights are invalidated.

Ownership rights that were acquired before 1998, prior to the requirement for state registration, are deemed valid without such registration. Therefore, the register of immovables is not comprehensive, as ownership rights acquired before 1998 will most likely not be included in the register. At the same time, ownership rights acquired before 1998 may be voluntarily registered at the discretion of the owner. In addition, such rights will be subject to obligatory state registration in some cases; for example, in the event that a transaction with respect to such ownership rights is entered into.

With respect to buildings, state registration is usually only carried out on a completed building. Although it is possible to register a building under construction as an unfinished construction, in practice this is cumbersome and very rarely happens, not least because subsequent state registration of the completed building is still required. In addition, registering an unfinished building is relatively new under Russian law and is therefore not widely done. Only when state registration is completed may a building be disposed of, mortgaged or leased. Any transfer of ownership must also be registered to be effective.

The state registration must normally be completed by the authorities within one month of any properly documented application. If, however, registration authorities doubt whether grounds for such registration are present, the authorities may demand supplemental documentation or an amended application and suspend registration for one month. Such registration may be rejected in certain cases provided by law; in particular, if our application does not comply with the applicable requirements.

Under Russian law, state-owned land in the Russian Federation may be owned by federal, as in the Russian Federation, or regional authorities, whereas local lands may be owned by municipal authorities. Historically, such state-owned land has not been registered in the name of any particular state authority. However, in 2001, the Russian Federation began a delineation process whereby such state-owned land is to be registered in the name of a particular authority, either federal, regional or municipal. This delineation procedure has yet to be completed.

## ***Mortgages***

Under Russian law, a mortgage is a form of security taken over real estate to ensure due performance of a monetary obligation. A mortgage agreement must be registered in the register of immovables and takes effect as of such registration.

If the debtor defaults, the mortgagee can generally pursue a claim in the Russian courts or can levy execution in an extrajudicial procedure upon a notarised consent of the parties for the sale of the mortgaged property and for the settlement of its claim out of the proceeds of such sale. In the event of bankruptcy, a mortgagee will have preferential rights over unsecured commercial creditors but will rank behind some other classes of creditors.

A mortgage of a lease normally requires the landlord's consent. Unless the mortgage terms provide otherwise, a mortgage of land applies to the mortgagor's buildings and unfinished construction (registered as real property) on the land, as well. In addition, if land or buildings are acquired or constructed using the debt finance provided for the specific purpose of financing the acquisition or construction, then the land is deemed to be mortgaged in favour of the lender unless otherwise provided by law or by agreement of the parties.

## ***Liabilities of Persons Holding Legal Rights to Land and Building***

Owners of land plots and buildings are required to comply with federal, regional and local legislation, which includes, among others, environmental, public health, fire, residential and urban-planning rules and regulations. The owner of a building will usually bear all liabilities that may arise in connection with the building. Owners and leaseholders are required to use the land plot in accordance with its permitted use (i.e., as provided by zoning requirements), not cause harm to the environment, assume the liability and financial costs relating to compliance with various land use standards and not allow the pollution of, littering on or degradation of the land plot. Regional or local legislation, or an investment or lease contract entered into with the regional or local authorities, may also subject the owner or the developer as the future owner of the buildings to be constructed under the investment or lease contract to various financial obligations, such as the financing of local engineering services, transportation and social infrastructure, as well as reimbursing certain expenses to the previous tenants of the land plot.

## ***Leases***

It is generally possible for anyone to lease land throughout Russia on terms which are regulated by the Civil Code and the Land Code. Lease terms vary, although lease agreements will often provide a right of renewal on expiry. Most of the land leases concluded in Moscow provide that, upon expiration of the lease, the tenant has a pre-emptive right to conclude a new land lease agreement with the Moscow Government on the terms and conditions agreed between both parties to the agreement.

A lease of real estate, including land, for a term of one year or more, or a long term lease, must be registered in the register of immovables. A real estate lease concluded for less than one year, or a short term lease, does not require such registration.

Rental rates for private land are not restricted by legislation. Where, however, the land is owned by the state or municipality, the rates are unilaterally determined generally, on an annual basis, by the owner. The transfer of ownership of land will not change the terms of a lease granted over it.

## **Overview of the Development Process**

Development of real estate in Russia is governed both by federal legislation and regional legislation.

### ***Federal Legislation***

Development of real estate in the Russian Federation is a multi-stage process, which involves compliance with burdensome regulatory requirements, and the coordination of work between many specialists and authorisations from a large number of authorities at the federal, regional and local levels.

Under Russian federal law, construction projects require the following basic approvals:

- preparing and obtaining approval of the necessary town-planning documentation (in case such documentation does not already exist) which defines zoning for certain areas of the settlement;
- preparing and obtaining approval of pre-design materials;

- preparing and obtaining approval of the design documentation; and
- obtaining a construction permit.

The above stages must be completed in the listed sequence. Accordingly, design documentation is developed on the basis of the approved pre-design documentation, while a construction permit can only be issued once the design documentation has been approved. The construction permit is a final construction approval which entitles the developer to commence construction on the land plot and, therefore, such permit needs to be obtained before construction commences. Failure to obtain such a construction permit prior to the commencement of construction may be regarded as a violation of Russian law and may lead to administrative fines against the developer and demolition of the buildings as unauthorised construction.

Upon completion of construction, a state acceptance committee which consists of the investors in the project, the property developer, the general contractor and the design organisation as well as various government authorities involved in the commissioning process, may authorise the building to be put into use by issuing an operational permit. The acceptance committee confirms that the building complies with all of the construction permitting documentation and issues the Certificate of State Acceptance of the New Building, or operational permit. This certificate together with certain other documents, must be submitted to the relevant department of the Federal Registration Service, which then issues a Certificate of Registration of Rights in the name of the developer.

In addition to the above basic approvals, a developer needs to have rights to the land in order to facilitate construction. Russian and non-Russian persons and legal entities may acquire rights to land held by federal, regional or municipal authorities for construction purposes. The Land Code draws a distinction between two procedures of allocation of rights to land for construction: the land plots can be granted for construction purposes (i) with prior approval of the relevant authorities for the location of a building on the land plot or (ii) without such an approval.

#### *Allocation of land for construction without prior approval.*

Under the procedure of allocation of land for construction without prior approval, land plots can be granted to a developer for lease as well as ownership.

Normally, the grant of ownership to the land can only be made by a tender or auction. Such tender or auction is conducted by the relevant authority that has the rights to dispose of such land. In Moscow, such decisions are taken by the federal authorities, the Moscow Government or by prefects of the administrative districts, depending on the type of construction.

However, there are some exceptions where the ownership to a land plot for construction can be granted to a developer without a tender under a procedure of allocation of land for construction without prior approval. Thus, a municipally owned land plot, or a land plot the state ownership to which has not been delineated, and which has not been granted for use or possession to persons or legal entities, can be granted free of charge for ownership (or lease at the discretion of the developer) for construction within built-up areas which were intended for development by the decision of the municipal authority without an auction.

#### *Acquiring an allocation of land for construction with prior approval.*

The grant of land plots with prior approval for construction can be made without tender or auction. However, under this procedure of allocation of land, the land plots can be granted to a developer only for lease.

The process of obtaining an allocation of a land plot for construction with prior approval starts from the selection of a land plot by the relevant authorities. The selection is made on the basis of an application by a property developer specifying the intended purpose of the building or facility, its intended location and the estimated size of the land plot. The application may be accompanied by a project feasibility study or other calculations.

The selection results are documented in an act on selection of a land plot for construction purposes. The act on selection must be approved by a decision on the preliminary authorisation of the building location. This decision constitutes the basis for execution of a land plot for construction purposes. As a general rule, all of the abovementioned decisions are currently to be taken by the federal, regional and local authorities in charge of granting land plots.

### *Moscow Legislation*

The City of Moscow has adopted rules and regulations (primarily, the Moscow Land Law and the Moscow Law on Construction Permits) covering the real estate construction and development process that are specific to Moscow and that often differ from what is required under federal legislation.

Moscow legislation distinguishes between construction by developers who have already obtained land lease rights for construction purposes and those which have not yet obtained such rights to the land.

A potential developer which leases a land plot for the purpose of construction and intends to construct a building thereon must apply to the prefect of the relevant administrative circuit of the City of Moscow. In cases where the proposed construction complies with the town-planning zoning requirements, the competent city authorities shall issue an Act of Permitted Use.

Pursuant to Moscow legislation, an Act of Permitted Use is a fundamental approval which defines the possible use of the land plot and provides for the technical parameters of the proposed construction based on the existing town-planning documentation. The Act of Permitted Use is valid for one year from its registration.

On the basis of the Act of Permitted Use, the relevant local prefecture then issues a Resolution on Construction that approves the Act of Permitted Use of Land Plot, which constitutes legal grounds for preparation and approval of the design documentation and issuance of a construction permit.

Developers which do not have land lease rights that allow for construction have to obtain such rights in order to proceed with construction. In general, the developer may acquire its rights to the land in one of the following ways: (i) by participation in a tender or auction with respect to the proposed development; (ii) by obtaining resolutions from the relevant state authorities which can be classified as allocating the land for construction with prior approval of the location of a building on the land plot or (iii) by obtaining lease rights to the land plot underlying such proposed development through the purchase of the building(s)/structure(s) located on the land plot.

### *Tender/Auction*

As a part of preparation for the tender/auction, the relevant state authorities select the land plot and define its boundaries. Such authorities also procure the issuance of an Act of Permitted Use so that the potential developers know prior to participating in a tender/auction the possible use of the land plot.

Under Moscow law, the winner of the tender/auction may conclude either an investment agreement for construction or a long term land lease agreement with the City of Moscow.

### *Investment Agreement*

Such agreements are entered into with the Moscow City Government, and set out, among other things, the terms upon which the developer is obligated to carry out construction and each party's share of the development upon completion of the project. According to current practice, under an investment agreement, the Moscow City Government generally retains an interest of up to 50.0 per cent. in the completed building or structure, although as described below, the Moscow City Government usually agrees to sell its share to the developer. The Moscow City Government's share may be lower where the developer agrees to incur additional expenditure in relation to the development; for example, where the developer agrees to incur the costs of enhancements to the City of Moscow's infrastructure.

According to existing practice, the Moscow City Government often consents to the developer buying out the City of Moscow's share of the building or structure prior to, or upon, completion of construction. The amount to be paid by the developer for the Moscow City Government's share of the completed development is intended to reflect the fair market value of such share, and is determined by a valuation to be conducted by an appraiser chosen by the Moscow City Government. Once the valuation has been approved by the Moscow City Government, the developer may, subject to the Moscow City Government's over-riding discretion not to sell to a third party, acquire the Moscow City Government's share of the completed development. If a developer does not, or is unable to, acquire the Moscow City Government's share in a completed development, upon completion of the development, the Moscow City Government would become the registered owner of the City of Moscow's share pursuant to the investment contract.

Under investment contract arrangements, the developer may become an owner of the completed building or structure upon the state registration, but does not become the owner of the underlying land. The investment contract provides for the grant of a land lease for the period of construction for the

purpose of carrying out construction on the relevant land plot. The term of such lease is for the estimated period to complete construction, and in the event of any delays in completion of construction, an extension of the term is generally granted by the Moscow City Government (although there is no assurance that such extension will be granted).

Upon completion of construction and registration of the completed development, the developer has a right to use the land plot under the constructed building and may establish lease rights in accordance with the Moscow Land Law, which provides that the leasehold for so-called “capital” buildings, including unfinished construction, shall be no less than 25 years, unless otherwise agreed upon mutual consent of the parties. Generally, this lease term is 49 years but may be established for up to 99 years in certain cases upon a special decision of the Moscow City Government. Under both a short term and long term land lease, the developer is required to make periodic lease rental payments, generally on a quarterly basis, to the Moscow City Government.

Typically, when conducting a tender with respect to an investment agreement, the Moscow City Government is most likely to determine the winner based on which participant offers the Moscow City Government the largest participating interest in the project or the largest amount of compensation to the City of Moscow for the use of engineering and other amenities in the course of construction. Auction winners are determined based on which participant offers the highest price for the land plot.

### *Long Term Land Lease*

Rather than utilising an investment agreement, a developer and the Moscow City Government may agree that a developer may pay a single lump sum to the Moscow City Government to obtain a long term land lease prior to the commencement of construction. This single lump sum is determined on a basis prescribed by the Moscow City Government from time to time, and is determined by reference to factors such as the size of the land plot, the site's location and its proximity to amenities. Although there is no fixed term, such leases are commonly granted for a period of 49 years. In such case, neither a land lease for the construction period nor an investment contract will be entered into between the developer and the Moscow City Government.

The main advantages of this approach are, firstly, that the developer will make a payment of a pre-agreed amount prior to commencing construction for its rights under the long term land lease, as opposed to buying out the Moscow City Government's share of the development for an amount to be approved by the Moscow City Government at a later stage. Secondly, the developer is likely to become the registered owner of the completed building or structure sooner than would be the case under an investment agreement. This is because the execution of a form of final protocol certificate confirming that the obligations of the respective parties to the investment agreement have been satisfied is not required where a long term land lease was initially entered into.

Long term land lease agreements are entered into in an auction or a tender or with prior approval of the location.

Typically, when conducting a tender with respect to a long term land lease agreement, the Moscow City Government is most likely to determine the winner based on which participant offers the Moscow City Government the largest single lump sum payable for concluding the long term land lease agreement. However, the Moscow City Government may also take into account certain other criteria.

Under the long term land lease arrangement, as well as arrangements for the receipt of land leases for the period of construction, the developer is required to make periodic rental payments, generally on a quarterly basis, to the Moscow City Government. The payments required under the standard payment formula may be changed from time to time.

Once (i) the developer has obtained a land lease agreement (either short term or long term lease), (ii) an Act of Permitted Use has been issued and (iii) the design documentation prepared by the developer in compliance with the Act of Permitted Use has been approved by relevant state authorities, the developer can apply for a construction permit. Once such permit is obtained, the developer may commence construction on the land plot.

### *Prior Approval of the Location of a Building on a Land Plot*

Alternatively, a land plot for construction purposes can be acquired by means of a lease without tender or auction. In such an instance, a property developer is required to submit an application to the relevant authority which specifies the intended purpose of the building or facility to be built, its intended

location and the estimated size of the land plot on which the building or facility will be located. The application may be accompanied by a project feasibility study or other calculations. In the event the relevant authority determines that the technical features of the proposed development comply with the relevant town-planning requirements, the state authority may approve the application of the developer.

Upon obtaining this initial approval, the developer is required to confirm the feasibility of carrying out the proposed construction on the land plot and, among other things, to define the boundaries of the land plot. If this is carried out successfully, competent local authorities will issue an Act of Permitted Use that defines the technical characteristics of the building which can be constructed on the land plot, which and is to be approved by a Resolution on Construction.

Such a Resolution on Construction is issued by the Moscow City Government or other competent local state authority (such as a prefect of the City of Moscow). City of Moscow legislation provides that the Resolution on Construction constitutes a legal ground for the Moscow City Government to conclude a land lease agreement with the developer. After the land lease agreement is concluded the developer may apply for a construction permit.

### ***Rights to the Land Plots Underlying Buildings***

Under Russian law, an owner of a building has an exclusive right at its discretion to enter into a lease or a sale and purchase agreement for lease or purchase, at its discretion, the land plot underlying its building. In practice, in Moscow the owners of buildings typically lease the land plots underlying their buildings since the Moscow City Government is reluctant to conclude sale and purchase agreements for the underlying land.

If a developer acquires an existing building for re-development, it also acquires a right to use the land plot underlying such building on the same conditions to which the previous owner of the building had been subject. As long as the owner of the building has formalised the permitted use of the land in the lease agreement for operation of a building located on it, the permitted use specified in the existing land lease may need to be amended to allow the developer to either develop the site or re-develop the building for its intended use. In any case, change of the permitted use of the land plot to be used for construction is solely at the discretion of competent authorities of the City of Moscow. Moreover, certain problems may arise in cases where a building scheduled for demolition is not free from owners or tenants. A developer may as a result need to arrange for the relocation of the owners or tenants on the premises.

### ***Construction Licences***

Currently, Russian federal law requires that licenses be obtained for carrying out: (i) engineering surveys, (ii) design works and (iii) construction. Under Russian law “construction” means both carrying out construction work and performing the functions of a so-called customer (*zakazchik*), a person or a special entity that concludes agreements with contractors for the performance of construction works and generally oversees the construction process, which is broadly the equivalent of a project manager. In this case, it will be the responsibility of the project manager to supervise construction, to deal with designers and contractors and to take decisions on behalf of the property developer to accept work performed. The relationship between the landowner and the project manager may be detailed in one of a number of different forms of agreement, including an agency agreement or contract for services. Starting from 1 July 2007 the requirement to obtain such licenses for construction activities is to be abolished.

### ***Financing of Construction***

Construction may be financed by both funds provided by the landholder and/or third parties. Funds may be raised through, among other ways, borrowings or direct investment in the construction by outside investors. Raising funds from future owners of apartments at various stages of construction has been one of the principal ways of financing residential construction in Russia. This type of financing is regulated by the Federal Law On Participation in Cost Sharing Construction of Apartment Houses and Other Real Estate, or the Cost Sharing Law. The Cost Sharing Law aims to protect the rights and interests of corporate and, especially, private investors in cost sharing projects by introducing the following safeguards:

- cost sharing financing may be raised only by a developer who has received a construction permit, published a project declaration and registered its rights (either freehold or leasehold) to the land plot intended for the construction;
- cost sharing investment contracts are subject to state registration;

- investors' funds are secured against the developer's default under the investment contract by the mortgage of the land plot and the project under construction;
- individual investors are entitled to an increased statutory interest payable by the developer who failed to perform under the investment contract; and
- administrative liability is contemplated for developers who raised cost sharing financing in violation of the Cost Sharing Law, including, among other things, the failure to obtain a construction permit, publish a project declaration or make full disclosure in such a declaration and comply with reporting requirements.

The Cost Sharing Law proved to be too cumbersome for developers and resulted in the slowdown of residential housing construction in Russia. Amendments to the Cost Sharing Law adopted in July 2006, which relaxed some of the restrictions imposed on developers and reduced their potential liability, are intended to balance the interests of developers and investors participating in cost sharing financing projects.

## **Land and real property taxation**

### ***Property tax***

According to the Tax Code of the Russian Federation, property tax is payable by Russian organisations and foreign organisations operating in Russia (which maintain a permanent establishment and own property in Russia) on the average annual depreciated book value of tangible fixed assets. Foreign organisations, which do not operate in Russia via a permanent establishment, but do own immovable property located in Russia, are subject to property tax with respect to that immovable property. In this case, property tax is levied on the inventory value of immovable property, which is determined based on information from technical inventory organisations. The tax rate is established by regional authorities of the Russian Federation but may not exceed 2.2 per cent. per annum. As of the date of this prospectus, the tax rate in most major regions, including Moscow, was 2.2 per cent. per annum. Land and certain non-productive types of property are exempt from taxation. Property tax is payable on a quarterly basis. In the case of construction that is in progress, property tax is only payable once construction of the relevant asset has been completed.

### ***Land tax***

Land tax is also payable pursuant to the Tax Code of the Russian Federation. Among those liable to pay such tax are individuals and legal entities holding title to land plots in the Russian Federation. The tax rate is established by the local Russian authorities (e.g., in Moscow by the Moscow Government) but may not be higher than 0.3 per cent. of the taxable base for agricultural and residential lands and higher than 1.5 per cent. of the taxable base for other lands. With regard to land plot titles purchased by individuals or legal entities after 1 January 2005 for the purposes of residential construction, the following multipliers apply: 2—during the first three years of the period of planning and construction until the title to the finished facility is registered (if the construction is completed and the title is registered within this three-year term, the amount of the land tax paid in excess of the usual land tax rate shall be repaid to the taxpayer); and 4—beyond the three-year period stated above, until the title to the finished facility is registered, whereby the amount of the land tax paid in excess of the usual land tax rate shall not be repaid to the taxpayer. The taxable base is the cadastre value of the land plot. For legal entities, the tax is payable on a quarterly basis.

### ***Land rent***

Persons and legal entities in Russia pay a land rent to regional or local bodies pursuant to land lease agreements. The general rules for assessing land rent are established by the relevant regional and local authorities. The federal law authorises regional and local authorities to establish individual land rent rates for certain categories of land and lessees. Under Russian law, local authorities may require the payment of a separate, and sometimes significant, fee for the right to conclude a lease agreement with them. The terms for making land rent payments by a lessee are governed by the particular land rent agreement between the lessee and the regional or local authorities.

## MANAGEMENT

Our directors and their respective years of birth and positions are as follows:

Name	Year of Birth	Position
Erez Meltzer . . . . .	1957	Chairman
Alexander Khaldey . . . . .	1950	Director
Natalie Razumovski . . . . .	1960	Director
Avraham Barzilay . . . . .	1963	Director
Avinadav Grinshpon . . . . .	1972	Director
Moshe Amit . . . . .	1935	Independent Director
Christakis Klerides . . . . .	1951	Independent Director

### The Members of our Board of Directors

*Erez Meltzer* has served as Chairman of our Board of Directors since August 2006. Mr. Meltzer is also the President and Chief Executive Officer of Africa Israel, our controlling shareholder. He has over 20 years of management experience, including as president and Chief Executive Officer of Netafim and president and Chief Executive Officer of CreoScitex. Mr. Meltzer studied management, economics and mathematics. He is also a retired Colonel of the Israeli Defence Force, the Israeli Chapter of the Young Presidents' Organisation and Chairman of the Israel-Jordan Chamber of Commerce. His business address is 4 Derech Hachoshesh St., Yehud 56470, Israel.

*Alexander Khaldey* is a director and has served as Chief Executive Officer of Stroyinkom-K since March 2001. He co-founded AFI Development PLC and owns a 12.0 per cent. stake in AFI Development PLC through Nirro Group S.A. Mr. Khaldey has over 30 years' experience in the real estate industry, including experience attained at the Zhiliiproekt Institute and the Ukrspetsstalkonstruktisia Construction Union. Mr. Khaldey graduated from Dnepropetrovsk Metallurgical Institute in 1973, with a degree in Industrial Heat Power Engineering. His business address is 29, 1st Brestskaya St., 125047 Moscow, Russia.

*Natalie Razumovski* is a director and has served as Chief Financial Officer of Stroyinkom-K since June 2006. She has over 20 years of experience in finance and control positions, including as vice president of financial control at SUAL Holding, Moscow, Vice President and Director of Economics and Finance at TNK, and Chief Financial Officer of Promopost. Ms. Razumovski graduated from Cleveland State University with an MBA and from the Russian Academy of Economics (Plekhanov) with a Bachelors degree in Economics. Her business address is 29, 1st Brestskaya St., 125047 Moscow, Russia.

*Avraham Barzilay* is a director. He has also served as Vice-President Finance of Africa Israel Properties Ltd. since October 2004. He has over 12 years experience in the real estate industry, including as Chief Financial Officer of Red Sea Construction Ltd. Mr. Barzilay studied economics and accounting at the Bar-Ilan University, Israel, qualifying as a CPA. His business address is 4 Derech Hachoshesh St., Yehud 56470, Israel.

*Avinadav Grinshpon* is a director, he has also been a member of the board of directors of Africa Israel Investments Ltd., our controlling shareholder, since 2005. He is also currently serving as VP Finance & Investments of Memorial Management (1998) Ltd., which is a wholly-owned subsidiary of the Leviev Group of Companies. Mr. Grinshpon is a graduate of the College of Management, Israel, in business and accounting. His business address is 23 Tuval St., Noam Bldg, Ramat-Gan 52522, Israel.

*Moshe Amit* is an independent director. He is the Chairman of the board of directors of Delek—The Israel Fuel Corporation Ltd and also holds board memberships in a number of companies including Blue Square Chain Properties & Investment Ltd. Mr. Amit holds a banking diploma from the Israeli Banking Institute and a Bachelors degree in political science and sociology from Bar-Ilan University, Israel. His business address is 17 Hameorer St., Givatayim 53223, Israel.

*Christakis Klerides* is an independent director. He was the Minister of Finance of Cyprus between March 1999 and February 2003 and currently provides finance and business consultancy services through his family-owned company, CMK Eurofinance Consultants Limited. Mr. Klerides is a Fellow of the Chartered Association of Certified Accountants, UK and a member of the Institute of Certified Public Accountants of Cyprus. His business address is 3 Odysseas Elytis St., Geri, 2202 Nicosia, Cyprus.

All of our directors were elected in April 2007, and their terms expire on the date of our next annual general meeting of shareholders.

The senior management of Stroyinkom-K and their respective years of birth and positions are as follows:

Name	Year of Birth	Position
Alexander Khaldey . . . . .	1950	Chief Executive Officer
Natalie Razumovski . . . . .	1960	Chief Financial Officer
Yury Gorelov . . . . .	1960	Director of Business Development
Alex Stolyarik . . . . .	1974	Chief Operating Officer
Vitaly Alekseenko . . . . .	1961	Chief Administrative Officer
Igor Solomon . . . . .	1975	Director of Corporate Affairs
Elena Chikhanatskaya . . . . .	1973	Director of Budgeting and Analysis
Alexandra Kart . . . . .	1965	Director of Marketing and Sales
Alexander Leizerovich . . . . .	1976	Chief Legal Officer
Irina Rozaeva . . . . .	1957	Director of Internal Controls

#### **The Senior Management of Stroyinkom-K (other than Mr. Khaldey and Ms. Razumovski)**

*Yury Gorelov* has served as the Director of Business Development of Stroyinkom-K since July 2005. He has 10 years of experience in the areas of business development, project procurement and appraisal. He has held various management positions with us since 2001. Mr. Gorelov has a diploma in engineering and mathematics from the Naval Academy of Radioelectronics. His business address is 29, 1st Brestskaya St., 125047 Moscow, Russia.

*Alex Stolyarik* has served as the Chief Operating Officer of Stroyinkom-K since April 2007. Prior to joining Stroyinkom-K, he was Chief Executive Officer of ALT-Development, a real estate investment and development company, where he managed the company's entire Russian and offshore operations. Prior to that, he held a similar role with Horus Capital. Mr. Stolyarik has a Masters degree in Real Estate Development from the Massachusetts Institute of Technology. His business address is 29, 1st Brestskaya St., 125047 Moscow, Russia.

*Vitaly Alekseenko* has served as the Chief Administrative Officer of Stroyinkom-K since February 2007. He has previously held a number of human resources and business support positions including Head of Business Support Function and Member of the Management Board at CJSC Stroyneft (an affiliate of Transneft). Mr. Alekseenko has a degree in jurisprudence from the Moscow State Academy of Law and a Masters degree in economic science from the Academy of Labour and Social Relations. He was awarded "The Best HR Director in Russia" in 2003 by the Managers' Association of Russia. His business address is 29, 1st Brestskaya St., 125047 Moscow, Russia.

*Igor Solomon* has served as the Director of Corporate Affairs of Stroyinkom-K since March 2007. He has 10 years of legal experience, including experience gained at Deloitte in Moscow, the Claims Resolution Tribunal for Holocaust Assets in Zurich, EY Law in St. Petersburg and the law firm Beiten Burkhardt in St. Petersburg. Mr. Solomon received an LLB from the University of Haifa and a European Masters degree in Law and Economics from the University of Hamburg. He also received a diploma in International Commercial Law from the University of San Diego, Paris Institute of International and Comparative Law. He is a member of the New York State Bar. His business address is 29, 1st Brestskaya St., 125047 Moscow, Russia.

*Elena Chikhanatskaya* has served as the Director of Budgeting and Analysis of Stroyinkom-K since August 2005. She has previously held a number of accounting and financial control positions, including Head of the Financial Department with OJSC "Gloria Jeans Corporation" and Credit Controller with Coca-Cola HBC. Ms. Chikhanatskaya has a degree in information technology from Don Technical University. Her business address is 29, 1st Brestskaya St., 125047 Moscow, Russia.

*Alexandra Kart* has served as the Director of Marketing and Sales of Stroyinkom-K since May 2006. She has previously held a number of marketing, retail and project manager positions, including Retail Director at Capital Group and Senior Consultant, Project Manager with Colliers International, Moscow. Ms. Kart graduated from the Moscow State University with a degree in law. Her business address is 29, 1st Brestskaya St., 125047 Moscow, Russia.

*Alexander Leizerovich* became Chief Legal Officer of Stroyinkom-K in April 2007. Prior to joining Stroyinkom-K, he was Chief Legal Officer for ALT-Development and acted as Senior Law Officer for RosBuilding Co, where he was closely involved in the company's operations and the sale and purchase of

real estate. Mr. Leizerovich has a law degree from the Moscow State Law Academy. His business address is 29, 1st Brestskaya St., 125047 Moscow, Russia.

*Irina Rozaeva* has served as the Director of Internal Controls of Stroyinkom-K since September 2006. She has previously held a number of finance and control positions, including Financial Controller at Sun Capital Partners Consultants Limited (Investment Fund). Ms. Rozaeva graduated with a Masters degree from the Moscow State University of Management, specialising in economics and management. Her business address is 29, 1st Brestskaya St., 125047 Moscow, Russia.

### **Remuneration of Our Directors and Executive Officers of Stroyinkom-K and Benefits**

The compensation of our directors is determined by our shareholders at their annual general meeting. Our non-independent directors do not receive compensation for serving on our Board of Directors. Each independent director is paid US\$50,000 annually plus US\$3,500 for each meeting in which they participate. The aggregate amount of remuneration paid by us to our directors and executive officers of Stroyinkom-K as a group for services in all capacities provided to us during the year ended 31 December 2006 was approximately US\$2.6 million in salary and bonuses. The executive officers of Stroyinkom-K are also provided with medical insurance and company cars upon request. Employment contracts with our directors and executive officers of Stroyinkom-K do not provide for special benefits upon termination of employment. In addition, we do not provide pension, retirement or similar benefits to our directors and executive officers of Stroyinkom-K.

### **Directors and Officers Liability Insurance**

We have a directors and officers liability insurance policy with Migdal Insurance Company Ltd., with a US\$100 million limit. The insurance policy is valid until 31 March 2008.

### **Employee Share Option Plan**

The principal features of the AFI Development Share Option Plan, or the employee share option plan, are outlined below.

#### ***Operation***

The employee share option plan is operated by the Board of Directors or a duly appointed committee, or the committee, which is responsible for granting options and administering the employee share option plan. The employee share option plan is discretionary and options will only be granted when the committee so determines. A special grant of options has been made in connection with and conditional upon admission. Details of these options appear below.

#### ***Eligibility***

All of our employees and directors (except independent directors), and those of our holding company or its subsidiaries are eligible to participate in the employee share option plan at the discretion of the committee. However, options are currently intended to be granted in the future to our and our subsidiaries' senior management, directors (except independent directors) and key personnel only.

#### ***Grant of Options***

Options to acquire GDRs or shares under and subject to the employee share option plan may be granted at any time, subject to any restrictions imposed by law or by any code of dealing we adopt. No payment will be required for the grant of options. Options will not be taken into account in determining a participant's pension rights.

#### ***Exercise Price***

Following admission, the price per share or GDR payable on the exercise of an option shall be derived from the closing middle market price for a GDR on the dealing day immediately preceding the date of grant, unless the committee determines in its discretion that a lower price is required, for example, in order to facilitate the recruitment or retention of a key executive. The exercise price of options already granted is the price per GDR offered in this offering.

### ***Employee Share Option Plan Limit***

In any 10 year period, not more than 10 per cent. of our issued ordinary share capital may be issued or be issuable under the employee share option plan and any other employee share plan we operate. Options that have been released or lapsed without being exercised are ignored for the purposes of this limit.

### ***Exercise of Options***

Subject to the participant discharging any relevant tax liability, options will normally be exercisable at the following times, but a different vesting schedule may be determined by the committee at grant:

- as to one-third of the GDRs or shares under option, on the second anniversary of the date of grant;
- as to a further one-third, on the third anniversary of the date of grant; and
- as to the remaining one-third, on the fourth anniversary of the date of grant.

Normally, in order for options to vest, participants must remain in employment until the vesting date. The vesting of options already granted is not subject to any performance conditions. The committee may, however, determine that options granted in the future should be subject to performance conditions.

### ***Termination of Employment***

If a participant dies, his options will be exercisable within a period of twelve months following his death. If a participant ceases to be our employee or director by reason of injury, disability, redundancy, the sale of the business for which he works to a third party or retirement, his options may generally be exercised within 6 months of cessation. If a participant ceases to be our employee or director for any other reason, his options will normally lapse unless and to the extent the committee decides otherwise.

### ***Takeover***

In the event of a takeover, reconstruction or winding up, options may be exercised notwithstanding any failure to comply with any relevant performance conditions (if applicable) and the requisite period has elapsed since the date of grant. Alternatively, options may be exchanged for new equivalent options where appropriate.

### ***Rights attaching to Shares and GDRs***

Shares issued under the employee share option plan will rank equally with all our other shares for the time being in issue (except for rights attaching to such shares by reference to a record date prior to the exercise of the option).

### ***Cash Alternative***

The committee may satisfy (generally with the consent of the participant) an option on exercise by paying to the participant in cash or other assets the gain (i.e. the difference between the market value of the relevant shares or GDRs on the date of exercise and the exercise price), as an alternative to issuing or transferring shares or transferring or procuring the transfer of GDRs to the participant.

### ***Adjustment of Options***

In the event of a declaration of a dividend or any variation of share capital, demerger or other corporate event, the committee may make such adjustments as they consider appropriate to any performance conditions (where applicable), the number of shares or GDRs subject to an option and the price payable on the exercise of an option.

### ***Amendment and Termination***

The committee may amend the rules of the employee share option plan at any time. The employee share option plan will terminate upon the tenth anniversary of our approval, if not terminated earlier by the committee. Termination of the employee share option plan will not affect the subsisting rights of the participants.

### ***Israeli Sub-plan***

The employee share option plan incorporates a sub-plan intended to allow tax-advantaged options to be granted to eligible executives in Israel. We are seeking approval for the sub-plan from the Israeli Tax Authority. The sub-plan provides, in addition to the terms and conditions set out in the rules of the employee share option plan, for any options granted under the sub-plan and the GDRs or shares underlying those options (and all rights relating to them) to be held by a trustee for a period of at least two years from grant, or such shorter period as may be approved by the Israeli Tax Authority.

### **Corporate Governance**

Although we are incorporated in Cyprus, because our shares are not listed on the Cyprus stock exchange, we are not required to comply with the corporate governance regime of Cyprus. As a company incorporated in Cyprus, we are also not required to comply with the Combined Code on Corporate Governance published by the U.K. Financial Reporting Council, or the Combined Code; however, we intend to adopt practices to comply with certain of the provisions of the Combined Code.

The Combined Code recommends that the board of directors of a listed company should include a balance of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board of directors' decision taking. In particular, the Combined Code states that at least half of the board of directors, excluding the chairman, should comprise independent non-executive directors. The Combined Code states that the board of directors should determine whether a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

We currently have seven directors, two of whom are independent, and we intend to appoint an additional independent director. We consider this to be a satisfactory balance for the purposes of decision-making at the Board of Directors level.

### ***Board Practices***

Our Board of Directors will meet at least four times a year. To enable our Board of Directors to perform its duties, it is intended that each director will have full access to all relevant information. If necessary, the independent directors may take independent professional advice at our expense.

In line with the Combined Code, we have established three committees: an audit committee, a nomination committee and a remuneration committee. The members of these committees are appointed principally from among the independent directors. The terms of reference of the committees have been drawn up in accordance with the provisions of the Combined Code. A brief description of the terms of reference of the committees is set out below.

### ***Audit Committee***

The audit committee comprises three independent directors and will meet at least three times each year. The audit committee is chaired by Christakis Klerides. Moshe Amit is a member, and the third member will be an independent director yet to be appointed. The audit committee must consider, amongst other matters: (i) the integrity of our financial statements, including our annual and interim accounts, and the effectiveness of our internal controls and risk management systems; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the auditor. The committee supervises and monitors, and advises our Board of Directors on, risk management and control systems and the implementation of codes of conduct. In addition, the audit committee supervises the submission by us of financial information and a number of other audit-related issues.

### ***Nomination Committee***

The nomination committee will comprise at least three directors, the majority of whom will be independent directors, and will meet at least twice each year. The nomination committee is chaired by Moshe Amit and the other members are Christakis Klerides and Avinadav Grinshpon. The committee's remit is to prepare selection criteria and appointment procedures for members of our Board of Directors and to review on a regular basis the structure, size and composition of our Board of Directors. In undertaking this role, the committee should refer to the skills, knowledge and experience required of our Board of Directors given our stage of development and make recommendations to our Board of Directors

as to any changes. The committee should also consider future appointments in respect of our Board of Directors composition as well as make recommendations regarding the membership of the audit and remuneration committees.

#### ***Remuneration Committee***

The remuneration committee comprises three independent directors and will meet at least twice each year. The remuneration committee is chaired by Moshe Amit. Christakis Klerides is a member, and the third member will be the independent director yet to be appointed. The remuneration committee has as its remit the determination and review of, amongst other matters, the remuneration of executive directors and any share incentive plans. In addition, the remuneration committee prepares an annual report on our remuneration policies. The remuneration of independent directors is a matter for the chairman of our Board of Directors and the executive directors. No director or manager may be involved in any decisions as to his/her own remuneration.

#### ***Internal auditor***

Our internal audit function will be outsourced to a certified accountant in Cyprus, nominated from time to time by the audit committee, subject to the approval of our Board of Directors. The internal auditor will be responsible for the recommendation of an auditing plan to the audit committee of our Board of Directors. The internal auditor will carry out auditing assignments in accordance with such plan and will oversee and report on our compliance with the plan's recommendations. The internal auditor will file an annual report with the audit committee and our Board of Directors and will be available for any meetings of the audit committee or our Board of Directors.

#### ***Interests of Directors and Officers***

Erez Meltzer is the president and chief executive officer of Africa Israel. Avinadav Grinshpon is a member of the board of directors of Africa Israel and Avraham Barzilay serves as the vice president of finance of Africa Israel Properties Limited, a subsidiary of Africa Israel. See "The Members of our Board of Directors". We engage in transactions with Africa Israel, including transactions in the ordinary course of business. See "Related Party Transactions." As a result, potential conflicts of interest between Mr. Meltzer's, Mr. Grinshpon's and Mr. Barzilay's duties to us and their private interests or other duties could arise. There are no potential conflicts of interest between any duties to us and the private interests or other duties of any of our other directors other than Mr. Meltzer, Mr. Grinshpon and Mr. Barzilay. We have entered into both a Relationship Agreement and an Activity Demarcation Agreement with Africa Israel. See "General Information".

Nirro Group, a company controlled by Alexander Khaldey, will own 9.5 per cent. of our total issued share capital following this offering, assuming the underwriters exercise the over-allotment option in full.

Options over 2,623,632 ordinary shares or GDRs, amounting to 0.5 per cent. of our issued share capital on admission, assuming no exercise of the underwriters' over-allotment option, have been granted in total (conditional upon Admission) to members of the Board and Senior Managers and others, as set out in the following table, and will be held under the terms of the employee share option plan. Each option will become exercisable, subject to the rules of the employee share option plan, as to one third of the ordinary shares or GDRs in respect of which it was granted from the second anniversary of grant, as to a further one third of the ordinary shares or GDRs from the third anniversary of grant and as to the remainder of the ordinary shares or GDRs from the fourth anniversary of grant. Each of the options will

lapse on the tenth anniversary of grant, if it has not lapsed earlier under the rules of the employee share option plan.

Optionholder	Number of ordinary shares/ GDRs	Date of Grant	Exercise Price per ordinary share/GDR (US\$)
Board and Senior Managers			
Yuri Gorelov . . . . .	423,850	3 May 2007	14.00
Alex Stolyarik . . . . .	423,850	3 May 2007	14.00
Natalie Razumovski . . . . .	254,310	3 May 2007	14.00
Avinadav Grinshpon . . . . .	254,310	3 May 2007	14.00
Avraham Barzilay . . . . .	169,540	3 May 2007	14.00
Igor Solomon . . . . .	84,770	3 May 2007	14.00
Alexandra Kart . . . . .	25,431	3 May 2007	14.00
Elena Chikhanatskaya . . . . .	84,770	3 May 2007	14.00
Our employees and employees and directors of other Africa Israel Group companies . . . . .	902,801	3 May 2007	14.00
<b>Total</b> . . . . .	<u>2,623,632</u>		

#### ***Litigation Statement about Directors and Officers***

At the date of this prospectus, none of our directors, executive officers or senior managers for at least the previous five years:

- has had any convictions in relation to fraudulent offences; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

#### ***Other Directorships***

In addition to their directorships with us, our directors, executive officers and senior managers have held the following directorships and/or have been a partner in the following partnerships in the five years prior to the date of this prospectus:

*Erez Meltzer* sits on the board of directors of various companies within the Africa Israel group.

*Avraham Barzilay* sits on the board of directors of various companies within the Africa Israel group.

*Avinadav Grinshpon* sits on the board of directors of various companies within the Africa Israel group.

*Moshe Amit* is the chairman of the board of directors of Delek—the Israeli Fuel Company Ltd, and is a member of the board of directors of Delek Group Ltd., Isracard Ltd., Hapoalim Capital Markets—Investment Bank Ltd., Tempo Beer Industries Ltd., Blue Square Chain Properties & Investment Ltd., Global Factoring Business Financing Ltd. and Saint Lawrence Bank Ltd.

*Christakis Klerides* is a member of the board of directors of CMK Eurofinance Consultants Limited, DEPFA Investment Bank Ltd., Tamoil Netherland B.V., Fenway Services Ltd., UBS Advisory Services Ltd., Dycor Technologies Ltd, TDE (Overseas) Ltd., Logicom Public Ltd., Lordos Hotels (Holdings) Public Ltd., Golden Coast Ltd., Ecolo Investments Ltd., Nations Petroleum Holding (Cyprus) Ltd., Swire Pacific Offshore (Cyprus) Ltd., PSV Sakhalin Offshore Ltd., Meritoccean Crewing Company Ltd., FBG Company Ltd., FBG Holdings Ltd., ACM Christofides Ltd., Thiseas Development Ltd., Interocean Shipping Ltd., Seastatus Shipping Ltd., Oceanstatus Shipping Ltd., Globalocean Shipping Ltd., Oceanglobe Shipping Ltd., Unitrend Marine Ltd., Uniterm Shipping Ltd., Oceanprecious Shipping Ltd., Meritplus Shipping Ltd., Orlicks Enterprises Ltd., Tufton Oceanic Finance Group, Tufton Oceanic Holdings Ltd., Atlantic Drilling Holding Co., Hart Security Cyprus Ltd., Hart Security Holdings Ltd., Louis Public Co Ltd., Al Mashrek Insurance & Reinsurance SAL, Kyriacos Papavassiliou (Trading) Ltd., OCI International Ltd., Aker Oilfield Services Ltd., Anchor Secondary 5 Ltd., Laing O' Rourke Corporation Ltd., Laing O' Rourke Middle East (Holdings) Ltd., Laing O' Rourke Ireland (Holdings) Ltd., Laing O' Rourke India (Holdings) Ltd., Laing O' Rourke Australia (Holdings) Ltd., S & CD Developments Ltd. and Southside & City Developments Ltd.

## **RELATED PARTY TRANSACTIONS**

Certain of our projects, as well as our other business and financing activities, are conducted with the Africa Israel Investments Ltd, or Africa Israel, group companies, as described in this prospectus. See also “Risk Factors—Risks Relating to Our Business”. We believe that the terms of most of these transactions were determined by reference to market prices and terms; however, transactions with related parties pose the risks of our entering into transactions on terms less favourable than those which could be obtained in arm’s length transactions with unrelated parties. See also note 32 to our consolidated financial statements included in this prospectus.

### **Loans from Shareholders**

We have historically received loans from Africa Israel and its subsidiaries to fund our operations.

In April 2002, we entered into a loan agreement with Moonbeam Enterprises Limited, one of our principal shareholders, originally in the principal amount of US\$100 million. The agreement provided for full repayment at 31 December 2010 and an interest rate of US Dollar three-month LIBOR plus 2.5 per cent. per annum. Our total borrowings under the agreement, including both principal and interest, amounted to US\$95,182 thousand as of 31 December 2004 and US\$176,187 thousand as of 31 December 2005. On 31 December 2006, the entire outstanding amount of the loan of US\$423,847 thousand, including both principal and interest, was converted into equity and considered fully repaid.

In July 2001, we entered into a loan agreement with Nirro Group S.A., or Nirro Group, one of our principal shareholders, originally in the principal amount of US\$10 million. The agreement provided for full repayment at 31 December 2006 and an interest rate of US Dollar three-month LIBOR plus 2.5 per cent. per annum. Our total borrowings under the agreement, including both principal and interest, amounted to US\$4,276 thousand as of 31 December 2004 and US\$5,460 thousand as of 31 December 2005. In November 2006, we repaid US\$5.9 million to Nirro Group, which represented the entire principal outstanding amount on the loan.

We recorded interest expense of US\$2,940 thousand, US\$8,450 thousand and US\$20,601 thousand in 2004, 2005 and 2006, respectively, in connection with such shareholder loans.

In January and February of 2007, we entered into term loan agreements with Africa Israel, both directly and through our subsidiary Scotson Limited, or Scotson, in the principal amounts of US\$62.0 million and US\$16.7 million, respectively. The loans bore interest at a rate of three-month LIBOR plus 2.5 per cent. per annum, and each had a maturity date of 31 March 2007. Both of these loans were repaid in March 2007 using a portion of the proceeds from the US\$200 million term loan facility with Deutsche Bank AG, London Branch referenced below.

Africa Israel is also the guarantor for a US\$200 million credit facility provided to us by Deutsche Bank and a US\$60 million credit facility provided to us by Quasar Capital Limited, with Deutsche Bank AG, London Branch, acting as facility agent. See “Description of Certain Indebtedness—US\$200 million Deutsche Bank Term Loan Facility” and “—Quasar Capital Limited Loan Agreement”.

### **Loan from Parcost Overseas**

Pursuant to a loan agreement dated 7 October 2001, we received a loan in the amount of US\$2.25 million from Parcost Overseas Ltd., an affiliate of Africa Israel, for the financing of the Aquamarine I construction project and the Tverskaya Zastava shopping mall project. The loan carried an annual interest rate of three-month LIBOR plus 2.5 per cent. per annum and was repayable in five years. As of 31 December 2006, a total of US\$2,937 thousand of principal and interest, which was outstanding under this loan, was converted to share capital and was considered fully repaid.

We recorded interest expense of US\$105 thousand, US\$170 thousand and US\$230 thousand in 2004, 2005 and 2006, respectively, in connection with the loans provided to us by Parcost.

### **Loans to Westec Four Winds and RAPO**

We have made loans to our joint ventures from time to time.

We have made loans to Westec Four Winds Ltd., or Westec, that bear interest at five per cent. per annum and are repayable on or before 31 December 2007. As of 31 December 2004, 2005 and 2006, we

had loans outstanding to Westec in the respective aggregate amounts of US\$1,761 thousand, US\$6,449 thousand and US\$3,782 thousand.

We recorded interest income of US\$56 thousand, US\$200 thousand and US\$325 thousand in 2004, 2005 and 2006, respectively, in connection with the loans provided to Westec.

We also made loans to OOO “Regionalnoe Agropromyshlennoe Obyedinenie”, or RAPO, which we treated as a joint venture from July 2005 to July 2006 during which time we held a 50 per cent. interest in RAPO. We, and our subsidiaries, entered into three separate loan agreements with RAPO; (i) our subsidiary Scotson entered into a loan agreement with RAPO in the principal amount of US\$12,000 thousand that bore interest at 14.0 per cent. per annum and had a maturity date of 28 November 2009; (ii) our subsidiary Bellgate Constructions Ltd. entered into a loan agreement with RAPO in the principal amount of US\$26,511 thousand that bore interest at 5.5 per cent. per annum and had a maturity date of 30 September 2009; and (iii) we entered into a loan agreement with RAPO in the principal amount of US\$49,270 thousand that bore interest at 5.5 per cent. per annum.

RAPO, however, only drew a small portion of the principal amount under these loans. As of 31 December 2005, we had loans outstanding to RAPO in the aggregate amount of US\$2,217 thousand. We acquired the remaining 50 per cent. interest in RAPO in July 2006, and consequently from such date we have treated RAPO as a wholly-owned subsidiary, and no longer treat it as a related party.

#### **Loans from Krown Investments**

We received an unsecured loan which bears interest at a rate of 8.5 per cent. per annum through OOO “Krown Investments”, or Krown Investments, in connection with our joint venture with Super Passion Investments Ltd., or Super Passion, on the Ozerkovskaya project. As of 31 December 2006, a total of US\$522 thousand was outstanding under the loan. We and Super Passion each own a 50.0 per cent. interest in Krown Investments and pursuant to a shareholders’ agreement between us and Super Passion, Super Passion and we would, from time to time, provide loans to Krown Investments necessary to complete the development of the Ozerkovskaya project. See “Business—Material Agreements—Share Purchase Agreements—Krown Investments Participatory Interest Sale and Purchase Agreement and Shareholders Agreement with Super Passion Investments Limited”.

#### **Loans to Africa Israel Affiliates**

From time to time we have made loans to affiliates of Africa Israel, including OOO “Danya Cebus RUS”, or Danya Cebus and Olpek Holdings Limited. As of 31 December 2004, 2005 and 2006, we had loans outstanding to these entities in the aggregate amounts of US\$786 thousand, US\$766 thousand and US\$104 thousand, respectively.

#### **Transactions with Parcost Overseas**

In 2004, we recorded compensation charges of US\$39 thousand to Parcost Overseas Ltd. Parcost Overseas forgave the debt in 2006, and we recorded other income of US\$39 thousand in our income statement in relation thereto.

#### **Transactions with BP Steanly**

BP Steanly, a related party which is associated with the Nirro Group, provided us with professional services relating principally to consulting services for which it charged us US\$340 thousand in 2004. In 2005, BP Steanly forgave the debt, and we recorded other income of US\$340 thousand in our income statement in relation thereto.

#### **Services Provided by Krown Management**

Krown Management, an affiliate of Africa Israel, has provided us with certain management services for our existing rental properties, including our properties at Tverskaya Zastava 3, 3 Ozerkovskaya Lane and the H<sub>2</sub>O office building. We recorded operating expenses of US\$131 thousand, US\$171 thousand and US\$151 thousand in 2004, 2005 and 2006, respectively, and administrative expenses of US\$34 thousand and US\$133 thousand in 2004 and 2006, respectively, with respect to such management services provided by Krown Management to us.

### **Construction Contracts with Danya Cebus**

In September 2006, we, through OOO “Stroyinkom-K”, entered into a US\$44 million construction agreement with Danya Cebus, an affiliate of Africa Israel, in connection with the Ozerkovskaya project. See “Business—Material Contracts—Construction Contracts—Danya Cebus Construction Agreement I”. We also entered into a RUB 11.9 million contract in September 2006 with Danya Cebus for the construction and installation of a supporting wall at 28 Ozerkovskaya Embankment. See “Business—Material Contracts—Construction Contracts—Danya Cebus Construction Agreement II”.

### **Co-Investment Agreement with Krown Investments and Potential Management Contract with Africa-Hotels**

In August 2006, our wholly-owned subsidiary, OOO “Semprex”, or Semprex, entered into a co-investment agreement with Krown Investments, which owns the development rights for the Ozerkovskaya Embankment development. Pursuant to the terms of the co-investment agreement, Semprex will, among other things, pay all expenses related to the development of the hotel at Ozerkovskaya Embankment. Under the terms of the co-investment agreement, upon completion of the development, Semprex will receive ownership rights to the hotel building. We intend to enter into an agreement with Africa-Hotels, an affiliate of Africa Israel, for the management of the hotel in the future. The total development costs are estimated at approximately US\$23 million.

### **Rental Income from Certain Affiliates of Africa Israel**

From time to time we rent out certain of our premises to certain affiliates of Africa Israel, including Danya Cebus, Krown Management and Stroyinkom Realt. We recorded rental income in connection with such transactions in the amount US\$19 thousand, US\$59 thousand and US\$219 thousand in 2004, 2005 and 2006, respectively.

### **Acquisitions of Scotson and Borengo**

In November 2006, we acquired Scotson and Borengo, entities that were under the control of Africa Israel and Nirro Group, for US\$1,601 and US\$1,830, respectively. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Presentation of Financial Information”.

### **Intercompany Loans**

In order to finance the development of our projects, we loan the proceeds of our debt financing to our subsidiaries pursuant to loan agreements concluded on an arm’s length basis.

See note 32 to our consolidated financial statements included in this prospectus for a description of our outstanding balances with related parties and our transactions with related parties.

## PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding the ownership of our shares as of the date of this prospectus and as adjusted to reflect the issuance of 110,000,000 shares in this offering (assuming the underwriters exercise the over-allotment option in full):

Owner	Shares Owned Before this Offering		Shares Owned After this Offering	
	Number	Per cent.	Number	Per cent.
Africa Israel Investments Ltd. <sup>(1)</sup> . . . . .	372,985,384	88.0	372,985,384	69.9
Nirro Group S.A. <sup>(2)</sup> . . . . .	50,861,643	12.0	50,861,643	9.5
Free float (including GDR holders) . . . . .	—	—	110,000,000	20.6
<b>Total</b> . . . . .	<u>423,847,027</u>	<u>100.0</u>	<u>533,847,027</u>	<u>100.0</u>

(1) Africa Israel Investments Ltd. is an Israeli public company, traded on the Tel Aviv Stock Exchange. It is controlled by Lev Leviev who holds 75.7 per cent. of its shares as at 12 April 2007. It owns all of the shares of Africa Israel International Holdings Ltd., an Israeli company, which in turn owns all of the shares of AFI (East-Central Europe) Development s.a.r.l., a Luxembourg company, which owns all of the shares of Leentje Holding B.V., a Netherlands company, which owns all of the shares of Moonbeam Enterprises Limited, or Moonbeam Enterprises, a Cyprus company. Moonbeam Enterprises owns the shares in AFI Development PLC. Moonbeam Enterprise's shares in AFI Development PLC are held in trust by Emerald Nominees Ltd. The registered address of Africa Israel Investments Ltd. is Derech Hachoshet Street, Yehud 56470, Israel.

(2) Alexander Khaldey, the chief executive officer of our subsidiary Stroyinkom-K, owns 100 per cent. of Nirro Group S.A. The registered address of Nirro Group S.A. is 3076 Sir Francis Drake's Hwy., P.O. Box 3463, Road Town, Tortola, British Virgin Islands.

We, Nirro Group and Moonbeam Enterprises are parties to a shareholders' agreement in respect of Nirro Group's and Moonbeam Enterprises' interests in our shares. At all times during which Nirro Group holds at least five per cent. of our voting shares, Moonbeam Enterprises shall use its best endeavours to have Mr. Alexander Khaldey elected to our Board of Directors and appointed as the chief executive officer of Stroyinkom-K. Pursuant to the terms of the agreement, Moonbeam Enterprises and Nirro Group each have pre-emptive rights to purchase shares that the other party proposes to sell to third parties. Nirro Group's pre-emptive rights are valid until April 2012 and Moonbeam Enterprise's pre-emptive rights are valid until the later of April 2012 and the date upon which the Nirro Group repays in full a 15-year loan granted to it by Moonbeam Enterprises.

In addition, pursuant to the shareholders' agreement Nirro Group has certain tag along rights with respect to shares transferred by Moonbeam Enterprises to the extent that the proposed purchaser of our shares from Moonbeam Enterprises were to acquire 50.0 per cent. or more of our voting shares. Moonbeam Enterprises also has certain drag-along rights with respect to the shares held by Nirro Group in the event that it sells more than 50.0 per cent. of our shares.

None of our shareholders has voting rights different from any other holders of our shares. We are not aware of any arrangements that may result in a change of control.

### Changes in Shareholders' Equity

The following table sets forth in US Dollars, as of the date of this prospectus, the changes in our share capital that have occurred to date:

Year	Description	Number of authorised shares	Nominal value per share	Increase in total issued share capital	Total issued share capital at end of period	Total number of issued shares at end of period
2001	Ordinary Shares . . . . .	1,000	CYP1.00	—	CYP1,000	1,000
2006	Ordinary Shares (redenomination of shares from CYP to US\$) . . . . .	1,000	US\$2.10	—	US\$ 2,100	1,000
2006	Ordinary Shares (Share split) . . . . .	2,100,000	US\$0.001	—	US\$ 2,100	2,100,000
2006	Ordinary Shares (conversion of shareholder loans into share capital) . . . . .	1,000,000,000	US\$0.001	US\$421,747	US\$423,847	423,847,027

## **DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF CYPRIOT LEGISLATION**

We describe below our registered shares, the material provisions of our articles of association in effect on the date of this prospectus and certain requirements of Cypriot legislation. GDR holders will be able to exercise their rights with respect to the shares underlying the GDR only in accordance with the provisions of the Deposit Agreement and the relevant requirements of Cypriot law. See “Terms and Conditions of the Global Depositary Receipts” for more information.

### **Purpose**

Our purpose is to carry on business as a commercial company, empowered to, amongst others, carry out investments and trade. Our objects are set out in full in Clause 3 of our Memorandum of Association.

### **Share Capital**

We were incorporated as Donkamill Holdings Limited, a Cyprus Company limited by shares on 13 February 2001 with a share capital of CYP1,000 divided into 1,000 ordinary shares of CYP1.00 each. Our name was changed to AFI Development PLC on 10 April 2007. On 18 November 2006, our authorised share capital was converted into 1,000 ordinary shares of US\$2.10 each. On 18 November 2006 our share capital was subdivided into 2,100,000 ordinary shares of US\$0.001 each. On 31 December 2006 our share capital was increased to US\$1,000,000 divided into 1,000,000,000 ordinary shares of US\$0.001 each. The ordinary shares are in registered form.

Following a resolution of our shareholders passed on 13 April 2007 our Board of Directors is, (1) authorised generally and unconditionally to exercise all of our powers to allot all of our unissued share capital, such authority to expire on the conclusion of our first annual general meeting, but so as to enable us before that date to make an offer or agreement which would or might require relevant securities to be allotted after that date and to enable us to allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by such resolution had not expired; and (2) empowered to allot equity securities for cash pursuant to the authority referred to in Paragraph (1) above without first having to offer them to existing shareholders on a pre-emptive basis, such power to be limited to: (a) the allotment of the shares pursuant to this offering (and any required pursuant to exercise of the over-allotment option); and (b) the allotment (other than pursuant to the power referred to in sub-Paragraph (a)) of equity securities representing five per cent. of our issued share capital following this offering. Such authority shall expire on the conclusion of our first annual general meeting, save that we may, before the expiry of this power, make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the Board of Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred by this resolution had not expired.

Our authorised and issued fully paid share capital immediately following this offering, assuming no exercise of the over-allotment option, will be 1,000,000,000 shares, and 523,847,027 shares, respectively.

We do not have in issue any listed or unlisted securities not representing our share capital.

Neither we nor any of our subsidiaries (nor any party on our behalf) holds any of our ordinary shares.

We have no outstanding convertible securities, exchangeable securities or securities with warrants.

There are no relevant acquisition rights or obligations over our authorised but unissued capital or undertakings to increase our issued share capital.

Other than pursuant to our management incentive scheme described elsewhere in this prospectus, at the time of this offering none of our share or loan capital will be under option or will be agreed conditionally or unconditionally to be put under option.

Our articles of association (to the extent not disapplied by shareholders’ resolution) confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash and, following this offering, will apply to our authorised but unissued share capital, except to the extent disapplied by the resolution referred to above. Subject to certain limited exceptions, unless the approval of our shareholders in a general meeting is obtained, we must offer shares to be issued for cash to holders of shares on a pro rata basis.

None of our shares are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

## **Articles of Association**

In this section “Law” means the Companies Law, Cap. 113 of Cyprus and any successor statute or as the same may from time to time be amended. Our current articles of association were adopted on 26 March 2007.

The following is a brief summary of certain material provisions of our articles of association as will be in effect on and immediately prior to the closing date.

### ***Rights attaching to shares***

#### *Issue of shares*

The Board of Directors may offer, allot (with or without conferring a right of renunciation), grant options over or otherwise deal with or dispose of any unissued shares (whether forming part of the original or any increased capital) to such persons, at such times and generally on such terms as the Board of Directors may decide but no share may be issued at a discount.

#### *Pre-emption rights*

On an issue of shares, each shareholder has a right of pre-emption to subscribe for shares (apart from shares issued for a non-cash consideration or issued to our employees or the employees of any of our subsidiaries) in cash in proportion to the aggregate amount of their shareholding. In the event that a shareholder does not exercise his /her pre-emption rights entitlement, the other shareholders have pre-emption rights over the entitlement not taken up. If all the shareholders do not fully exercise all their pre-emption rights, the body corporate authorised to issue shares can decide who to issue the shares to and at what price.

In relation to individual issues only, the pre-emption rights may be limited or excluded by shareholders passing a resolution by a two thirds majority of our share capital represented at a general meeting, except where at least half of our issued share capital is represented at the meeting, in which case, the resolution can be passed by a simple majority.

#### *Voting rights*

Subject to any special rights or restrictions as to voting attached to shares (of which there are none at present), every holder of shares who is present in person shall have one vote and on a poll every holder who is present in person or by proxy shall have one vote for each share held by him. A corporate member may, by resolution of its directors or other governing body, authorise a person to act as its representative at general meetings and that person may exercise the same powers as the corporate member could exercise if it were an individual member.

#### *Dividends*

We may in a general meeting declare dividends, but no dividend shall exceed the amount recommended by the Board of Directors. The Board of Directors may from time to time pay to shareholders such interim dividends as appear to the Board of Directors to be justified by our profits but no dividend will be paid otherwise than out of profits.

The Board of Directors may, before recommending any dividend, set aside out of our profits such sums as they think proper as a reserve or reserves which shall, at the discretion of the Board of Directors, be applicable for any purpose to which our profits may be properly applied, and pending such application may, at the like discretion, either be employed in our business or be invested in such investments (other than our shares) as the Board of Directors may from time to time think fit. The Board of Directors may also, without placing the same to reserve, carry forward any profits which they may think prudent not to divide.

#### *Variation of rights*

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not we

are being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

#### *Alteration of capital*

We may by ordinary resolution:

- increase our share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of larger amounts than our existing shares;
- subdivide our existing shares, or any of them, into shares of smaller amounts than is fixed by the memorandum of association subject, nevertheless, to the provisions of Section 60(1)(d) of the Law; and
- cancel any shares which, at the date of the passing of the resolution, have not been taken nor agreed to be taken by any person.

We may also, by special resolution, reduce our share capital, any capital redemption reserve fund or any share premium account in any manner and with, and subject to, any incident authorised, and consent required, by Law.

#### *Purchase of own shares and reduction of capital*

We may, subject to and in accordance with the provisions of ss. 57, 57A and 57B Law, purchase a number of our shares as permitted, including any redeemable shares and may hold such shares as treasury shares or cancel them.

#### *Winding up*

If we are wound up the liquidator may, with the sanction of an extraordinary resolution of our shareholders and any other sanction required by the Law:

- divide amongst the shareholders in specie or in kind the whole or any part of our assets (whether they shall consist of property of the same kind or not); and
- vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no shareholder will be compelled to accept any shares or other securities whereon there is any liability.

#### *Form and transfer of shares*

The shares may be held in certificated and uncertificated form. Where a shareholder holds shares in certificated form, the instrument of transfer of any share will be executed by or on behalf of the transferor and transferee, and the transferor will be deemed to remain a holder of the share until the name of the transferee is entered in the register of members.

In relation to any share or other security which is in uncertificated form:

- we shall not be obliged to issue a certificate evidencing title to a share and all references to a certificate in respect of any shares or securities held in uncertificated form in the articles of association will be deemed inapplicable to such shares or securities which are in uncertificated form; and
- the registration of title to, and transfer of, any shares or securities in uncertificated form will be sufficient for its purposes and shall not require a written instrument of transfer.

The Board of Directors may refuse to register the transfer of a share which is not fully paid or on which we have a lien and unless the instrument of transfer:

- is lodged, duly stamped, at the office or at such other place as the Board of Directors may appoint, accompanied by the certificate for the shares to which it relates and such other evidence as the Board of Directors may reasonably require to show the right of the transferor to make the transfer;

- is in respect of only one class of shares; and
- is in favour of not more than four transferees.

## ***Directors***

### *Number of directors*

The minimum number of directors is five and there is no limitation as to the maximum number. As long as five members of the Board of Directors hold office the remaining members of the Board of Directors may continue their activities despite a vacancy on the Board of Directors. If less than five members of the Board of Directors hold office, the remaining member(s) of the Board of Directors may act only either in an emergency or to call a general meeting to fill any or all vacancies so that at least five directors are in office.

### *Appointment of directors*

The shareholders in a general meeting are entitled to appoint, suspend and dismiss members of the Board of Directors. In addition, the office of any director will be vacated if a director:

- becomes bankrupt or makes any arrangement or composition with his creditors generally;
- becomes prohibited from being a director by reason of any order made under Section 180 of the Law;
- becomes of unsound mind;
- resigns his office by notice in writing to us;
- if his period of office has terminated in accordance with the provisions of the articles of association; or
- has been, for more than six months, absent without permission of the Directors from at least three consecutive meetings of the Board of Directors duly convened and held during that period.

### *Retirement by rotation*

At each annual general meeting, one-third of the members of the Board of Directors shall retire from office. A director so retiring is eligible for re-appointment by the shareholders at that annual general meeting.

### *Directors' interests*

A director shall not vote at a meeting of the Board of Directors or of a committee of the Board of Directors (nor be counted in the quorum) on any resolution concerning a matter in which he has, directly or indirectly, an interest or duty which is material and which conflicts or may conflict with our interests unless his interest or duty arises only because the case falls within one or more of the permitted interests set out as follows:

- the resolution relates to the giving to him of a guarantee, security, or indemnity in respect of money lent to, or an obligation incurred by him for our benefit or the benefit of any of our subsidiaries;
- the resolution relates to the giving to a third party of a guarantee, security, or indemnity in respect of an obligation of us or any of our subsidiaries for which the Director has assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- his interest arises by virtue of his subscribing or agreeing to subscribe for any shares, debentures or other of our securities or any of our subsidiaries, or by virtue of his being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any such shares, debentures, or other securities by us or any of our subsidiaries for subscription, purchase or exchange; and
- the resolution relates in any way to a retirement benefits scheme which has been approved, or is conditional upon approval, by HM Revenue & Customs for taxation purposes.

### *Remuneration of directors*

The remuneration of the executive directors shall be determined by the Board of Directors from time to time and a remuneration report may be presented to the shareholders in a general meeting. Individual Non-executive directors' fees shall not exceed £100,000 per annum unless otherwise determined by the shareholders at a general meeting.

### *Board of directors*

The quorum for a Board of Directors meeting may be fixed by the Board of Directors and unless so fixed shall be five. In any meeting of the Board, each director is entitled to one vote and a simple majority is required to pass a resolution. In the event of an equality of votes the resolution shall be deemed to have been rejected. A resolution can be passed without a meeting if all the Board of Directors consent in writing to the proposal. Subject to the Law, the articles of association and any regulation determined by the Board of Directors, the Board of Directors may delegate its powers to one or more of its members or a committee made up of some of its members.

### *Directors' powers*

Subject to the Law, the articles of association and any regulation determined by the Board of Directors, the Board of Directors is in charge of our management.

### *Meetings of shareholders*

The first annual general meeting must be held within 18 months of incorporation and thereafter, not more than 15 months shall elapse between the date of one annual general meeting and the next. Extraordinary general meetings will be held if requested by the Board of Directors or in accordance with the Cypriot Companies Law.

General meetings can be convened by the Board of Directors by a notice, specifying the matters to be discussed, issued 21 days before the meeting. If the notice period is less than 21 days, the meeting will be deemed to have been duly called if it is so agreed:

- in the case of a meeting called as the annual general meeting, by all the shareholders entitled to attend and vote; and
- in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95.0 per cent. in nominal value of the shares.

A notice convening a general meeting must be sent to each of the shareholders. All shareholders are entitled to attend the general meeting or be represented by a proxy authorised in writing. In the general meeting every share gives the holder the right to cast one vote.

The quorum for a general meeting will consist of at least two shareholders, present in person or by proxy holding, in the aggregate, at least 20.0 per cent. of the voting rights in our issued share capital. The general meeting can adopt resolutions without convening a meeting if adopted in writing unanimously by all shareholders entitled to vote.

### *Notification of interest of shares*

Where a shareholder either:

- to his knowledge acquires a Notifiable Interest in our shares, or ceases to be so interested in shares; or
- becomes aware that he has acquired a Notifiable Interest in our shares or that he has ceased to be so interested in shares in which he was previously interested; then the shareholder is obliged to notify us of the interests which he has or had in shares.

A shareholder has a "Notifiable Interest" at any time when he is interested, directly or indirectly, in shares of an aggregate nominal value equal to or more than three per cent. of our issued share capital and a shareholder ceases to have such a "Notifiable Interest" at any time when the aggregate nominal value of the shareholding in our issued share capital in which he is directly or indirectly interested (expressed as a percentage) is less than three per cent.

Where the obligation of notification arises, the shareholder must notify us within the period of four days next following the day on which the obligation arises.

The notification must identify the member so interested, the nature and extent of his interest, the date on which he acquired or ceased to hold a notifiable interest or on which there was an increase or decrease in the percentage level of his Notifiable Interest, and the resulting situation in terms of voting rights.

### ***Distribution of assets on a liquidation***

In the case of a dissolution and subsequent liquidation, the surplus remaining after payment of debts will be paid to the shareholders in proportion to their individual shareholdings. Subject to the rights attached to any shares which may be issued on special terms or conditions.

### ***Indemnity of officers***

Subject to the Law, each of our current or former officers (other than an auditor) shall be indemnified out of our assets against:

- any liability incurred in connection with any negligence, default, breach of duty or breach of trust by him in relation to us other than:
  - (a) any liability owed to us;
  - (b) any fine imposed by criminal proceedings or any sum payable to a regulatory body due to non-compliance of any requirement of a regulatory nature;
  - (c) any liability incurred in defending criminal proceedings where the officer is convicted;
  - (d) any liability incurred in defending criminal proceedings where judgment is given against the officer;
- any other liability incurred by or attaching to him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office;
- where our current or former officers (other than an auditor) are indemnified against any liability, such indemnity shall extend to all costs, charges, losses, expenses and liabilities incurred by him in relation thereto.

The Board of Directors may purchase and maintain for, or for the benefit of, any person who holds or who has at any time held a relevant office insurance against any liability or expense incurred by him in relation to us or any of our subsidiaries or any third party in respect of any act or omission in the actual or purported discharge of the duties of the relevant officer concerned or otherwise in connection with the holding of that relevant office.

## **Cypriot Law**

### ***General***

The principal legislation under which the shares have been created and under which we were formed and now operate is the Cyprus Companies Law. The liability of shareholders is limited. Under the Cyprus Companies Law, Cap. 113, a shareholder of a company is not personally liable for the acts of the company, save that a shareholder may become personally liable by reason of his or her own acts.

### ***Anti Takeover Protection***

We are not subject to the City Code. Accordingly, any person or persons acting in concert will be able to acquire shares which, when taken together with the shares already held by them, carry 30.0 per cent. or more of our voting rights without being required to make a general offer for our entire issued share capital. Additionally, any party intending to acquire all or a substantial part of our issued share capital will not be obligated to comply with the provisions of the City Code as to announcements and equality of treatment for shareholders as to the value and type of consideration offered, and will not be subjected to the scrutiny and sanctions of the UK Panel on Takeovers and Mergers.

Cypriot law (ss. 201-202) contains the following provisions in respect of squeeze out rights:

Where, further to any scheme or contract involving the transfer of shares in a company, the target, shares are transferred to a company or its nominee, the transferee, and those shares, together with any other shares in the target held by or by a nominee for the transferee or its subsidiary at the date of the transfer, comprise not less than nine tenths in the value of the shares in the target or any class of those shares then:

- (1) the transferee shall, within one month from the date of the transfer, give notice of that fact in the prescribed manner to all holders of the remaining shares in the target who have not assented to the scheme or contract; and
- (2) any such holder of shares may, within three months from the receipt of such notice, require the transferee to acquire the shares in question; and
- (3) where a holder of such shares gives notice under Paragraph (1) above, the transferee shall be entitled and bound to acquire those shares on the same terms as those under the scheme or contract pursuant to which it has already acquired shares in the target from approving shareholders, or on any such terms as may be agreed or as the court on the application of either the transferee or the shareholder thinks fit to order; and
- (4) where a scheme or contract involving the transfer of shares (or any class of shares) in a company, the target, to another company occurs, such company, the transferee, has within four months after the making of the offer, on the basis that it has been approved by shareholders of no less than nine tenths in value whose transfer is involved (other than those already held by the transferee or an affiliate), a further two months to give notice to any dissenting shareholder that it desires to acquire their shares. If the offer is accepted by nine tenths of the remaining shares and assuming that the dissenting shareholders have not successfully applied to court against such action, the transferee shall be entitled and bound to acquire those shares.

There have been no public takeover bids by third parties for all or any part of our equity share capital since our date of incorporation.

## DESCRIPTION OF CERTAIN INDEBTEDNESS

### **US\$200 million Deutsche Bank Term Loan Facility**

#### ***General***

On 22 February 2007, we entered into a US\$200 million term loan facility with Deutsche Bank AG, London Branch. The funds are intended to fund our general operational requirements.

As of 31 March 2007, this facility was fully drawn.

#### ***Interest Rate and Interest Period***

The interest rate as set out in the agreement is LIBOR plus 1.45 per cent. per annum. Accrued interest must be paid every six months, beginning on 23 February 2007.

#### ***Repayment and Prepayments***

The entire principal amount of the facility matures on 22 August 2008; however we may elect to repay the loan on an earlier date provided that we give written notice to Deutsche Bank AG, London Branch 30 days prior to the repayment.

#### ***Guarantee***

The loan is secured by a guarantee by Africa Israel Investments Ltd., or Africa Israel, which shall be effective until our obligations under the term loan facility agreement are satisfied in full. As guarantor, Africa Israel has undertaken that it will retain a 51.0 per cent. interest in our shares for so long as any amount remains outstanding under the term loan facility agreement. Moreover, Africa Israel has undertaken not to enter into any corporate reorganisation while the guarantee is effective.

#### ***Covenants and Other Matters***

The loan facility includes certain covenants restricting or limiting our ability to, among other things:

- allow the imposition of any encumbrances on any of our assets;
- dispose of all or any substantial part of our assets;
- make any loans, grant any credit or give any guarantee or indemnity with respect to any obligation of any person; and
- acquire any assets or business or make any investment, if such assets, business or investment is substantial to us and is not in our ordinary course of business.

### **MDM-Bank Loan Agreement**

On 19 April 2006, Westec entered into a €43,560,317 loan agreement with MDM-Bank. The loan matures on 28 December 2007 and bears interest at 12.0 per cent. per annum. Funds provided under the facility agreement are designated to finance the development of the project located at Bolshaya Gruzinskaya, 69-71. The facility is secured by a pledge of the property rights of Westec in 1,154 square metres of residential premises, 26,926 square metres of non-residential premises and 216 car parking places which, pursuant to project documentation, is to be located at Bolshaya Gruzinskaya, 69-71.

As of 31 March 2007, we had drawn €15,888,563 under this facility agreement.

### **Quasar Capital Limited Loan Agreement**

On 13 February 2006, we entered into a US\$60 million Term Loan Facility Agreement with Quasar Capital Limited as Original Lender and Deutsche Bank AG, London Branch, as Facility Agent. Interest on the loan is payable every six months and was set at a rate of LIBOR plus 2.25 per cent. per annum. The loan has a term of five years and is to be repaid in instalments of US\$10 million each, with the first instalment payable 30 months after the draw down date and the remaining instalments payable every six months thereafter. Funds provided under the facility are intended for general operational requirements.

The facility was secured with a pledge of 100 per cent. of our participatory interest in OOO “Krown Investments” or Krown Investments, by virtue of a pledge agreement between the parties to the facility

agreement. However, on 17 November 2006, the parties terminated the pledge and amended the interest rate to LIBOR plus 2.40 per cent. per annum. The full amount of the loan is guaranteed by Africa Israel.

As of 31 March 2007, this facility was fully drawn.

#### **Loan from S&T Equity (Overseas) Ltd**

We have a loan from S&T Equity (Overseas) Ltd which was originally provided to Westec by Brent Industrial Holdings Limited. The loan was assigned to S&T by Brent and bears interest at a rate of 5.0 per cent. per annum. The loan is repayable on 31 December 2007. There was no security or guarantees given for the loan. As at 31 March 2007, the amount outstanding under the loan was US\$3.5 million.

#### **Sberbank Facility (term sheet)**

We are currently in negotiations with the Savings Bank of the Russian Federation, or Sberbank, for a non-revolving credit line agreement which would bear interest at a floating rate. Funds drawn under the credit line would be used to finance the construction of the Tverskaya Shopping Centre and the traffic interchange at the Tverskaya Zastava Square in Moscow.

The credit line is to be secured by a mortgage of (i) our rights to the premises under construction at the Tverskaya Shopping Centre project in respect of a total area of 113,110 square metres and (ii) the premises of the Tverskaya Shopping Centre when completed (provided that the mortgage value of such premises is at least US\$290.64 million). Additionally, the loan is to be secured by a pledge of 51.0 per cent. of our participatory interest in the charter capital of ATZ. There can be no assurance, however, that we will obtain such credit line from Sberbank.

#### **IMB Loan Agreement (term sheet)**

Stroyinkom-K and IMB are currently negotiating a facility agreement for a principal amount of US\$25 million for a period of up to ten years. The loan would bear interest at 9.5 per cent. per annum. The principal amount of the loan would be repayable on a quarterly basis pursuant to an agreed schedule. Funds provided under the facility agreement would be designated to finance the renovation of the building located at Paveletskaya Embankment, 8 building 6. The principal loan amount would be provided in two tranches at US\$15 million and US\$10 million. The facility would be secured with (i) a pledge of 100 per cent. of the participatory interest in Stroyinkom-K charter capital currently held by us, (ii) a mortgage of the building to be renovated at Paveletskaya Embankment, 8 building 6 and (iii) a pledge of lease rights for the land plot underlying the building to be renovated. There can be no assurance, however, that we will obtain such a loan from IMB.

## TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

*The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:*

The Global Depositary Receipts (“**GDRs**”) represented by this certificate are each issued in respect of one ordinary share of par value US\$0.001 each (the “**Shares**”) in AFI Development PLC (the “**Company**”) pursuant to and subject to an agreement to be dated as of the closing date of this offering, and made between the Company and The Bank of New York in its capacity as depositary (the “**Depositary**”) for the “Regulation S Facility” and for the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “**Deposit Agreement**”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited as Custodian (the “**Custodian**”) to receive and hold on its behalf any relevant documentation respecting certain Shares (the “**Deposited Shares**”) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “**Deposited Property**”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the “**Conditions**”), references to the “Depositary” are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to BNY (Nominees) Limited or any other custodian from time to time appointed under the Deposit Agreement and references to the “Main Office” mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in England as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

*The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “Summary of Provisions Relating to the GDRs while in Master Form for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.*

References in these Conditions to the “Holder” of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the “**Register**”) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

### 1. Withdrawal of Deposited Property and Further Issues of GDRs

- 1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:
  - (a) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Cyprus of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

- (b) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;
- (c) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and
- (d) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either (1) in Schedule 3, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Distribution Compliance Period (such term being defined as the 40 day period beginning on the latest of the commencement of this offering, the original issue date of the GDRs, and the issue date with respect to the additional GDRs, if any, issued to cover over- allotments) in respect of surrendered Regulation S GDRs, or (2) in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

- (a) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (b) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (i) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (ii) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Cyprus of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement (*which is described in the following paragraph*) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (*which is described in the second following paragraph*) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further

GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

*The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is not a US person (as defined in Regulation S under the US Securities Act of 1933, as amended (the “Securities Act”)), is located outside the United States and will comply with the restrictions on transfer set forth under “Selling and Transfer Restrictions”.*

*The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act (“QIB”)) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under “Selling and Transfer Restrictions”.*

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a separate temporary Master Regulation S GDR and/or temporary Master Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and/or a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR or Master Rule 144A GDR by the number of such further GDRs, as applicable).
- 1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a “Pre-Release” as defined in Condition 1.7.
- 1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a “**Pre-Release**”). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the “**Pre-Releasee**”) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations in connection herewith, including the Pre-Releasee’s obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction

anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

## **2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property**

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

## **3. Transfer and Ownership**

The GDRs are in registered form, each corresponding to one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"). Prior to expiration of the Distribution Compliance Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act or to, or for the account of a qualified institutional buyer as defined in Rule 144A under the U.S. Securities Act (each a "**QIB**") in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (a) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (b) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A

Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

#### **4. Cash Distributions**

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:-

- (a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

#### **5. Distributions of Shares**

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

#### **6. Distributions other than in Cash or Shares**

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so

received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

## 7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (a) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in US dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (b) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (c) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (a) and (b) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (i) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (a) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (ii) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
- (d) (i) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(a) (the “**Primary GDR Rights Offering**”), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(a), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder’s GDRs (“**Additional GDR Rights**”) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the “**Instruction Date**”) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder’s instructions to subscribe for such Additional GDR Rights (“**Additional GDR Rights Requests**”) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the “**Maximum Additional Subscription**”) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (“**Unsubscribed Rights**”),

subject to Condition 7(d)(iii) and receipt of the relevant subscription price in US dollars or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(d)(ii).

- (ii) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.
- (iii) In order to proceed in the manner contemplated in this Condition 7(d), the Depositary shall be entitled to receive such opinions from Cyprus counsel and US counsel to the Company as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(d) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in willful default if it elects not to make the arrangements referred to in Condition 7(d)(i).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel to the Company reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (a), (b), (c) and (d) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

## **8. Conversion of Foreign Currency**

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or

distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

## **9. Distribution of any Payments**

- 9.1 Any distribution of cash under Conditions 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.
- 9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

## **10. Capital Reorganisation**

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

## **11. Withholding Taxes and Applicable Laws**

- 11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Cyprus and other withholding taxes, if any, at the applicable rates.
- 11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Cyprus in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

## **12. Voting Rights**

- 12.1 Holders will have voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

- 12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.
- 12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.
- 12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by the laws of Cyprus to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under the laws of Cyprus, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

- 12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Shares, PROVIDED THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company has agreed to provide such information in writing as soon as practicable) that (a) the Company does not wish such proxy to be given, or (b) such matter materially and adversely affects the rights of holders of Shares.
- 12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under the laws of Cyprus or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.
- 12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chairman of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 unless it shall have received an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under the laws of Cyprus and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.
- 12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable laws of Cyprus.
- 12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.
- 13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary**
- The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "**Charges**") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.
- 14. Liability**
- 14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.
- 14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a

GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Cyprus or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, any Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

- 14.3 Neither the Depositary nor any Agent shall be liable (except for its own willful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.
- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- 14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Condition 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own willful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer,

valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

- 14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.
- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without willful default, negligence or bad faith.
- 14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.
- 14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, willful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or

the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from the willful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

- 14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.
- 14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable laws of Cyprus as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.
- 14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

#### **15. Issue and Delivery of Replacement GDRs and Exchange of GDRs**

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

#### **16. Depositary's Fees, Costs and Expenses**

- 16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
- (a) for the issue of GDRs (other than upon the issue of GDRs pursuant to this offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.\$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
  - (b) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
  - (c) for issuing GDR certificates in definitive registered form (other than pursuant to (b) above): the greater of U.S.\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
  - (d) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.\$0.02 or less per GDR for each such dividend or distribution;
  - (e) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.\$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution; and
  - (f) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.\$0.05 or less per GDR;
  - (g) a fee of U.S.\$0.02 or less per GDR (or portion thereof) for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (h) below; and

- (h) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

- 16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

## **17. Agents**

- 17.1 The Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the Holders.
- 17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

## **18. Listing**

The Company has undertaken in the Deposit Agreement to use its best endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list maintained by the Financial Services Authority (the "**Official List**") and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use its best endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

## **19. The Custodian**

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 30 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (a) by the Company, such approval not to be unreasonably withheld or delayed, and (b) by the relevant authority in Cyprus, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Cyprus, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such

termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

## **20. Resignation and Termination of Appointment of the Depositary**

- 20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its best endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

- 20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

## **21. Termination of Deposit Agreement**

- 21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.
- 21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(a) and Clause 10.1.1(a) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.
- 21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement

and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

## **22. Amendment of Deposit Agreement and Conditions**

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(a) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

## **23. Notices**

- 23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.
- 23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after dispatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.
- 23.3 So long as GDRs are listed on the Official List and admitted to trading on the London Stock Exchange and the rules of the Financial Services Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK (which is expected to be the Financial Times).

## 24. Reports and Information on the Company

- 24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:
- (a) in respect of the financial year ending on 31 December 2006 and in respect of each financial year thereafter, the non-consolidated (and, if published for holders of Shares, consolidated) balance sheets as at the end of such financial year and the non-consolidated (and, if published for holders of Shares, consolidated) statements of income for such financial year in respect of the Company, prepared in conformity with generally accepted accounting principles in Cyprus and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;
  - (b) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published and in any event no later than three months after the end of the period to which they relate; and
  - (c) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published, and in any event no later than one month after the end of the period to which they relate.
- 24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- 24.3 For so long as any of the GDRs remains outstanding and are “**restricted securities**” within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933, as amended, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the U.S. Securities Act of 1933, as amended, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

## 25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where

appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

**26. Moneys held by the Depositary**

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

**27. Severability**

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

**28. Governing Law**

- 28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by the laws of Cyprus. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.
- 28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and has agreed to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or at its registered office in Cyprus, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 28.3 The courts of England are to have jurisdiction to settle any disputes (each a “**Dispute**”) which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“**Proceedings**”) may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- 28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.
- 28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

## SUMMARY OF PROVISIONS RELATING TO THE GDRs WHILE IN MASTER FORM

The GDRs will initially be evidenced by a single Master Regulation S GDR in registered form and a single Master Rule 144A GDR in registered form. The Master Rule 144A GDR will be deposited with The Bank of New York in New York as custodian for DTC and registered in the name of Cede & Co. as nominee for DTC on the date the GDRs are issued. The Master Regulation S GDR will be deposited with a common depositary for Euroclear and Clearstream (and registered in the name of the common depositary's nominee) on the date the GDRs are issued.

The Master Regulation S GDR and the Master Rule 144A GDR, or the Master GDRs contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the conditions of the GDRs set forth under "Terms and Conditions of the Global Depositary Receipts." The following is a summary of certain of those provisions.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (a), (b), (c) or (d) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the holders of the GDRs within 60 days in the event that:

- (a) DTC, in the case of the Master Rule 144A GDR, or Euroclear or Clearstream, in the case of the Master Regulation S GDR, notifies us that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days;
- (b) either DTC in the case of Master Rule 144A GDR, or Euroclear or Clearstream in the case of the Master Regulation S GDR, is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 days;
- (c) in respect of the Master Rule 144A GDR, DTC or any successor ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended; or
- (d) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at our expense, including printing costs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream or DTC. Pursuant to the conditions set forth under "Terms and Conditions of the Global Depositary Receipts", any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR, or any distribution of GDRs or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property as defined in the Deposit Agreement shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register provided always that if the number of GDRs represented by a Master GDR is reduced to zero such Master GDR shall continue in existence until our obligations under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

### Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR, be made by the Depositary through Euroclear and Clearstream and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefor from us. A free distribution or rights issue of our shares to the Depositary on behalf of the holders of the GDRs will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of the GDRs will have voting rights as set forth under "Terms and Conditions of the GDRs".

**Surrender of GDRs**

Surrender of a GDR to the Depositary shall be satisfied by the production by (in the case of GDRs represented by the Master Regulation S GDR) the common depositary for Euroclear and Clearstream, or (in the case of GDRs represented by the Master Rule 144A GDR) DTC, on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any agent and the custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

**Notices**

For as long as the Master Regulation S GDR is registered in the name of the common nominee for Euroclear and Clearstream, and the Master Rule 144A GDR is registered in the name of Cede & Co. on behalf of DTC, notices to holders of the GDRs may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, or (as appropriate) DTC, for communication to persons entitled thereto in substitution for delivery of notices in accordance with their terms.

The Master GDRs shall be governed by and construed in accordance with English law.

## TAXATION

*The following statements are intended only as a general guide to the main Cypriot, UK, Russian and United States tax consequences which will apply to holders of the GDRs. It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of holders of GDRs and is based on current law and practice which may be subject to change. Any person who is in any doubt as to their tax position, or who is subject to taxation in any jurisdiction should seek professional advice immediately.*

### Cypriot taxation

#### *Tax residency in Cyprus*

In accordance with Cyprus income tax laws, a company is tax resident in Cyprus if its management and control are exercised in Cyprus. There is no definition in the Cyprus income tax laws as to what constitutes management and control.

#### *Cyprus tax rates*

Cyprus tax resident companies are, in general, subject to corporation tax on their taxable profits at the rate of 10.0 per cent. with specific objective exemptions applying to certain types of income and gains. Cyprus tax resident companies are generally eligible for treaty benefits under the Cyprus Double Tax Treaty network.

#### *Profit from disposal of securities*

In accordance with the Cyprus-Russia tax treaty, or Tax Treaty, only Cyprus has the right to tax any gains derived by us or our Cypriot subsidiaries, on the disposal of Russian securities. Therefore, no Russian profit tax should be due. In addition, sale of shares should not be subject to VAT under Russian tax law.

Any gains derived by a Cyprus tax resident company or individual from the disposal of securities are exempt from Cyprus income tax.

Any gain from disposal of securities is not subject to Cyprus income tax, irrespective of the trading nature of the gain, the number of shares held or the holding period and is also outside the scope of capital gains tax provided that the company whose securities are disposed of does not hold any immovable property situated in Cyprus.

#### *Dividends*

Under the provisions of the Tax Treaty, provided that we do not create a permanent establishment, a PE, in Russia, the rate of Russian withholding tax on dividends should be reduced to five per cent. if we have invested in the capital of the Russian company not less than the equivalent of US\$100,000, otherwise it should be 10.0 per cent. This should also apply to dividend distributions to a Cypriot partnership, in so far as the partners of the partnership are Cypriot tax residents.

Dividend income (whether received from Cyprus resident or non-resident companies) is exempt from Cyprus income tax. Dividend income from Cyprus resident companies is exempt from Special Contribution for Defence whereas dividend received from non Cyprus resident Companies is exempt from Special Contribution for Defence under certain participation holding conditions if the participation interest in the share capital of a foreign subsidiary is one per cent. or more. The exemption does not apply if the company paying the dividend engages directly or indirectly more than 50.0 per cent. in activities which lead to investment income and the foreign tax burden of the company paying the dividend is substantially lower than the tax burden of the company in Cyprus receiving the dividend (in practice “foreign tax burden being significantly lower” means at an effective tax of less than five per cent.). If the exemption for a Special Contribution for Defence does not apply, dividends received or credited from non Cyprus resident companies are taxed at a rate of 15.0 per cent.

In most cases no tax liabilities are expected to be incurred by us in Cyprus either due to the participation exemption applying, or if not, due to double tax relief under the provisions of the Tax Treaty, provided the proper documentation can be provided to the Cyprus tax authorities. Double tax relief is available by way of credit for foreign tax against Cyprus tax payable in respect of the same item of income or capital for which the credit is claimed.

### *Deemed distribution rules*

In relation to dividend distributions from our Cypriot subsidiaries to us, it should be noted that any profits attributable to shareholders (companies or individuals) who are Cyprus tax residents are subject to the deemed dividend distribution rules. These rules provide that a company, which does not distribute at least 70.0 per cent. of its accounting profits after tax, as defined by the relevant law, within two years after the end of the relevant tax year will be deemed to have distributed as a dividend 70.0 per cent. of such profits. Profits in this respect mean the accounting profits as arrived by applying internationally accepted accounting principles (IFRS). A Special Contribution for Defence at a rate of 15.0 per cent. will be payable by us at the end of the two years on such deemed dividend distribution.

The amount of deemed dividend distribution is reduced by the actual dividend paid out of the profits of the relevant year during the relevant two years.

These provisions do not apply to profits attributable to non-Cyprus tax resident shareholders (companies or individuals) but do apply to our Cypriot subsidiaries. Special Contribution for Defence by us in consequence of a deemed dividend distribution shall in the first instance be paid by our Cypriot subsidiaries which will debit such contribution to us.

### *Interest income*

To the extent that interest is received by or credited to us, which is considered to arise in the ordinary course of the business or closely connected thereto, business income, it will be subject to income tax in Cyprus at the rate of 10.0 per cent. and should not be subject to the Special Contribution for Defence. Interest income of companies which act as vehicles for the purpose of financing group companies is considered to be connected with the ordinary carrying on of a business.

Any interest received or credited which is deemed to be “non business income” will be subject for 50.0 per cent. to income tax rate and also to Special Contribution for Defence at a rate of 10.0 per cent. on the gross amount of interest received or credited before the deduction of any expenses.

### *Cyprus withholding taxes*

No Cypriot withholding taxes will apply with respect to any distribution of dividends and interest by a company to non-Cyprus tax resident shareholders (companies and individuals) and Cyprus tax resident companies. Dividends payable to individuals tax resident in Cyprus are subject to Special Contribution for Defence at a rate of 15.0 per cent. Capital gains on disposition of GDRs by non-Cypriot individuals or entities are not subject to Cypriot tax.

### *Capital duty*

Capital duty in the form of registration fees is payable to the Registrar of Companies in respect of the registered authorised and issued share capital of a Cypriot company upon its incorporation and upon subsequent increases thereon. The capital duty rates for subsequent changes of the registered authorised and issued share capital are as follows:

- 0.6 per cent. on the nominal value of additional registered authorised share capital; and
- CYP10.00 flat duty on every issue, whether the shares are issued at their nominal value or at a premium.

### *VAT*

The provisions of the VAT legislation are beneficial to the majority of Cypriot companies engaged in activities outside Cyprus. This is because in the majority of the situations, although no VAT is charged on providing of supplies of goods or services made by such companies (the legislation is not aimed at taxing transaction taking place outside Cyprus), the companies have the right, under certain conditions as explained below, to claim refund of any VAT suffered on expenses and acquisitions made in Cyprus.

Pure holding companies, whose only income is or is to be expected from dividends, are not considered as “business entrepreneurs” for VAT purposes. As a result they are outside the scope of the Cyprus VAT legislation. However, if they are to supply any other goods or services subject to VAT, then they fall within the scope of the Cyprus VAT legislation.

Registration for most Cypriot companies, the activities of which are exclusively carried out overseas, is voluntary. The granting of loans and provisions of guarantees by us is considered to be a supply of services which is VAT exempt, hence no VAT must be charged on any interest income or guarantee fees (if any). However, we should register for VAT purposes in Cyprus, submit VAT returns on a quarterly basis, and pay VAT, currently at a rate of 15.0 per cent. in case certain (reverse charge type of) services are provided to us by non Cyprus based businesses. If the granting of loans and the provision of guarantees are made to parties resident outside the EU, then this is an activity for which the right to claim the amount of the related input VAT is granted—whereas this right is not granted when such loans are provided to EU resident parties.

#### *Stamp duty in Cyprus*

Cyprus levies stamp duty on every instrument if:

- it relates to any property situated in Cyprus; or
- it relates to any matter or thing which is performed or done in Cyprus.

There are instruments which are subject to Cypriot stamp duty at a fixed fee (ranging from 2.0 cents to CYP20.00) and instruments which are subject to stamp duty based on the value of the instrument (for sums exceeding CYP100,000.00: 2.0 cents for every CYP10.00). The above obligation arises irrespective of whether the instrument is executed in Cyprus or abroad.

Contracts are generally subject to stamp duty based on the value of the instrument (for sums exceeding CYP100,000.00: 2.0 cents. for every CYP10.00, CYP150.00 for the first CYP100,000.00). The above obligation arises irrespective of whether the instrument is executed in Cyprus or abroad.

#### **UK taxation**

The following is of a general nature only and is based on current law and HM Revenue & Customs practice published at the date of this prospectus, both of which are subject to change. It is intended as a general guide to the main UK tax consequences which may apply to holders of GDRs who are individuals and are resident or ordinarily resident in the UK for tax purposes or companies which are resident in the UK for tax purposes, who are beneficial owners of GDRs as an investment. It does not purport to be a comprehensive analysis of all of the UK tax consequences applicable to all types of holders of GDRs. Prospective investors should consult their own taxation advisers as to the UK tax consequences for them associated with the acquisition, holding and disposing of GDRs.

#### *Dividends*

We are not resident for tax purposes in the UK and will not be obliged to make any withholding on account of UK tax on payment of any dividends.

UK individuals who are resident, ordinarily resident and domiciled in the UK will be liable to UK income tax on the gross dividend paid by us (i.e. including any amount of tax withheld in Cyprus). Double taxation relief, however, may be available for Cypriot withholding tax, if any, with the provision that the relief cannot exceed the amount of UK tax payable on the dividend. UK resident individuals who are not domiciled in the UK will generally only be subject to UK income tax in respect of the dividend if it is remitted to the UK. The dividend receipt will be regarded as the top slice of the individual's income and will be subject to UK income tax at the rates set out below.

Individual holders of GDRs who are liable to income tax at no more than the basic rate will be subject to income tax on the gross dividend at the dividend ordinary rate (currently 10.0 per cent.). Individual holders of GDRs liable to income tax at the higher rate will be subject to income tax on the gross dividend at the dividend upper rate (currently 32.5 per cent.).

A UK resident company will, where double tax relief is claimed, be liable to UK tax on the gross dividend paid by us, at the prevailing UK corporation tax rate (the basic rate of which is 30.0 per cent.), subject to credit for Cypriot withholding tax deducted at source, if any. A UK resident company may, if certain shareholding requirements are satisfied, seek relief for underlying tax (borne by us and our subsidiaries on the profits out of which the dividend is paid) associated with the dividend. As credit for overseas tax suffered on the dividend cannot exceed the UK corporation tax liability on the dividend, a UK company may, subject to satisfying the provisions within the UK double taxation regulations, be entitled to claim credit for excess unrelieved foreign tax against dividends received from certain other sources.

Persons in the UK paying “foreign dividends” to or receiving “foreign dividends” (which may include payments under the GDRs) on behalf of another person may be required to provide information to HM Revenue and Customs regarding the identity of the payee, and in certain circumstances such information may be exchanged with tax authorities in other countries.

#### *Chargeable gains in the UK*

An individual who is resident, ordinarily resident and domiciled in the UK for tax purposes will be liable to capital gains tax where a gain arises on the disposal of chargeable assets situated anywhere in the world (including GDRs as an investment) subject to any available exemptions or relief.

An individual who is resident and ordinarily resident in the UK for tax purposes but not domiciled in the UK for tax purposes will be liable to UK capital gains tax only to the extent that chargeable gains made on the disposal of GDRs are remitted or deemed to be remitted to the UK.

If an individual ceases to be resident or ordinarily resident in the UK and subsequently disposes of GDRs, in certain circumstances any gain on that disposal may be liable to UK capital gains tax upon that individual becoming once again resident or ordinarily resident in the UK.

For an individual, capital gains tax is charged at the rate equivalent to the rate of income tax which would apply if the gain were the individual's top slice of income. Taper relief may apply to reduce the amount of chargeable gain assessable to capital gains tax in relation to the period the shares are held and the amount of the relief is dependent on whether the GDRs are considered to be a “business” or “non-business” asset. The amount of the relief available for “business” assets is higher than that for “non-business” assets.

UK resident companies making a disposal of GDRs will be liable to corporation tax in respect of chargeable gains arising on such disposal, subject to the availability of indexation allowance.

#### *Stamp duty and stamp duty reserve tax (“SDRT”) in the UK*

The statements below are intended as a general guide to the current position. They do not apply to certain intermediaries who are not liable to stamp duty or SDRT, or to persons connected with depositary arrangements or clearance services, who may be liable at a higher rate.

There is generally no liability to stamp duty or SDRT on the issue of GDRs by the depositary.

Stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration rounded up to the nearest £5, will arise on the transfer on sale of GDRs if the document of transfer is executed in the UK or the document or transfer relates to any matter or thing to be done in the UK.

UK stamp duty at a fixed rate of £5 per transfer will be payable where an investor wishes to deposit the shares with the depositary in order that GDRs will be issued.

No charge to SDRT will arise in respect of an agreement to transfer GDRs provided that the GDRs are not registered in any register kept in the UK by us or on our behalf.

#### **Russian taxation**

Our Russian companies and non-Russian companies which have created a permanent establishment in the Russian Federation (“Russian Taxpayers”) will be subject to the general Russian corporate tax regime. Our non-Russian companies receiving income from sources in the Russian Federation otherwise than through a permanent establishment may also be subject to Russian tax in the form of withholding income tax, subject to applicable double tax treaty relief.

#### *General information on Russian taxation*

Corporate income tax (profit tax) is levied at a rate of 24.0 per cent. on total taxable income (generally income less deductible expenses including depreciation, interest expenses within the limits) of our Russian companies and on taxable income attributable to any Russian permanent establishment of our non-Russian companies.

Withholding income tax on Russian source income is levied on some types of passive income (generally income with no cost deductions) at a rate of 15.0 per cent. (dividends), 20.0 per cent. (interest, royalties, income from the lease of immovable property, other types of income) and 20.0 or 24.0 per cent.

(sale proceeds or capital gains, respectively, from sale of immovable property located in Russia or shares in Russian companies more than 50.0 per cent. of whose assets consist of immovable property located in Russia), subject to available double tax treaty relief. The rate of 24.0 per cent. are to be applied to net sale proceeds determined as sale proceeds less expenses related to purchase and sale of the assets if such expenses are properly documented and such documents are submitted to Russian company paying the income before the date of payment. Otherwise the tax is to be withheld at the rate of 20.0 per cent. that applicable to the whole amount of income received from sale without any deductions. For interest and dividends received by our companies resident in Cyprus, the withholding tax rates may be reduced or eliminated (and if they fulfill the conditions set out in the Cyprus-Russia double-taxation treaty) under the Cyprus-Russia double taxation treaty provided that the recipient entity is eligible for treaty relief with respect to the payment and the amount is not attributable to a Russian permanent establishment of the recipient. For example, under the Cyprus-Russia double taxation treaty, dividend withholding income tax may be reduced to five per cent. (if conditions set forth in the Cyprus-Russia double-taxation treaty are met) and interest and capital gains on the sale of shares in our Russian companies could be exempt from Russian withholding income tax (if conditions set forth in Cyprus-Russia double-taxation treaty are met). In order to enjoy the benefits of an applicable double tax treaty, documentary evidence is required prior to payment being made to confirm the applicability of the double tax treaty under which benefits are claimed.

No double taxation treaty relief is available for income from lease and sale of immovable property located in Russia. No consolidation for tax purposes is possible under Russian tax law. As a result, each of our entities pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another of our entities, which may result in higher taxes for all our entities as a whole than if taxes were assessed on a consolidated basis. Payments between related parties (including between our entities) should be on arm's length market terms, or else these payments may be challenged by the Russian tax authorities and additional taxes (and penalties) assessed.

#### *Taxation of the GDRs*

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of the GDRs as well as the taxation of dividends on the GDRs. The summary is based on the laws of Russia, in effect at the date of this prospectus, which are subject to change (possibly with retroactive effect). The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary seek to address the availability of double tax treaty relief in respect of the GDRs, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the GDRs. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

For the purposes of this summary, a "non-resident Holder" means (i) an individual person actually present in Russia for an aggregate period of less than 183 days within 12 successive months (excluding days of arrival into Russia, but including days of departure from Russia); or (ii) a legal entity or organisation in each case not organised under Russian law that holds and disposes of the GDRs otherwise than through a permanent establishment in Russia.

#### ***Non-Resident Holders***

##### ***Proceeds from Disposition of GDRs received from a source outside the Russian Federation***

A non-resident Holder (whether a legal entity or individual) of a GDRs should not be subject to any Russian taxes on disposition of the GDRs received from sources outside Russia.

##### ***Proceeds from Disposition of GDRs received from a source within the Russian Federation***

In the event that proceeds from disposal of GDRs are received from a source within Russia, a non-resident Holder that is a legal entity or organisation should not be subject to Russian tax in respect of such proceeds.

If proceeds from a disposal of the GDRs are received from a Russian source, a non-resident Holder who is an individual will generally be subject to tax at a rate of 30.0 per cent., subject to any available double tax treaty relief, in respect of gross proceeds from such disposal less any available cost deduction (which includes the purchase price of the GDRs). In this regard, if the GDRs are disposed of in Russia, for

Russian personal income tax purposes, the proceeds of such disposition are likely to be regarded as received from a Russian source. In certain circumstances, if the disposal proceeds are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax or the non-resident individual may be liable to pay the tax. Non-resident Holders who are individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the GDRs.

Where proceeds from the disposition of the GDRs are received from a Russian source, in order for the non-resident individual to receive the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed.

#### ***Refund of Tax Withheld***

For an individual Holder for which double tax treaty relief is available, if Russian withholding tax on income was withheld by the source of payment, a refund of such tax may be filed within three years after the end of the year in which the tax was withheld.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Russian Tax Code. Obtaining such a refund may be difficult.

#### ***Resident Holders***

##### ***Proceeds from Disposition of GDRs received from both from sources within and outside the Russian Federation***

A Holder who is an individual resident or legal entity resident in Russia for tax purposes is subject to all applicable Russian taxes including any documentation requirements that may be required by law or practice in respect of gains from disposal of the GDRs and dividends received on the GDRs. Resident Holders should consult their own tax advisers with respect to their tax position regarding the GDRs.

#### **United States taxation**

The following is a general summary of the material United States federal income tax consequences relating to the acquisition, ownership and disposition of GDRs by certain holders that purchase GDRs pursuant to this offering. This summary is based upon the Internal Revenue Code of 1986, as amended, or the Code, Treasury Regulations promulgated there under, judicial decisions, and the United States Internal Revenue Service's current administrative rules, practices and interpretations of law, all as in effect on the date of this prospectus and all of which are subject to change, possibly with retroactive effect. This summary also takes into account proposed Treasury Regulations regarding passive foreign investment companies, which are not currently in effect but would purport to apply on a retroactive basis, the "Proposed Regulations". There can be no assurance as to whether, when or in what form the Proposed Regulations will be adopted as final Treasury Regulations. This summary is also based on the covenants of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

For the purposes of this summary, a "United States Person" means a beneficial owner of GDRs that is, for United States federal income tax purposes (i) an individual that is a citizen or resident of the United States, (ii) a corporation, or an entity treated as such for United States federal income tax purposes, created or organised in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more United States Persons have the authority to control all substantial decisions of such trust, or (b) the trust has already elected to be treated as a United States person for United States federal income tax purposes. A "Non-United States Person" means a beneficial owner of shares, other than a partnership or an entity treated as a partnership for United States federal income tax purposes, that is not a United States Person. If an entity treated as a partnership for United States federal income tax purposes holds GDRs, the United States federal income tax treatment of a partner in the partnership generally will depend on the status and the activities of the partner and the partnership. A partnership holding GDRs should consult its own tax advisers with respect to the United States federal income tax consequences applicable to it and its partners of the acquisition, ownership and disposition of GDRs.

This summary is only a general discussion and is not intended to be, and should not be construed to be, legal or tax advice to any prospective investor. In addition, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a United States Person in light of such person's particular circumstances, including certain holders of GDRs that may be subject to special treatment under the Code (for example, persons that (i) are tax-exempt organisations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts; (ii) are financial institutions, insurance companies, grantor trusts, real estate investment trusts, regulated investment companies, or brokers, dealers or traders in securities or currencies; (iii) are subject to the alternative minimum tax provisions of the Code; (iv) own GDRs as part of a straddle, hedging, conversion transaction, constructive sale or other arrangement involving more than one position; (v) are expatriates or other former long term residents of the United States; (vi) own (or are deemed to own) 10.0 per cent. (by voting power or value) of our stock; (vii) receive GDRs as compensation for the performance of services; or (viii) hold GDRs other than as capital assets or do not use the US Dollar as their functional currency). Moreover, this summary does not include any discussion of United States federal estate or gift tax consequences or state, local or foreign income, estate, gift or other tax consequences.

THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP AND DISPOSITION OF GDRs ARE COMPLEX AND POTENTIALLY UNFAVOURABLE TO UNITED STATES PERSONS. ACCORDINGLY, EACH UNITED STATES PERSON WHO ACQUIRES GDRs IS STRONGLY URGED TO CONSULT HIS, HER OR ITS OWN TAX ADVISER WITH RESPECT TO THE UNITED STATES FEDERAL, STATE, LOCAL AND FOREIGN INCOME, ESTATE, GIFT AND OTHER TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF GDRs, WITH SPECIFIC REFERENCE TO SUCH PERSON'S PARTICULAR CIRCUMSTANCES.

#### INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO UNITED STATES FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND SUCH DESCRIPTION CANNOT BE RELIED UPON, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE UNITED STATES INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING, WITHIN THE MEANING OF INTERNAL REVENUE SERVICE CIRCULAR 230, OF THE GDRs. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

#### *Ownership of GDRs in General*

For United States federal income tax purposes, if you are a holder of GDRs, you generally will be treated as the owner of our shares represented by such GDRs.

The United States Treasury Department has expressed concern that depositaries for global depositary receipts, or other intermediaries between the holders of shares of an issuer and the issuer, may be taking actions that are inconsistent with the claiming of United States foreign tax credits by United States Persons of such receipts or shares. Accordingly, the analysis regarding the sourcing rules described below, the availability of US tax credits for any taxes withheld on underlying dividend payments made to the Depositary and the eligibility of dividends for preferential tax rates applicable to long term capital gains (as described below) could be materially and adversely affected as a result of these actions.

#### *Passive Foreign Investment Company Considerations*

A non-U.S. corporation will be classified as a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either

- at least 75.0 per cent of its gross income is "passive income"; or
- at least 50.0 per cent of the average value of its gross assets is attributable to assets that produce "passive income" or are held for the production of "passive income."

Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

Based on our gross income and gross assets and the nature of our business, we believe that we were a PFIC for the taxable year ended 31 December 2006 and that we will be a PFIC for the taxable year ending 31 December 2007. Depending on our income, assets and activities in taxable years ending after 31 December 2007, it is possible that we will continue to be a PFIC in such future taxable years.

Assuming that we qualify as a PFIC, if you are a United States Person, unless you make one of the elections described below under the heading “Qualified Electing Fund Election and Mark to Market Election”, a special tax regime will apply to both (a) any “excess distribution” with respect to your GDRs (generally, your ratable portion of distributions in any year which are greater than 125.0 per cent. of the average annual distribution received by you in the shorter of the three preceding years or your holding period) and (b) any gain realised on the sale or other disposition of GDRs. Under this regime, any excess distribution and realised gain will be treated as ordinary income and will be subject to tax as if (a) the excess distribution or gain had been realised ratably over your holding period, (b) the amount deemed realised had been subject to tax in each year of that holding period at the highest marginal rate, and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. United States Persons should note, as more fully discussed below, that distributions with respect to GDRs may not be includible in a holder’s gross income and subject to the PFIC rules to the extent such distributed amounts are attributable to distributions from, or dispositions of the stock of, Subsidiary PFICs (as defined below) that have previously been includible in the holder’s gross income under the PFIC rules; however, we do not intend to provide holders with information with respect to distributions from, or dispositions of the stock of, Subsidiary PFICs.

#### *Subsidiary PFICs*

Based on the income, assets and activities of our direct and indirect subsidiaries, we believe that it is likely that certain of our direct and indirect subsidiaries (and other entities in which we directly or indirectly owns an equity investment that are treated as corporations for U.S. federal income tax purposes) were classified as PFICs for the taxable year ended 31 December 2006 and will be classified as PFICs for the taxable year ending 31 December 2007 (the “Subsidiary PFICs”). In addition, depending on the income, assets and activities of such entities in taxable years ending after 31 December 2007, it is also possible that certain of such entities could be classified as Subsidiary PFICs in future taxable years. A United States Person will be treated as owning its pro rata share of the stock of each Subsidiary PFIC and will be subject to the PFIC rules with respect to each such Subsidiary PFIC. A United States Person’s holding period for the stock of a Subsidiary PFIC generally will begin on the first day that such actual owner is considered to own stock of the Subsidiary PFIC.

#### *Indirect Distributions*

United States Persons will be treated as actually receiving their pro rata share of any distribution made by a Subsidiary PFIC (an “indirect distribution”) and such holders will be subject to the rules generally applicable to shareholders of PFICs discussed above (even though such holders may not have received the proceeds of such distribution). A United States Person’s adjusted basis in the GDRs will be increased by the amount of the indirect distribution taxed to such holder. Any distribution by us to a United States Person in respect of GDRs that is attributable to an indirect distribution will not be subject to further U.S. federal income tax in the hands of the United States Persons. **United States Persons should note that we do not intend to provide holders with information with respect to indirect distributions.**

#### *Indirect Dispositions*

Upon a disposition of an interest in a Subsidiary PFIC (an “indirect disposition”), a United States Person will be treated as recognising such holder’s pro rata share of the gain, if any, realised by the actual owner of such Subsidiary PFIC’s stock. For this purpose, an indirect disposition includes (i) any disposition of stock of a Subsidiary PFIC by us, (ii) any disposition by a United States Person of GDRs, or (iii) any transaction resulting in the reduction or termination of a United States Person’s deemed interest in a Subsidiary PFIC. Any gain recognised by a United States Person upon an indirect disposition will be their pro rata share taxable under the PFIC regime as previously described. A United States Person’s adjusted basis in GDRs will be increased by any gain recognised by such holder as a result of the indirect disposition. Any distribution by us to a United States Person in respect of GDRs that is attributable to an indirect disposition will not be subject to further U.S. federal income tax in the hands of the United States Persons. **United States Persons should note that we do not intend to provide holders with information with respect to indirect dispositions.**

### *Treatment of Certain Distributions with Respect to GDRs*

To the extent that a distribution paid on GDRs to a United States Person is not an excess distribution and is not treated as a non-taxable distribution previously included in income by the United States Person in respect of a distribution by, or disposition of the stock of, a Subsidiary PFIC, such a distribution will be includible in your income as dividend income to the extent such distribution is paid out of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. Assuming that we are classified as a PFIC in either the taxable year in which a dividend is paid on the GDRs or in the taxable year preceding the taxable year in which the dividend is paid, the dividend will not be eligible for the preferential tax rate generally applicable to dividends paid by a “qualified foreign corporation” to non-corporate United States Persons in taxable years beginning on or before 31 December 2010. Such dividends will be included in your gross income as ordinary income and will not be eligible for the dividends received deduction generally allowed to United States corporations. To the extent, if any, that the amount of any distribution exceeds the Company’s current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated as under 1291 return of capital and may still be subject to income inclusion and the Tax free is not a given return of capital to the extent of your adjusted tax basis in your GDRs. We do not maintain calculations of our earnings and profits under U.S. federal income tax principles, and, therefore, United States Persons should expect that any distributions will be reported as dividends for U.S. federal income tax purposes.

### *Foreign Currency Gains or Loss with Respect to GDRs*

Excess distributions and dividends paid in a currency other than the U.S. dollar will be included in the gross income of a United States Person in an amount equal to the U.S. dollar value of such currency calculated by reference to the prevailing spot market exchange rate in effect on the day it is received by the United States Person. Such a holder will have a tax basis for U.S. federal income tax purposes in amounts received equal to that U.S. dollar value. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

If you are a United States Person, dividends paid to you with respect to GDRs will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, for taxable years beginning on or before 31 December 2006, dividends that we distribute generally will constitute “passive income,” or, in the case of certain United States Persons, “financial services income”, and, for taxable years beginning after 31 December 2006, generally will constitute “passive category income”, or in the case of certain United States Persons, “general category income.”

Special rules apply to the amount of foreign tax credits that a United States Person may claim on a distribution from a PFIC. Prospective purchasers should consult their own tax advisers regarding the application of such rules.

### *Direct Sales, Exchanges or Dispositions of GDRs*

In general, a United States Person will recognise gain or loss upon the sale or exchange of GDRs equal to the difference between the amount realised and such holder’s adjusted tax basis in the GDRs, as determined in U.S. dollars. Initially, the tax basis of a United States Person should equal the amount paid for its GDRs, in each case, as determined in U.S. dollars. Such basis will be increased by amounts taxable to such holder by virtue of the PFIC rules, and decreased by direct distributions from us that are deemed to consist of such previously taxed amounts. Upon the direct disposition of GDRs, any gain to a United States Person will be taxable under the PFIC regime as previously described.

For foreign tax credit purposes, any gains recognised on the disposition of GDRs, or on the annual mark-to-market of GDRs if a mark-to-market election is made with respect to GDRs (as discussed below), will be U.S. source income. Prospective purchasers should consult their own tax advisers regarding the application of such rules.

### *Qualified Electing Fund Election and Mark-to-Market Election*

Where a company that is a PFIC meets certain reporting requirements, a United States Person could avoid certain adverse PFIC consequences described above by making a “qualified electing fund” (“QEF”) election to be taxed currently on its proportionate share of the PFIC’s ordinary income and net capital

gains. However, we do not intend to comply with the necessary accounting and record keeping requirements that would allow a United States Person to make a QEF election with respect to us and any Subsidiary PFICs. If the GDRs are “regularly traded” on a “qualified exchange,” a United States Person may make a mark-to-market election with respect to the GDRs (but not the shares of any Subsidiary PFIC), which may help to mitigate some of the adverse tax consequences resulting from the Company’s status as a PFIC (but not those resulting from the PFIC status of the Subsidiary PFICs). The GDRs will be treated as “regularly traded” in any calendar year in which more than a *de minimis* quantity of GDRs are traded on a qualified exchange on at least 15 days during each calendar quarter. A “qualified exchange” includes a foreign exchange that is regulated by a governmental authority in which the exchange is located and with respect to which certain other requirements are met. The U.S. Internal Revenue Service has not yet identified specific foreign exchanges that are “qualified” for this purpose. If a United States Person makes the mark-to-market election, for each year in which the Company is a PFIC, the holder will generally include as ordinary income the excess, if any, of the fair market value of the GDRs at the end of the taxable year over their adjusted tax basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted tax basis of the GDRs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). If a United States Person makes the election, the holder’s tax basis in the GDRs will be adjusted to reflect any such income or loss amounts annually. Any gain recognised on the sale or other disposition of GDRs will be treated as ordinary income and any loss incurred on the sale or other disposition of the GDRs will be treated as an ordinary loss to the extent of any net mark-to-market gains for prior years. Although a United States Person may be eligible to make a mark-to-market election with respect to the GDRs, no such election may be made with respect to the stock of any Subsidiary PFIC that such United States Person is treated as owning because such stock is not marketable. Hence, the mark to market election will not be effective to eliminate any of the PFIC adverse tax consequences described above. Once made, the election cannot be revoked without the consent of the US Internal Revenue Service unless the GDRs cease to be marketable. United States Persons should consult their own tax advisers regarding the availability and advisability of making a mark-to-market election in their particular circumstances.

#### *PFIC Reporting Requirements*

Each United States Person holding GDRs must make an annual return on Internal Revenue Service Form 8621, reporting distributions received and gains realised with respect to each PFIC (including Subsidiary PFICs for which said information will not be provided by us) in which the United States Person holds a direct or indirect interest. A United States Person who fails to file such form could be required to pay substantial penalties. Prospective purchasers should consult their own tax advisers regarding the potential application of the PFIC rules.

#### *Information Reporting and Backup Withholding*

United States information reporting requirements and backup withholding tax generally apply to certain payments to certain non-corporate holders of GDRs. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, GDRs by a paying agent within the United States to a holder of GDRs (other than an “exempt recipient”, which includes corporations, payees that are not United States persons that provide an appropriate certification and certain other persons). A paying agent or other intermediary within the United States generally will be required to withhold, at a rate currently of 28.0 per cent. through 2010, on any payment of dividends with respect to, and on the proceeds from the sale or redemption of, GDRs within the United States to a United States Person (other than a corporation or other “exempt recipient”) if such person fails to furnish its correct taxpayer identification number or otherwise fails to comply with such backup withholding requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a United States Person generally may be refunded (or credited against such United States Person’s United States federal income tax liability, if any) provided the required information is furnished to the United States Internal Revenue Service. United States Persons should consult their tax advisers as to the application of United States information reporting and backup withholding and their qualification for exemption from backup withholding and the procedure for obtaining such an exemption. If information reporting requirements apply to a United States Person, the amount of dividends paid with respect to, and the gross proceeds from the sale or redemption of, such GDRs will be reported annually to the United States Internal Revenue Service and such United States Person.

The above is a summary of certain aspects of current law and practice in Cyprus, the US and the UK. A holder of GDRs who is in any doubt as to his tax position should consult his or her professional adviser.

## SUBSCRIPTION

### Description of the Distribution

We, our shareholders, Africa Israel Investments Ltd., or Africa Israel, and Nirro Group S.A., or Nirro Group, and the underwriters named below have entered into an underwriting agreement dated 3 May 2007 with respect to this offering of our ordinary shares in the form of the GDRs. Subject to the satisfaction of certain conditions set out in the underwriting agreement, each underwriter has agreed, severally but not jointly, to subscribe for or purchase the GDRs, and pay for such number of GDRs as are set forth opposite its name in the following table.

<u>Underwriters</u>	<u>Total</u>
Deutsche Bank AG, London Branch . . . . .	34,666,667
Morgan Stanley & Co. International plc . . . . .	34,666,667
Goldman Sachs International . . . . .	23,666,666
Citigroup Global Markets Limited . . . . .	7,000,000
Total . . . . .	<u>100,000,000</u>

The GDRs will be evidenced by a Master Rule 144A GDR Certificate and a Master Regulation S GDR Certificate, and will be subject to certain restrictions as further discussed in “Terms and Conditions of the Global Depositary Receipts” and “Selling and Transfer Restrictions”.

The offer price is US\$14.00 per GDR. The total commissions payable to the underwriters in respect of the 100,000,000 GDRs being offered in this offering will be equivalent to 2.375 per cent. of the gross proceeds of the offering plus an additional fee of up to one per cent. of the gross proceeds of the offering at our discretion. We estimate that the total expenses of this offering, except commissions and fees paid by us to the underwriters, will be approximately US\$8.9 million.

We and the shareholders have provided the underwriters with customary representations and warranties under the underwriting agreement, including in relation to our business, the shares and GDRs and the contents of this prospectus.

The underwriting agreement provides that the obligations of the underwriters are subject to certain conditions precedent. In addition, Deutsche Bank AG, London Branch, Goldman Sachs International and Morgan Stanley & Co. International plc, as the Joint Bookrunners, on behalf of the underwriters, may terminate the underwriting agreement in certain circumstances prior to the closing of this offering. We and the shareholders have agreed in the underwriting agreement, subject to its terms, to indemnify the underwriters against certain liabilities in connection with the sale of the GDRs. In addition, we have agreed to reimburse the underwriters for certain of their expenses.

The underwriters, through their respective selling agents, propose to resell GDRs in the United States to QIBs in reliance on Rule 144A, or another exemption from, or in a transaction not subject to, registration under the Securities Act. Any offer or sale of GDRs in reliance on Rule 144A, or another exemption from, or in a transaction not subject to, registration under the Securities Act will be made by broker-dealers who are registered as such under the US Securities Exchange Act of 1934, as amended.

### Over-allotment Option

We have granted to the underwriters an option, exercisable within 30 days after the announcement of the offer price, to purchase, in whole or in part, an additional 10,000,000 ordinary shares in the form of GDRs at the offer price, solely to cover over-allotments in this offering. To the extent the underwriters exercise this option, they will receive total commissions of 1.75 per cent. of the gross proceeds in respect of such GDRs, plus an additional fee of up to one per cent. of the gross proceeds in respect of such GDRs at our discretion.

### Stabilisation

In connection with this offering, Morgan Stanley & Co. International plc, as the stabilising manager or its agents may, in consultation and after agreement with the other Joint Global Coordinators, on behalf of the underwriters and for a limited period after the announcement of the offer price, over-allot or effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might have otherwise prevailed in the open market. However, the stabilising manager or such

agents have no obligation to do so. Such stabilisation, if commenced, may begin on the date of adequate public disclosure of the offer price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 days after the date of such adequate public disclosure of the offer price. The underwriters do not intend to disclose the extent of any such stabilisation transactions otherwise than in accordance with any legal or regulatory obligation to do so.

### **Allocation and Pricing**

All GDRs will be sold at the offer price. The allocations of GDRs were determined by the Joint Bookrunners in consultation with us. The rights attaching to the GDRs, including any GDRs allotted pursuant to the over-allotment option, will be uniform in all respects and will form a single class for all purposes.

### **Lock-up Arrangements**

Africa Israel, Nirro Group and we have agreed, subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in us or securities convertible or exchangeable into or exercisable for any shares in us or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, from the date hereof until 180 days from the date of the closing of this offering, without the prior written consent of the Joint Bookrunners. However, such consent shall not be required for the sale of the shares to the underwriters pursuant to the underwriting agreement.

### **Dilution**

Following this offering, and assuming the existing holders of shares do not participate in this offering, the existing holders of shares will be diluted from their current holdings by a dilution factor of 20.6 per cent, assuming the issuance of 110,000,000 GDRs in this offering (including the exercise of the over-allotment option in full).

### **Other**

The underwriters and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for us and our affiliates, for which they received customary fees, and the underwriters and their respective affiliates may provide such services for us or for them in the future. In particular, we entered into a US\$200 million term loan facility with Deutsche Bank AG, London Branch on 22 February 2007 and a US\$60 million term loan facility with Deutsche Bank AG, London Branch, as facility agent, on 13 February 2006. For additional information with respect to the foregoing term loan facilities, see “Description of Certain Indebtedness”.

### **Additional Information**

Deutsche Bank AG, London Branch, is an international investment bank and is acting as joint global coordinator, joint bookrunner and underwriter in connection with this offering. Its offices in London are located at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

Morgan Stanley & Co. International plc is an international investment bank and is acting as joint global coordinator, joint bookrunner and underwriter in connection with this offering. Its offices in London are located at 25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom.

Goldman Sachs International is an international investment bank and is acting as joint bookrunner and underwriter in connection with this offering. Its offices in London are located at Peterborough Court, 133 Fleet Street, London EC4A 2BB, United Kingdom.

Citigroup Global Markets Limited is an international investment bank and is acting as co-lead manager in connection with this offering. Its offices in London are located at Citigroup Centre, 33 Canada Square, London E14 5LB, United Kingdom.

## **SELLING AND TRANSFER RESTRICTIONS**

### **General**

Neither we nor the underwriters, nor any person acting on our or the underwriters' behalf, have taken or will take any action in any jurisdiction that would permit a public offering of the GDRs, or the possession, circulation or distribution of this prospectus or any other material relating to us or the shares and the GDRs, in any jurisdiction where action for such purpose is required.

Accordingly, the GDRs may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorised to give any information or to make any representation not contained in this prospectus, and, if given or made, such information or representation must not be relied upon as having been authorised by us or any underwriter. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained in this prospectus is correct as of a date after its date.

Persons into whose possession this prospectus comes should inform themselves about and observe any restrictions on the distribution of this prospectus and the offer, subscription and sale of the GDRs offered in this offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This prospectus does not constitute an offer to subscribe for or buy any of the GDRs offered in this offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

### **United States**

The GDRs have not been and will not be registered under the US Securities Act of 1933, as amended, or the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of this offering of the GDRs, an offer or sale of GDRs within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

The underwriters propose to offer the shares (i) in the form of GDRs to institutional investors outside the United States in accordance with Regulation S and (ii) in the form of GDRs through the US selling agents of certain of the underwriters, only to qualified institutional buyers in the United States as defined in and in accordance with Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, registration under the Securities Act. Each of the underwriters has agreed that, except as permitted in the underwriting agreement, it will not offer, sell or deliver GDRs into or within the United States.

### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), an offer of GDRs to the public which are the subject of the offering contemplated by this prospectus may not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the GDRs which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive,

except that it may, with effect from and including the Relevant Implementation Date, make an offer of GDRs to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43 million and (3) an annual net turnover of more than €50 million, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of GDRs to the public” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the GDRs to be offered so as to enable an investor to decide to purchase or subscribe the GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **United Kingdom**

Each of the underwriters has represented and agreed that: (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any GDRs in circumstances in which Section 21(1) of the FSMA does not apply to us and (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

### **Japan**

The securities offered hereby have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, the underwriters have represented, warranted and agreed that the GDRs which it subscribes will be subscribed by it as principal and that, in connection with this offering made hereby, it will not, directly or indirectly, offer or sell any GDRs in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and other relevant laws and regulations of Japan.

### **Russia**

Each of the underwriters has acknowledged that no Russian prospectus has been registered or is intended to be registered with respect to the GDRs and the GDRs have not been and are not intended to be registered in the Russian Federation and, consequently, it has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any GDRs to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law. It is understood and agreed that the underwriters or their affiliates may distribute this prospectus to persons in the Russian Federation in a manner that does not constitute an “advertisement” (as defined under Russian law) of GDRs and may resell GDRs to Russian persons in a manner that does not constitute “placement” or “public circulation” of the GDRs in the Russian Federation (as defined under Russian law).

## Italy

The offering of the GDRs has not been cleared by the Commissione Nazionale per la Società e la Borsa, or CONSOB, the Italian Securities Exchange Commission, pursuant to Italian securities legislation and, accordingly, in the Republic of Italy the GDRs may not be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to the GDRs be distributed in the Republic of Italy, except:

- (a) to professional investors (“*operatori qualificati*”), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, or Regulation 11522, as amended; or
- (b) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998, or the Financial Services Act, and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended. Each of the underwriters has represented and agreed that it will not offer, sell or deliver the GDRs or distribute copies of this prospectus or any other document relating to the GDRs in the Republic of Italy unless such offer, sale or delivery of GDRs or distribution of copies of this prospectus or any other document relating to the GDRs in the Republic of Italy is:
  - (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September, 1993, or the Banking Act, the Financial Services Act, Regulation 11522 and any other applicable laws and regulations; and (ii) in compliance with any and all other applicable laws and regulations.

## Transfer Restrictions

### Rule 144A GDRs

Each purchaser of GDRs pursuant to Rule 144A under the Securities Act, by its acceptance of delivery of this prospectus, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser (i) is a qualified institutional buyer, as defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such GDRs has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, registration under the Securities Act, (iii) is acquiring such GDRs for its own account or for the account of a qualified institutional buyer and (iv) if it is acquiring such GDRs for the account of one or more qualified institutional buyers, it has sole investment discretion with respect to each such account and it has full power to make (and does make) the acknowledgements, representations and agreements herein on behalf of each such account.
2. The purchaser is aware that the GDRs purchased pursuant to Rule 144A under the Securities Act have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, registration under the Securities Act, only in transactions not involving any public offering in the United States and are restricted securities within the meaning of the Securities Act.
3. In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, registration under the Securities Act or the shares represented thereby, such GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legends, which the GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or in a transaction not subject to, registration under the Securities Act will respectively bear unless otherwise determined by us and the depositary in accordance with applicable law:

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE SHARES OF AFI DEVELOPMENT PLC REPRESENTED HEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF

REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER (“QIB”) (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF APPLICABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT, OR CAUSE TO BE DEPOSITED, SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK (INCLUDING ANY SUCH FACILITY MAINTAINED FOR THE RULE 144A GDRs), OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTIONS PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR THE RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

4. For so long as ordinary shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, it will not deposit such ordinary shares into any depositary receipt facility in respect of shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.
5. We, the underwriters named in “Subscription” and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

**Prospective purchasers are hereby notified that the sellers of GDRs purchased in this offering may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act.**

#### ***Regulation S GDRs***

Each purchaser of GDRs offered in reliance on Regulation S under the Securities Act, by its acceptance of delivery of this prospectus, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

- (i) the purchaser is, at the time of the offer to it of GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;
- (ii) the purchaser is aware that such GDRs have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S;
- (iii) any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by us in respect of such GDRs; and
- (iv) we, and the underwriters named above in “Subscription” and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

It is expected that delivery of the GDRs will be made against payment therefor on or about the date specified below under “Settlement and Delivery”. Pursuant to Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise.

## SETTLEMENT AND DELIVERY

### Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

### The Clearing Systems

#### *Euroclear and Clearstream*

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

#### *DTC*

DTC has advised us as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

#### *Registration and Form*

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of a nominee of The Bank of New York, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depositary as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC,

respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from us for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from us for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, New York 10274, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.E Kennedy, L-1855 Luxembourg, Luxembourg. We will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement.

## **Global Clearance and Settlement Procedures**

### *Initial Settlement*

The GDRs will be in global form evidenced by the two Global Master GDR Certificates. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

### *Secondary Market Trading*

#### **Transfer Restrictions**

For a description of the transfer restrictions relating to the GDRs, see “Terms and Conditions of the Global Depositary Receipts—Transfer Restrictions” and “Selling and Transfer Restrictions”.

#### **Trading Between Euroclear and Clearstream Participants**

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

#### **Trading Between DTC Participants**

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US Dollars, or free of payment, if payment is not effected in US Dollars. Where payment is not effected in US Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

#### **Trading Between DTC Seller and Euroclear/Clearstream Purchaser**

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (1) decrease the amount of book-entry interests in

the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

#### **Trading Between Clearstream/Euroclear Seller and DTC Purchaser**

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

#### **General**

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of us, the underwriters, the Depositary, the Custodian or our or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

## **INFORMATION RELATING TO THE DEPOSITARY**

The Depositary is a state-registered New York banking corporation and a member of the United States Federal Reserve System, subject to the supervision, examination and reporting requirements of the Bank Holding Company Act and the regulations of the United States Federal Reserve Board. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York, Inc., a New York corporation. The principal executive office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices for the GDRs are located at 101 Barclay Street, New York, New York 10286.

A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report, are available for inspection at the principal executive office of the Depositary located at One Wall Street, New York, New York 10286, U.S.A. and at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom.

## **LEGAL MATTERS**

Certain legal matters with respect to this offering will be passed upon for us by White & Case LLP, London, England and White & Case LLC, Moscow, Russian Federation. Certain legal matters with respect to this offering will be passed upon for the underwriters by Freshfields Bruckhaus Deringer, London, England and Freshfields Bruckhaus Deringer, Moscow, Russian Federation.

## **INDEPENDENT AUDITORS**

Our consolidated financial statements included in this prospectus as of and for the years ended 31 December 2004, 2005 and 2006 have been audited by KPMG Cyprus, independent auditors, Elma House, 10 Mnasiadou Street, 1502 Nicosia, Cyprus. KPMG Cyprus is a member of the Institute of Certified Public Accountants of Cyprus and the Institute of Chartered Accountants in England and Wales.

For the purpose of compliance with the Prospectus Rules, KPMG Cyprus has given and not withdrawn its written consent to the inclusion on page F-2 of this prospectus of its auditors' report to our consolidated financial statements included in this prospectus, in the form and context in which it is included, and has authorised the contents of its said auditors' report for the purposes of Annex X item 23.1 in Appendix 3 to the Prospectus Rules and Rule 5.5.4R(2)(f) of the Prospectus Rules. KPMG Cyprus has also accepted responsibility for its said auditors' report as part of this prospectus and declared that it has taken all reasonable care to ensure that the information contained in that report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in this prospectus in compliance with Annex X item 1.2 of the Prospectus Rules. As the offered GDRs have not been and will not be registered under the Securities Act, KPMG Cyprus has not filed a consent under the Securities Act.

## GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR and the Master Rule 144A GDR, to the Official List on or about 11 May 2007. Application has been made for the GDRs to be traded on the London Stock Exchange. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
2. Copies of the following documents will be available for physical inspection free of charge, during normal business hours on any weekday, at the offices of White & Case LLP, 5 Old Broad Street, London EC2N 1DW, United Kingdom from the date of publication of this prospectus to the admission:
  - this prospectus;
  - our articles and memorandum of association;
  - the Deposit Agreement;
  - our financial statements as of and for the years ended 31 December 2004, 2005 and 2006;
  - together with the auditors' report relating thereto; and
  - the valuation report.
3. If definitive certificates are issued in exchange for the Master GDRs, we will appoint an agent in the United Kingdom.
4. The CUSIP for the Regulation S GDRs is 00106J200, the ISIN for the Regulation S GDRs is US00106J2006, the Common Code for the Regulation S GDRs is 029604592 and the SEDOL Code is B1VZKH7. The CUSIP for the Rule 144A GDRs is 00106J101, the ISIN for the Rule 144A GDRs is US00106J1016, the Common Code for the Rule 144A GDRs is 029604533 and the SEDOL Code is B1VZKB1. Our London Stock Exchange trading symbol is AFID and our PORTAL symbol is P00106J101.
5. There has been no significant change in the financial or trading position of the group since 31 December 2006, the end of the last financial period for which financial information has been published, except as set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".
6. The following table sets forth the registered offices of our significant subsidiaries:

<u>Name</u>	<u>Ownership/ Voting Power (per cent.)</u>	<u>Jurisdiction of Incorporation</u>	<u>Registered Office</u>
OOO Avtostoyanka Tverskaya Zastava . . . . .	100	Russian Federation	12A 1st Entuziastov Street 111024 Moscow, Russian Federation
OOO MayStroy . . . . .	100	Russian Federation	2/4 Podmoskovnaya Street 123362 Moscow, Russian Federation
OOO Krown Investments . . . . .	50	Russian Federation	26 Bldg. 1 Ozerkovskaya Embankment 113184 Moscow, Russian Federation
OOO Inzhstroy AG . . . . .	100	Russian Federation	22 Bldg. 1st Bolshoy Kozikhinskiy Pereulok 103001 Moscow, Russian Federation

<u>Name</u>	<u>Ownership/ Voting Power (per cent.)</u>	<u>Jurisdiction of Incorporation</u>	<u>Registered Office</u>
OOO Incomstroy . . . . .	100	Russian Federation	22 Bldg. 1 Bolshoy Kozikhinskiy Pereulok 103001 Moscow, Russian Federation
OOO Tain Investments . . . . .	100	Russian Federation	2/4 Podmoskovnaya Street 123362 Moscow, Russian Federation
OOO Ozerkovka . . . . .	100	Russian Federation	3 Ozerkovskiy Pereulok 115184 Moscow, Russian Federation
OOO Corin Development . . . .	100	Russian Federation	22 Miklukho-Maklaya Street 117437 Moscow, Russian Federation
OOO LessyProf . . . . .	100	Russian Federation	2a Bldg. 1 Samokatnaya Street 109033 Moscow, Russia
OAo Moskovskiy Kartonazhno- poligraficheskiy Kombinat (MKPK) . . . . .	98.2	Russian Federation	8 Paveletskaya Embankment 115114 Moscow, Russian Federation
Bellgate Constructions Limited .	100	Cyprus	25 Olympion Street, Omiros & Araouzou Tower, 3313 Limassol, Cyprus
Slytherin Development Limited	100	Cyprus	25 Olympion Street, Omiros & Araouzou Tower, 3313 Limassol, Cyprus
OOO Ultrastroy . . . . .	100	Russian Federation	14-B Mozhayskoye Chaussee Odintsovsky District, Odintsovo 143000 Moscow Oblast, Russian Federation
OOO Ultrainvest . . . . .	100	Russian Federation	Malo-Vyazemsky Sborochny Zavod, Odintsovsky District, Selo Sidorovskoe 143040 Moscow Oblast, Russian Federation
OOO Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO) . . . . .	100	Russian Federation	15 Gorki-2, Odintsovsky Region 143033 Moscow Oblast, Russian Federation
Severus Trading Limited . . . . .	100	Cyprus	25 Olympion Street, Omiros & Araouzou Tower, 3313 Limassol, Cyprus

<u>Name</u>	<u>Ownership/ Voting Power (per cent.)</u>	<u>Jurisdiction of Incorporation</u>	<u>Registered Office</u>
OOO Aristeya . . . . .	100	Russian Federation	10 Bldg. 1 Furmanny Pereulok 105064 Moscow, Russian Federation
Talena Development Limited . .	100	Cyprus	25 Olympion Street, Omiros & Araouzos Tower, 3313 Limassol, Cyprus
Buildola Properties Limited . . .	100	Cyprus	25 Olympion Street, Omiros & Araouzos Tower, 3313 Limassol, Cyprus
Bugis Finance Limited . . . . .	100	British Virgin Islands	Vanterpool Plaza 2nd Floor Road Town Tortola British Virgin Islands
Westec Four Winds Limited . . .	50	Cyprus	25 Olympion Street, Omiros & Araouzos Tower, 3313 Limassol, Cyprus
Borenco Enterprises Limited . .	100	Cyprus	25 Olympion Street, Omiros & Araouzos Tower, 3313 Limassol, Cyprus
OOO Stroyinkom-K . . . . .	100	Russian Federation	7/2 Bldg. 1 1st Zemelny Pereulok 123022 Moscow, Russian Federation
OOO Elite-Business . . . . .	100	Russian Federation	7/2 Bldg. 1 1st Zemelny Pereulok 123022 Moscow, Russian Federation
OOO PSO Dorohovo . . . . .	100	Russian Federation	Staraya Ruza Village, Ruzsky Region, 143150 Moscow Oblast, Russian Federation
Scotson Limited . . . . .	100	Cyprus	25 Olympion Street, Omiros & Araouzos Tower, 3313 Limassol, Cyprus

7. The GDRs are not denominated in any currency and have no nominal or par value. The offer price was determined based on the results of the bookbuilding exercise conducted by the Joint Bookrunners. The results of this offering will be made public by us through a press release and notice to the Regulatory Information Service promptly upon the closing of this offering.
8. Holders of GDRs may contact the Depositary at its principal administrative offices, located at 101 Barclay Street, New York, NY, USA 10286 (telephone: 212-495-1784).
9. The valuation report has been prepared by Jones Lang LaSalle, or JLL, an independent real estate consultant and appraiser, of Kosmodamianskaya Nab 52/3, Moscow 115054. JLL has given and not withdrawn its written consent to the inclusion of the valuation report in this prospectus, in the form and context in which it is included, and has authorised the contents of those parts of this prospectus for the purposes of Rule 5.5.4R(2)(f) of the Prospectus Rules and Annex X item 23.1 in Appendix 3 to the Prospectus Rules. JLL accepts responsibility for the information contained in the property

valuation report, and to the best of JLL's knowledge and belief that, having taken all reasonable care to ensure that such is the case, the information contained in the property valuation report is in accordance with the facts and does not omit anything likely to affect the import of such information.

10. We have entered into a Relationship Agreement and an Activity Demarcation Agreement with our controlling shareholder, Africa Israel Investments, Ltd., or Africa Israel, details of which are set out below:

#### *Relationship Agreement*

In April 2007, we entered into a Relationship Agreement with our controlling shareholder, Africa Israel, which will regulate the relationship between us and our controlling shareholder following admission. The principal purposes of the Relationship Agreement are to ensure that we are capable at all times of carrying on our business independently of our controlling shareholder and its subsidiaries and parent companies and that all of our transactions with our controlling shareholder and its subsidiaries and parent companies are on arm's length terms and on a normal bona fide commercial basis.

The Relationship Agreement will continue in effect until the earlier of: (i) the GDRs ceasing to be admitted to trading on the London Stock Exchange's regulated market for listed securities and (ii) Africa Israel (and/or any member of its group) ceasing to be our controlling shareholder. For these purposes a "controlling shareholder" is any person (or persons acting jointly by agreement whether formal or otherwise) who is entitled to exercise, or to control the exercise, directly or indirectly, of 50.0 per cent. or more of the rights to vote at general meetings of a company or able to control, directly or indirectly, the appointment of directors who are able to exercise a majority of votes at board meetings of a company.

In addition, under the Relationship Agreement, Africa Israel undertakes, *inter alia*, that it shall:

- (a) allow us to carry on our business independently and in our best interests as a whole;
- (b) use its best endeavours to procure that no member of its group shall act in any way or omit to act in any way which shall prejudice our ability to carry on our business independently (or render us unsuitable for continued listing on the London Stock Exchange by reason of any act or omission on the part of any member of the Africa Israel group);
- (c) not exercise any voting rights in our share capital or on the Board of Directors:
  - (i) to vote in respect of any transaction, arrangement, agreement or dispute arising between ourselves and any member of the Africa Israel group; or
  - (ii) to make any variation to our articles of association which would be contrary to the maintenance of our ability to carry on our business independently of Africa Israel and any member of its group; and
- (d) exercise any voting rights in our share capital or on the Board of Directors to ensure that there shall always be a minimum of three independent directors on our Board of Directors.

Both ourselves and Africa Israel undertake to the other that they shall (and shall procure that the relevant members of their respective groups shall), subject to the provisions of Cypriot law, with effect from the date of the Relationship Agreement, conduct any transactions and relationships (whether contractual or otherwise, including any subsequent amendment thereof or variation thereto, including the implementation or enforcement thereof) between ourselves and any member of the Africa Israel group on arm's length terms and on a normal bona fide commercial basis.

#### *Activity Demarcation Agreement*

In April 2007, we entered into an Activity Demarcation Agreement with our controlling shareholder, Africa Israel, which will delineate the scope of Africa Israel's real estate activities in Russia. The Activity Demarcation Agreement provides that, subject to admission, Africa Israel and the companies it controls (save for Danya Cebus Ltd., Africa Israel Hotels Ltd., Africa Israel Properties Ltd., Africa Israel Residences Ltd., Parker Plada Ltd., Negev Ceramics Ltd., and their respective subsidiaries) will not develop real estate property or acquire rights in land intended for development in Russia (excluding the city of Kislovodsk), nor hold, directly or indirectly, a controlling interest in another company that engages in any such activity in Russia (excluding the city of Kislovodsk and the Perm

region). For these purposes, “real estate property” means real estate intended for letting to third parties for residential, commercial and retail use and residential real estate designated for sale to third parties.

Under the Activity Demarcation Agreement Africa Israel undertakes that throughout the term of the agreement:

- (a) it shall not transfer any new business opportunities to engage in real estate activity in the Russian Federation (other than the city of Kislovodsk and the Perm region) to any entity or person other than us; and
- (b) it shall not, directly or indirectly, provide its know-how and professional services with respect to real estate activity in the Russian Federation (other than the city of Kislovodsk and the Perm region) to any entity or person other than us.

The Activity Demarcation Agreement shall not apply to Africa Israel (and/or any company controlled by it) in certain situations, including:

- (a) in respect of any activity carried out by Africa Israel and/or a company controlled by it relating to the real estate and/or property development that at the time of the commencement of such activity was not intended to comprise real estate activity;
- (b) in respect of the development, management or utilisation of real estate by Africa Israel and/or a corporation controlled by it principally for their own operations or activities referred to in paragraph (a) above which does not comprise real estate activity, as well as such *de minimis* real estate activities which are incidental to any activity referred to in this paragraph (b); and
- (c) in respect of any business opportunity which we have elected in writing not to pursue or have consented in writing that Africa Israel may pursue.

The term of the Activity Demarcation Agreement shall be seven years from the date of admission; provided that the agreement may be terminated by either party upon 90 days prior written notice if Africa Israel ceases to hold a controlling interest in us. For these purposes a “controlling interest” means the ability, directly or indirectly, to direct the activities of a company.

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# **INDEX TO FINANCIAL STATEMENTS**

## **AFI DEVELOPMENT PLC**

**(formerly: Donkamill Holdings Limited)**

### **CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended 31 December 2006, 2005 and 2004**

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**Independent Auditors' Report**

**To the Board of Directors and Shareholders of AFI DEVELOPMENT PLC  
(formerly: Donkamill Holdings Limited)**

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of AFI Development PLC (the "Company") and its subsidiaries (the "Group") on pages F-3 to F-34, which comprise the consolidated balance sheet as at 31 December 2006, 31 December 2005 and 31 December 2004, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

*Board of Directors' Responsibility for the Financial Statements*

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, 2005 and 2004 and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the EU and International Financial Reporting Standards as issued by the IASB and the requirements of the Cyprus Companies Law, Cap. 113.

Chartered Accountants

Nicosia, 5 April 2007

**Partners**

KPMG, a Cyprus Partnership  
and a member firm of the  
KPMG network of independent  
member firms affiliated with  
KPMG International, a Swiss  
cooperative.

N. G. Syrimis  
A. K. Christofides  
E. Z. Hadjizacharias  
P. G. Loizou  
A. M. Gregoriades  
A. A. Demetriou  
D. S. Vakis  
A. A. Apostolou

S. A. Loizides  
M. A. Loizides  
S. G. Sofocleous  
M. M. Antoniadis  
C. V. Vasilou  
P. E. Antoniadis  
M. J. Halios  
M. P. Michael

P. A. Peleties  
G. V. Markides  
M. A. Papacosta  
K. A. Papanicolaou  
A. K. Rouvas  
A. I. Shiammoutis  
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**AFI DEVELOPMENT PLC**  
**(formerly: Donkamill Holdings Limited)**  
**CONSOLIDATED INCOME STATEMENT**  
**For the years ended 31 December 2006, 2005 and 2004**

	<u>Note</u>	<u>2006</u>	<u>2005</u> US\$'000	<u>2004</u>
<b>Revenue</b>				
Construction consulting/management fees . . . . .		2,505	838	643
Rental income . . . . .		1,358	577	808
		<u>3,863</u>	<u>1,415</u>	<u>1,451</u>
Other income . . . . .		39	340	—
Operating expenses . . . . .	8	(1,684)	(354)	(463)
Administrative expenses . . . . .	9	(3,913)	(1,067)	(1,148)
		<u>(1,695)</u>	<u>334</u>	<u>(160)</u>
Profit on disposal of investment in subsidiaries . . . . .	27	119,345	43,149	9,672
<b>Operating profit before net finance costs . . . . .</b>		<u>117,650</u>	<u>43,483</u>	<u>9,512</u>
Finance income . . . . .		3,288	303	435
Finance expenses . . . . .		(7,648)	(1,422)	(1,401)
<b>Net finance costs . . . . .</b>	10	<u>(4,360)</u>	<u>(1,119)</u>	<u>(966)</u>
<b>Profit before tax . . . . .</b>		113,290	42,364	8,546
Income tax expense . . . . .	11	(1,223)	(230)	42
<b>Profit from continuing operations . . . . .</b>		112,067	42,134	8,588
Loss from discontinued operations (net of income tax) . . . . .	5	(83)	—	—
<b>Profit for the year . . . . .</b>		<u>111,984</u>	<u>42,134</u>	<u>8,588</u>
Earnings per share (dollars) . . . . .	22	<u>34.40</u>	<u>20.06</u>	<u>4.09</u>
<b>Continuing operations</b>				
Earnings per share (dollars) . . . . .	22	<u>34.43</u>	<u>20.06</u>	<u>4.09</u>

The notes on pages F-7 to F-34 form an integral part of these consolidated financial statements.

**AFI DEVELOPMENT PLC**  
**(formerly: Donkamill Holdings Limited)**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the years ended 31 December 2006, 2005 and 2004**

	Note	Share Capital	Share Premium	Translation Reserve	Retained Earnings	Total
				US\$'000		
Balance at 1 January 2004 . . . . .		2	3	568	13,039	13,612
Profit for the year . . . . .		—	—	—	8,588	8,588
Translation adjustments . . . . .		—	—	1,396	—	1,396
Balance at 31 December 2004 . . . . .		<u>2</u>	<u>3</u>	<u>1,964</u>	<u>21,627</u>	<u>23,596</u>
Balance at 1 January 2005 . . . . .		2	3	1,964	21,627	23,596
Profit for the year . . . . .		—	—	—	42,134	42,134
Realised exchange difference on sale of investment in subsidiaries . . . . .	27	—	—	(519)	—	(519)
Translation adjustments . . . . .		—	—	(796)	—	(796)
Balance at 31 December 2005 . . . . .		<u>2</u>	<u>3</u>	<u>649</u>	<u>63,761</u>	<u>64,415</u>
Balance at 1 January 2006 . . . . .		2	3	649	63,761	64,415
Issuance of share capital . . . . .	21	422	421,325	—	—	421,747
Effect of acquisition of companies under common control . . . . .		—	(3)	—	—	(3)
Profit for the year . . . . .		—	—	—	111,984	111,984
Realised exchange difference on sale of investment in subsidiaries . . . . .	27	—	—	(1,002)	—	(1,002)
Translation adjustments . . . . .		—	—	6,400	—	6,400
Balance at 31 December 2006 . . . . .		<u>424</u>	<u>421,325</u>	<u>6,047</u>	<u>175,745</u>	<u>603,541</u>

The notes on pages F-7 to F-34 form an integral part of these consolidated financial statements.

**AFI DEVELOPMENT PLC**  
**(formerly: Donkamill Holdings Limited)**  
**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006, 2005 and 2004**

	<u>Note</u>	<u>2006</u>	<u>2005</u> US\$'000	<u>2004</u>
<b>Assets</b>				
Investment property under development . . . . .	12	363,708	185,073	80,406
Property, plant and equipment . . . . .	13	986	582	486
Long term loans receivable . . . . .	14	144	8,867	1,962
VAT recoverable . . . . .	15	9,843	4,412	2,159
Goodwill . . . . .	16	150	150	150
Deferred tax assets . . . . .	24	—	—	30
<b>Total non-current assets</b> . . . . .		<u>374,831</u>	<u>199,084</u>	<u>85,193</u>
Trading properties under construction . . . . .	17	79,044	26,806	5,346
Inventory . . . . .	18	11	9	—
Short term loans receivable . . . . .	14	3,953	1,208	1,903
Trade and other receivables . . . . .	19	199,577	19,075	38,315
Cash and cash equivalents . . . . .	20	26,272	11,521	3,300
Assets classified as held for sale . . . . .	6	3,441	—	—
<b>Total current assets</b> . . . . .		<u>312,298</u>	<u>58,619</u>	<u>48,864</u>
<b>Total assets</b> . . . . .		<u>687,129</u>	<u>257,703</u>	<u>134,057</u>
<b>Equity</b>				
Share capital . . . . .		424	2	2
Share premium . . . . .		421,325	3	3
Translation reserve . . . . .		6,047	649	1,964
Retained earnings . . . . .		175,745	63,761	21,627
<b>Total equity</b> . . . . .	21	<u>603,541</u>	<u>64,415</u>	<u>23,596</u>
<b>Liabilities</b>				
Long term loans and borrowings . . . . .	23	61,746	182,660	103,587
Deferred tax liabilities . . . . .	24	122	122	—
<b>Total non-current liabilities</b> . . . . .		<u>61,868</u>	<u>182,782</u>	<u>103,587</u>
Short term loans and borrowings . . . . .	23	14,786	8,225	241
Trade and other payables . . . . .	25	5,869	2,174	6,574
Income tax payable . . . . .	11	950	70	1
Deferred income . . . . .	26	115	37	58
<b>Total current liabilities</b> . . . . .		<u>21,720</u>	<u>10,506</u>	<u>6,874</u>
<b>Total liabilities</b> . . . . .		<u>83,588</u>	<u>193,288</u>	<u>110,461</u>
<b>Total equity and liabilities</b> . . . . .		<u>687,129</u>	<u>257,703</u>	<u>134,057</u>

The notes on pages F-7 to F-34 form an integral part of these consolidated financial statements.

**AFI DEVELOPMENT PLC**  
**(formerly: Donkamill Holdings Limited)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the years ended 31 December 2006, 2005 and 2004**

	<u>Note</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
			US\$'000	
<b>Cash flows from operating activities</b>				
Profit before tax . . . . .		113,290	42,364	8,546
<i>Adjustments for:</i>				
Depreciation and amortisation . . . . .	13,16	456	232	122
Interest income . . . . .	10	(1,895)	(303)	(243)
Interest expense . . . . .	10	7,648	753	1,401
Profit on disposal of investment in subsidiaries . . . . .	27	(108,700)	(43,149)	(9,672)
Loss from sale of property, plant and equipment . . . . .	13	24	3	6
		10,823	(100)	160
(Increase)/decrease in trade and other receivables . . . . .	19	(5,432)	1,353	(3,753)
(Increase)/decrease in amounts receivable from related companies . . . . .	19	(149)	134	537
Increase in inventories . . . . .	18	(2)	(9)	—
Increase in trading properties under construction . . . . .	17	(14,221)	(9,510)	(6,848)
Decrease in assets held for sale . . . . .		1,518	—	—
Increase/(decrease) in trade and other payables . . . . .	25	1,722	(1,801)	2,710
Increase/(decrease) in down payments received for construction . . . . .		2,639	(15,558)	1,535
(Decrease)/increase in amounts payable to related companies . . . . .	25	(5)	171	(144)
Increase/(decrease) in deferred income . . . . .		78	(21)	18
		(3,029)	(25,341)	(5,785)
Income taxes paid . . . . .		(227)	(22)	—
<b>Net cash used in operating activities</b> . . . . .		(3,256)	(25,363)	(5,785)
<b>Cash flows from investing activities</b>				
Proceeds from sale of investment in subsidiaries . . . . .	27	14,651	72,736	39,000
Net cash outflow from the acquisition of subsidiaries . . . . .	7	(115,639)	(5,563)	(33,219)
Interest received . . . . .		1,895	303	243
Proceeds from sale of property, plant and equipment . . . . .	13	6	3	20
(Increase)/decrease in advances to builders . . . . .	19	(38,010)	522	(2,568)
Payments for investment properties under development . . . . .	12	(124,613)	(103,430)	(44,176)
Payments for VAT recoverable . . . . .		(5,995)	(2,570)	(1,532)
Payments for acquisition of property, plant and equipment . . . . .	13	(881)	(365)	(315)
<b>Net cash used in investing activities</b> . . . . .		(268,586)	(38,364)	(42,547)
<b>Cash flows from financing activities</b>				
Payments for loan receivable . . . . .		(40)	(7,159)	(1,488)
Proceeds from loans receivable . . . . .		1,750	876	113
Proceeds from loans and borrowings . . . . .		293,344	78,469	49,856
Repayment of loans and borrowings . . . . .		(8,982)	(241)	—
Interest paid . . . . .		(3,682)	—	(28)
<b>Net cash flow from financing activities</b> . . . . .		282,390	71,945	48,453
Effect of exchange rate fluctuations . . . . .		4,203	3	449
<b>Increase in cash and cash equivalents during the year</b> . . . . .		14,751	8,221	570
Cash and cash equivalents at the beginning of the year . . . . .		11,521	3,300	2,730
<b>Cash and cash equivalents at the end of the year</b> . . . . .	20	26,272	11,521	3,300

The notes on pages F-7 to F-34 form an integral part of these consolidated financial statements.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended 31 December 2006, 2005 and 2004**

**1. Incorporation and Principal Activity**

AFI Development PLC (the “Company”) was incorporated in Cyprus on 13 February 2001 as a limited liability company under the name Donkamill Holdings Limited. In March 2007 the company was transformed into public company and changed its name to AFI Development PLC. The address of the Company’s registered office is 25 Olympion Street, 3035 Limassol, Cyprus. The Company is an 88% subsidiary of Moonbeam Enterprises Limited, member of Africa Israel Investments Group which is listed in the Tel Aviv Stock Exchange (TASE) and 12% of its share capital is held by Nirro Group S.A.

The consolidated financial statements of the Company as at and for the years ended 31 December 2006, 2005 and 2004 comprise of the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in jointly controlled entities. The principal activity of the Group is real estate investment and development.

The principal activity of the Company is the holding of investments in subsidiaries as presented in note 33 “Group Entities”.

**2. Basis of Preparation**

*Statement of compliance*

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and their interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRSs) and their interpretations as adopted by the European Union (EU). The consolidated financial statements comply with both these reporting frameworks because at the time of their preparation all applicable IFRSs and their interpretations issued by the IASB have been adopted by the EU through the endorsement procedure established by the European Commission and are according to the Companies Law of Cyprus, Cap. 113.

*Basis of measurement*

The consolidated financial statements have been prepared under the historical cost convention as modified, up to 31 December 2003, by the provisions of the IAS 29 “Reporting in Hyperinflationary Economies” which provides for the restatement of non-monetary assets and liabilities to account for the inflation.

*Functional and presentation currency*

The consolidated financial statements are presented in United States Dollars which is the Company’s functional currency. All financial information presented in US Dollars has been rounded to the nearest thousand except when otherwise indicated.

*Use of estimates and judgement*

The preparation of financial statements requires management and the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 7—business combinations
- Note 11—provision for tax liabilities
- Note 12—valuation of investment property under development

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**2. Basis of Preparation (Continued)**

*Use of estimates and judgement (Continued)*

- Note 16—valuation of goodwill
- Note 19—recoverability of receivables
- Note 24—utilisation of tax losses
- Note 31—contingencies

**3. Accounting Policies**

The following accounting policies have been applied consistently, by Group entities to all years presented in these consolidated financial statements, in dealing with items which are considered material in relation to the Group's consolidated financial statements.

***Basis of consolidation***

*Subsidiaries*

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

*Joint ventures or Jointly Controlled entities*

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreements. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

*Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

*Transactions eliminated on consolidation*

Intra-group balances and transactions and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

***Foreign currency***

*Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. The resulting exchange differences are recognised in the income statement.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**3. Accounting Policies (Continued)**

***Foreign currency (Continued)***

*Translation of foreign entity's financial statements*

The consolidated financial statements are presented in US Dollars which is the Company's functional and presentation currency. Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using its functional currency. Where the functional currency of an entity of the Group is other than US Dollars, which is the presentation currency of the Group, then the financial statements of the entity are translated in accordance with IAS 21 "The effects of changes in foreign exchange rates". Assets and liabilities of foreign operations, both monetary and non-monetary are translated to US Dollars at exchange rates at the reporting date. Income and expense items are translated to US Dollars using average rate for the year. All resulting exchange differences are recognised directly in equity under "Translation reserve", until disposal (in part or in full) of the foreign entity in which case the relevant amount is transferred to the income statement.

The table below shows the exchange rates of Russian Roubles which is the functional currency of the Russian subsidiaries of the Group:

	<b>Exchange rate Russian Roubles for US\$1</b>	<b>% Change</b>
As of:		
31 December 2006 . . . . .	26.3311	(8.5)
31 December 2005 . . . . .	28.7825	3.7
31 December 2004 . . . . .	27.7487	(5.8)
31 December 2003 . . . . .	29.4545	—
Average rate during:		
Year ended 31 December 2006 . . . . .	27.0938	(4.3)
Year ended 31 December 2005 . . . . .	28.3197	(1.4)
Year ended 31 December 2004 . . . . .	28.7254	—

***Investment Property***

Investment properties are those properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the 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. Any gain or loss arising from a change in fair value is recognised in the income statement.

When an item of property plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in such transfers is recognised in the income statement immediately.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

When the Group begins to redevelop an existing property for continued use as investment property, the property remains an investment property, which is measured based on fair value model, and is not reclassified as property plant and equipment during the redevelopment.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**3. Accounting Policies (Continued)**

***Investment property under development***

Property that is being constructed or developed for future use as investment property is classified as investment property under development and stated at cost until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in the income statement.

All costs directly related with the purchase and construction of a property, and all subsequent capital expenditure for the development qualifying as acquisition costs are capitalised.

***Capitalisation of financing costs***

Financing costs are capitalised if they are directly attributable to the acquisition or production of a qualifying asset. Capitalisation of financing costs commences when the activities to prepare the asset are in process and expenditures and financing costs are being incurred. Capitalisation of financing costs may continue until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate. The capitalised financing cost is limited to the amount of borrowing cost actually incurred.

***Property, plant and equipment***

***Recognition and measurement***

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use.

Purchased software that is integral to the functionality of the related property, plant and equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

***Depreciation***

Depreciation is calculated so as to write off the cost less the estimated residual value of property, plant and equipment according to the straight line method, taking into account their estimated useful economic lives. The annual depreciation rates are as follows:

Office equipment . . . . .	10-33⅓%
Motor vehicles . . . . .	33⅓%

Depreciation methods, useful economic lives and residual values are reassessed at each reporting date.

***Intangible assets***

***Goodwill***

Goodwill (negative goodwill) arises on acquisition of subsidiaries, associates and joint ventures. Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's share of the fair value of the net identifiable assets acquired. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**3. Accounting Policies (Continued)**

***Intangible assets (Continued)***

Up to 31 December 2004, goodwill was stated at cost less accumulated amortisation and impairment losses. Goodwill amortisation was charged in the income statement on a straight-line basis over a period of 20 years. From 1 January 2005, following a change in accounting policy to comply with the IFRS 3 “Business Combinations” goodwill is no longer amortised, instead it is tested for impairment at every reporting date. Any impairment loss is written off in the income statement in the year it arises.

***Trading Properties***

Trading Properties are measured at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring the properties and bringing them to their existing condition. In the case of constructed trading properties, cost includes an appropriate share of direct and financing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

***Trading properties under construction***

Trading properties are defined as projects in which the Group participates as a contractor or as a promoter, and which include construction work with the intention to sell the entire building as a whole or parts thereof. Each project represents one building or a group of buildings. A group of buildings is considered one project when the buildings at the same building site are being constructed according to one building plan and under one building license, and are offered for sale at the same time. Trading properties include cost of land or rights of the land which constitutes the relative portion of the area on which the construction work on projects is performed, plus the cost of the work executed on the projects as well as other costs allocated thereto, less the cumulative amounts recognised in the income statement as cost of trading properties sold up to the end of the reported period, and less all receipts with respect to those projects which are in the framework of projects which are classified as trading properties under construction, where recognition of the revenue from such projects has not yet commenced. Direct costs and expenses are charged to projects on a specific basis, whereas borrowing costs are allocated among the jobs based on the relative proportion of the costs. Non—specific borrowing costs are capitalised to such qualifying asset, or portion thereof which was not financed with specific credit, by weighted—average rate of the borrowing cost up to the amount of borrowing cost actually incurred. Where the estimated expenses for a building project indicate that a loss is expected, an appropriate provision is set up. Buildings that are under construction are classified as trading properties under construction on the face of the balance sheet.

***Financial Instruments***

***Non derivative financial instruments***

Non-derivative financial instruments comprise of loans receivable, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group’s contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the financial asset. Financial liabilities are derecognised if the Group’s obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise of cash in hand and cash at banks.

Non-derivative financial instruments are measured at amortised cost using the effective interest rate method less any impairment losses.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**3. Accounting Policies (Continued)**

***Deferred income***

Income received in advance is classified under current liabilities as deferred income and comprise rental income received for future periods and amounts received in advance, for the sale of trading properties for which recognition of revenue has not yet commenced.

***Provisions***

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

***Impairment***

***Financial assets***

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit characteristics.

All impairment losses are recognised in the income statement.

***Non-financial assets***

The carrying amounts of the Group's non-financial assets, excluding VAT recoverable, inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is revised only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

***Non-current assets held for sale***

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying value and fair value less cost to sell. Any impairment on initial classification as

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**3. Accounting Policies (Continued)**

*Non-current assets held for sale (Continued)*

held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any accumulated impairment loss.

*Revenue*

*Sale of trading properties*

Revenue from sale of trading properties is recognised in the income statement when the significant risks and rewards of ownership are transferred to the buyer. When the trading property is under construction, revenue received is offset against the carrying amount of trading properties under construction.

*Construction Management fee*

Revenue from construction management is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

*Rental income*

Rental income from investment property leased out under operating leases is recognised in the income statement on a straight line basis over the term of the lease.

*Finance income and costs*

Finance income comprises interest income on funds invested, and foreign currency gains. Interest income is recognised as it accrues.

Finance costs comprise interest expense on borrowings and foreign currency losses. All borrowing costs are recognised in the income statement using the effective interest method, net of interest capitalised.

*Income tax expense*

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted by the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The provision for taxation either current or deferred is based on the tax rate applicable to the country of residence of each subsidiary.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**3. Accounting Policies (Continued)**

***Earnings per share***

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

***Segment reporting***

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

***New standards and interpretations not yet adopted***

The following new IFRSs, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

***Adopted by the European Union***

- *IAS 1 (Amendment), Presentation of Financial Statements—Capital Disclosures* (effective for annual periods beginning on or after 1 January 2007). The standard will require increased disclosure in respect of the Company's capital. The application of this amendment is not expected to have a material effect on the consolidated financial statements.
- *IFRS 7, Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2007). IFRS 7 introduces new disclosures to improve the information disclosed on financial instruments. It requires the disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRSs. The application of this standard is not expected to have a material effect on the consolidated financial statements.
- *IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after 1 March 2006). The interpretation contains guidance on how an entity would restate its financial statements pursuant to IAS 29 in the first year it identifies the existence of hyperinflation in the economy of its functional currency. The application of this interpretation is not expected to have a material effect on the consolidated financial statements.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**3. Accounting Policies (Continued)**

*New standards and interpretations not yet adopted (Continued)*

- *IFRIC 8, Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006). The interpretation clarifies that the accounting standard IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. The application of this interpretation is not expected to have a material effect on the consolidated financial statements.
- *IFRIC 9, Reassessment of embedded derivatives* (effective for annual periods beginning on or after 1 June 2006). The interpretation addresses issues in relation to embedded derivatives. The application of this interpretation is not expected to have a material effect on the consolidated financial statements.

*Not yet adopted by the European Union*

- *IFRIC 10, Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006). The interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements. The application of this interpretation is not expected to have a material effect on the consolidated financial statements.
- *IFRS 8, Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. The application of this standard is not expected to have a material effect on the consolidated financial statements.
- *IFRIC 11, Scope of IFRS 2 Group and Treasury Share Transactions* (effective for annual period beginning on or after 1 March 2007). The interpretation addresses the following: (a) whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirement of IFRS 2 and (b) issues concerning share-based payment arrangements that involve two or more entities within the same group. The application of this interpretation is not expected to have a material effect on the consolidated financial statements.
- *IFRIC 12, Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008). The interpretation sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements. The application of this interpretation is not expected to have a material effect on the consolidated financial statements.

**4. Segment Reporting**

*Business segments*

The Group operates only as one segment, which is real estate development, and therefore no business segmental reporting information is presented.

*Geographical segments*

All of the Group's operations and developments are located within the City of Moscow or its outer regions therefore no geographical segments are presented.

**5. Discontinued Operations**

In February 2006, the Group acquired OAO MKPK for future development of its land and buildings. MKPK is a manufacturing company and as the Group is not active in manufacturing, the Group's management decision was to sell this manufacturing facility. The results from the manufacturing activities

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**5. Discontinued Operations (Continued)**

are presented separately as loss from discontinued operations. Management committed to a plan to sell this division early in 2007. One of the production lines was already sold in February 2007 and negotiations are in progress for the sale of the second production line.

	<u>2006</u> US\$'000
<b>Results of discontinued operations</b>	
Revenue . . . . .	19,532
Expenses . . . . .	<u>(19,586)</u>
Results from operating activities . . . . .	(54)
Income tax expense . . . . .	<u>(29)</u>
Loss for the year . . . . .	<u>(83)</u>
Loss per share (dollars) . . . . .	<u>(0.03)</u>

**6. Assets Classified as Held for Sale**

The manufacturing equipment within MKPK is presented as assets classified as held for sale following the commitment of the Group's management to sell the manufacturing operations. The company was acquired for future development of its land and the Group is not engaged in manufacturing activities. Efforts to sell the discontinued operation have commenced, and one of the production lines was sold in February 2007. Negotiations are in process for the sale of the second production line.

	<u>2006</u> US\$'000
<b>Assets classified as held for sale</b>	
Property, plant and equipment . . . . .	2,353
Inventories . . . . .	<u>1,088</u>
	<u>3,441</u>

**7. Acquisition of Subsidiaries and Companies Under Common Control**

*Acquisition of subsidiaries*

During 2006 the Group acquired 100% of OOO Aristeya and Bugis Finance Ltd and 98.2% of MKPK whose principal assets are land rights. MKPK owns a carton producing factory which the Group intends to dispose by the sale of both its production lines. One of the lines was sold in February 2007.

Moreover, during 2006, Slytherin Development Ltd, a wholly owned subsidiary incorporated in 2006 in Cyprus, acquired 100% shareholding of Ultrastroy and UltraInvest, which are registered in the Russian Federation. These two companies hold the 50% shareholding of RAPO and together with the 50% shareholding of RAPO held by Inzhstroy, a subsidiary of the Group, the Group now owns 100% shareholding. RAPO is treated as a subsidiary company.

In 2005 the Group acquired 100% of Ozerkovka and 100% of RAPO (sold 50% of it within the same year) and in 2004 100% of Dorohovo. The main assets on their balance sheet at the date of acquisition were land rights.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**7. Acquisition of Subsidiaries and Companies Under Common Control (Continued)**

The above acquisitions had the following effect on the Group's assets and liabilities.

	2006	2006	2006	2006	2005	2005	2004
	Aristeya 100%	MKPK 98.2%	Bugis Finance 100%	RAPO 50% Ultrasstroy Ultrainvest	Ozerkovka 100%	RAPO 100%	Dorohovo 100%
	US\$'000						
Investment properties under development . . . . .	27,663	27,766	22,000	—	5,563	—	3,244
Property, plant and equipment . . . . .	—	2,794	—	—	—	—	—
VAT recoverable . . . . .	—	257	—	185	—	—	—
Trading properties under construction . . . . .	—	—	—	34,624	—	29,975	—
Inventory . . . . .	—	2,165	—	—	—	—	—
Short term loans receivable . . . . .	—	—	—	900	—	—	—
Trade and other receivables . . . . .	—	2,161	—	2,133	—	—	—
Cash and cash equivalents . . . . .	—	849	—	5	—	35	—
Long term loans and borrowings . . . . .	(1,052)	—	—	(4,451)	—	—	—
Deferred tax liabilities . . . . .	—	—	—	(31)	—	—	—
Trade and other payables . . . . .	—	(1,470)	—	(5)	—	—	—
Net identifiable assets acquired/ Consideration satisfied in cash . . . . .	26,611	34,522	22,000	33,360	5,563	30,010	3,244
Less cash acquired . . . . .	—	(849)	—	(5)	—	(35)	—
Net cash outflow from the acquisition of subsidiaries . . .	<u>26,611</u>	<u>33,673</u>	<u>22,000</u>	<u>33,355</u>	<u>5,563</u>	<u>29,975*</u>	<u>3,244</u>

\* Paid in advance in 2004.

	2006	2005	2004
	US\$'000		
Total cash outflow for the acquisition of investments in subsidiaries . . . . .	<u>115,639</u>	<u>5,563</u>	<u>33,219</u>

The fair value of the net identifiable assets acquired approximates the consideration paid and therefore no goodwill arose on acquisition of each entity.

**Acquisition of companies under common control**

In November 2006 the Group acquired 100% of the shares of Borenco Enterprises Limited and Scotson Limited both registered in Cyprus and both previously controlled by the same shareholder as the Group, Moonbeam Enterprises Limited. The shares were transferred at their nominal value. These acquisitions were accounted for as if they have occurred at the beginning of the earliest comparative period presented according to the accounting policy described in note 3.

**8. Operating Expenses**

Operating expenses consist of:

	2006	2005	2004
	US\$'000		
Wages and salaries . . . . .	329	106	179
Social security contributions and benefits in kind . . . . .	53	16	34
Property operating expenses . . . . .	1,238	192	202
Professional services . . . . .	64	40	48
	<u>1,684</u>	<u>354</u>	<u>463</u>

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**9. Administrative Expenses**

Administrative expenses consist of:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		US\$'000	
Professional services . . . . .	65	34	131
Audit fees . . . . .	373	50	130
Car expenses . . . . .	165	72	83
Telecommunication expenses . . . . .	96	44	67
Marketing expenses . . . . .	183	2	51
Depreciation . . . . .	253	60	51
Travelling and entertainment . . . . .	232	118	41
Rent . . . . .	1,018	451	512
Bad debts . . . . .	998	49	—
Office maintenance . . . . .	221	96	76
Other administrative expenses . . . . .	309	91	6
	<u>3,913</u>	<u>1,067</u>	<u>1,148</u>

**10. Net Finance Costs**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		US\$'000	
Interest income . . . . .	(1,895)	(303)	(243)
Net foreign exchange gain . . . . .	(1,393)	—	(192)
Finance income . . . . .	<u>(3,288)</u>	<u>(303)</u>	<u>(435)</u>
Interest expense . . . . .	25,580	8,975	3,136
Net foreign exchange loss . . . . .	—	669	—
Interest capitalised . . . . .	(17,932)	(8,222)	(1,735)
Finance expenses . . . . .	<u>7,648</u>	<u>1,422</u>	<u>1,401</u>
Net finance costs . . . . .	<u>4,360</u>	<u>1,119</u>	<u>966</u>

**11. Income Tax Expense**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		US\$'000	
<b>Current tax expense</b>			
Current year . . . . .	651	76	—
Adjustment for prior years . . . . .	416	—	—
	<u>1,067</u>	<u>76</u>	<u>—</u>
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences . . . . .	400	221	(53)
(Tax losses recognised)/utilised . . . . .	(244)	(67)	11
	<u>156</u>	<u>154</u>	<u>(42)</u>
Income tax expense from continuing operations . . . . .	1,223	230	(42)
Income tax expense from discontinued operations . . . . .	29	—	—
Total income tax expense . . . . .	<u>1,252</u>	<u>230</u>	<u>(42)</u>

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**11. Income Tax Expense (Continued)**

The provision for taxation either current or deferred is based on the tax rate applicable to the country of residence of each Group entity.

*Reconciliation of effective tax rate*

	%	2006	%	2005	%	2004
		US\$'000		US\$'000		US\$'000
Profit for the year after tax . . . . .		111,984		42,134		8,588
Total income tax expense . . . . .		1,252		230		(42)
Profit before income tax . . . . .		113,236		42,364		8,546
Income tax using the domestic tax rate . . . . .	10.00	11,324	4.25	1,800	4.25	363
Effect of tax rates in foreign jurisdictions . . . . .	(0.64)	(726)	(0.60)	(255)	1.50	128
Tax exempt income . . . . .	(10.55)	(11,942)	(4.46)	(1,890)	(7.70)	(658)
Non deductible expenses . . . . .	0.29	323	1.17	494	0.47	40
Under provided in prior years . . . . .	0.37	416	—	—	—	—
Tax losses carried forward . . . . .	1.64	1,857	0.19	81	0.99	85
		<u>1,252</u>		<u>230</u>		<u>(42)</u>

The current tax liabilities of US\$950 thousand for the year ended 31 December 2006 (2005: US\$70 thousand, 2004: US\$1 thousand) represent the amount of income tax payable in respect of current and prior periods net of payments.

**12. Investment Properties Under Development**

	2006	2005	2004
		US\$'000	
Balance 1 January . . . . .	185,073	80,406	30,565
Additions due to acquisitions of subsidiaries . . . . .	77,429	5,564	3,244
Construction costs . . . . .	124,613	103,430	44,176
Capitalised interest . . . . .	14,995	7,233	1,735
Transfer from property, plant and equipment . . . . .	37	12	—
Disposals . . . . .	(39,610)	(10,858)	—
Effect of movements in foreign exchange rates . . . . .	1,171	(714)	686
Balance 31 December . . . . .	<u>363,708</u>	<u>185,073</u>	<u>80,406</u>

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**12. Investment Properties Under Development (Continued)**

The investment properties under development consist of the following projects:

<b>Project</b>	<b>Description</b>	<b>Status at 31.12.2006</b>	<b>Beneficial Ownership</b>	<b>Land (Hectares) (unaudited)</b>	<b>Estimated GLA* (sq. m) (unaudited)</b>	<b>Parking (No. of places) (unaudited)</b>	<b>Budgeted Development Cost (US\$ million) (unaudited)</b>	<b>Expected Completion Date</b>
Tverskaya Shopping Centre . . . . .	Retail	Construction	100%	3.35	37,000	1,240	382	3Q2009
Tverskaya Plaza I . . . . .	Mixed use	Concept	100%	1.55	99,617	1,404	333	4Q2010
Tverskaya Plaza II . . . . .	Mixed use, primarily office	Concept	100%	0.53	63,745	944	236	4Q2010
Tverskaya Plaza II (a) . . .	Primarily office	Concept	100%	0.17	4,320	72	19	4Q2010
Four Winds I . .	Office and retail	Construction	50%	0.41	21,392	142	53	2Q2007
Four Winds II .	Residential and retail	Construction	50%	0.71	22,728	258	80	4Q2007
Moscow City Shopping Centre . . . . .	Retail	Construction	75%	4.37	115,864	—	384	4Q2008
Ozerkovskaya Phase II . . . . .	Mixed use	Construction	50%	1.44	39,193	544	107	4Q2008
Ozerkovskaya Phase III . . . .	Mixed use, primarily office	Concept	50%	1.51	45,453	706	157	4Q2008
Ozerkovskaya Phase IV . . . .	Mixed use	Concept	70%	0.40	23,210	163	84	2010
Paveletskaya Embankment . .	Office	Construction/ Renovation	98.2%	5.27	66,953	550	123	1Q2008
H <sub>2</sub> O . . . . .	Office	Yielding	100%	0.20	10,698	—	28	1Q2007
Ruza . . . . .	Land plot	Concept	100%	387	200,000	—	n/a	n/a

\* GLA: "Gross Lettable Area".

The land and contractual rights required for the completion of the projects have already been either secured, are currently under negotiation, or the Group intends to enter into such negotiations in the future.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**13. Property, Plant and Equipment**

	<u>Office Equipment</u>	<u>Motor Vehicles</u> US\$'000	<u>Total</u>
<b>Cost</b>			
Balance 1 January 2006 . . . . .	684	320	1,004
Additions . . . . .	478	403	881
Transfer to investment properties under development . . . . .	(37)	—	(37)
Disposals . . . . .	(56)	(8)	(64)
Effect of movement in foreign exchange rates . . . . .	67	29	96
<b>Balance 31 December 2006 . . . . .</b>	<b><u>1,136</u></b>	<b><u>744</u></b>	<b><u>1,880</u></b>
<b>Accumulated depreciation</b>			
Balance 1 January 2006 . . . . .	307	115	422
Charge for the year . . . . .	259	197	456
Disposals . . . . .	(29)	(5)	(34)
Effect of movement in foreign exchange rates . . . . .	34	16	50
<b>Balance 31 December 2006 . . . . .</b>	<b><u>571</u></b>	<b><u>323</u></b>	<b><u>894</u></b>
<b>Carrying amount 31 December 2006 . . . . .</b>	<b><u>565</u></b>	<b><u>421</u></b>	<b><u>986</u></b>
<b>Cost</b>			
Balance 1 January 2005 . . . . .	533	192	725
Additions . . . . .	221	144	365
Transfer to investment properties under development . . . . .	(12)	—	(12)
Disposals . . . . .	(32)	(9)	(41)
Effect of movement in foreign exchange rates . . . . .	(26)	(7)	(33)
<b>Balance 31 December 2005 . . . . .</b>	<b><u>684</u></b>	<b><u>320</u></b>	<b><u>1,004</u></b>
<b>Accumulated depreciation</b>			
Balance 1 January 2005 . . . . .	224	15	239
Charge for the year . . . . .	121	111	232
Disposals . . . . .	(26)	(9)	(35)
Effect of movement in foreign exchange rates . . . . .	(12)	(2)	(14)
<b>Balance 31 December 2005 . . . . .</b>	<b><u>307</u></b>	<b><u>115</u></b>	<b><u>422</u></b>
<b>Carrying amount 31 December 2005 . . . . .</b>	<b><u>377</u></b>	<b><u>205</u></b>	<b><u>582</u></b>
<b>Cost</b>			
Balance 1 January 2004 . . . . .	487	9	496
Additions . . . . .	133	182	315
Disposals . . . . .	(117)	—	(117)
Effect of movement in foreign exchange rates . . . . .	30	1	31
<b>Balance 31 December 2004 . . . . .</b>	<b><u>533</u></b>	<b><u>192</u></b>	<b><u>725</u></b>
<b>Accumulated depreciation</b>			
Balance 1 January 2004 . . . . .	195	4	199
Charge for the year . . . . .	106	10	116
Disposals . . . . .	(91)	—	(91)
Effect of movement in foreign exchange rates . . . . .	14	1	15
<b>Balance 31 December 2004 . . . . .</b>	<b><u>224</u></b>	<b><u>15</u></b>	<b><u>239</u></b>
<b>Carrying amount 31 December 2004 . . . . .</b>	<b><u>309</u></b>	<b><u>177</u></b>	<b><u>486</u></b>

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**14. Loans Receivable**

	<u>2006</u>	<u>2005</u> US\$'000	<u>2004</u>
<b>Long term loans</b>			
Loans to joint ventures . . . . .	—	8,666	1,761
Loans to related companies . . . . .	104	201	201
Loans to non-related companies . . . . .	40	—	—
	<u>144</u>	<u>8,867</u>	<u>1,962</u>
	<u>2006</u>	<u>2005</u> US\$'000	<u>2004</u>
<b>Short term loans</b>			
Loans to joint ventures . . . . .	3,782	—	—
Loans to related companies . . . . .	104	766	786
Other loans . . . . .	67	442	1,117
	<u>3,953</u>	<u>1,208</u>	<u>1,903</u>

The loans to joint ventures were offered to finance the construction or the development of the project in Westec Four Winds Limited and RAPO respectively.

The loan to Westec Four Winds Limited is unsecured, bears interest of 5%, and is repayable on or before 31 December 2007.

In 2005 half of the loan offered to RAPO by Group companies was presented as loan to joint venture on 31 December 2005 as RAPO was a joint venture. The loans to RAPO were as follows:

<u>Lender Company</u>	<u>Principal amount*</u>	<u>Interest Rate</u>	<u>Date of repayment</u>
Scotson Ltd . . . . .	US\$12,000 thousand	14.0%	28 November 2009
Bellgate Constructions Ltd . . . . .	US\$26,511 thousand	5.5%	30 September 2009
AFI Development PLC . . . . .	US\$49,720 thousand	5.5%	31 December 2010

\* Represents total approved amount of the loan according to the loan agreement which was not withdrawn in full up to the year ended 31 December 2005.

In 2006 the group acquired the additional 50% interest in RAPO, which is now a wholly owned subsidiary and the loans are eliminated upon consolidation.

**15. VAT Recoverable**

Represents VAT paid on construction costs and expenses which according to the Russian VAT law can be recovered upon completion of the construction. The VAT is expected to be recovered after more than 12 months from the balance sheet date.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**16. Goodwill**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	US\$'000		
<b>Cost</b>			
Balance 1 January . . . . .	150	162	127
Additional cost paid for OOO Stroyinkom-K . . . . .	—	—	35
Effect of IFRS 3 adoption . . . . .	—	(12)	—
	<u>150</u>	<u>150</u>	<u>162</u>
<b>Amortization and impairment loss</b>			
Balance 1 January . . . . .	—	12	6
Amortisation charge for the year . . . . .	—	—	6
Effect of IFRS 3 adoption . . . . .	—	(12)	—
	<u>—</u>	<u>—</u>	<u>12</u>
	<u>150</u>	<u>150</u>	<u>150</u>

**17. Trading Properties Under Construction**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	US\$'000		
<b>Cost</b>			
Balance 1 January . . . . .	26,806	5,346	4,833
Additions due to acquisitions of subsidiaries . . . . .	34,624	29,975	—
Construction costs . . . . .	25,654	9,510	6,848
Capitalised interest . . . . .	2,937	989	—
Disposals . . . . .	(11,433)	(18,960)	(6,543)
Effect of movements in exchange rates . . . . .	456	(54)	208
Balance 31 December . . . . .	<u>79,044</u>	<u>26,806</u>	<u>5,346</u>

Trading properties under construction comprise:

Otradnoye project is owned by RAPO, a subsidiary company. The project involves the construction of a mixed use primarily residential building complex, on a 35 hectare plot of land, consisting of residential and commercial premises, public facilities, amenities and parking. The project which is at the design stage is located in Odintsovo, is estimated to cost approximately US\$600 million and will be completed in phases between 2008-2010.

Udaltsova project is owned by Techinvestgroup, a subsidiary company. The project involved the construction of residential premises. The total estimated cost to completion was US\$19.7 million. However, Techinvestgroup together with its project was disposed of during 2006 and an amount of US\$10.6 million was recognised in the income statement as a profit on disposal.

**18. Inventory**

Represents stock of spare parts.

**AFI DEVELOPMENT PLC**  
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**For the years ended 31 December 2006, 2005 and 2004**

**19. Trade and Other Receivables**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		US\$'000	
Receivable from sale of investment in subsidiaries (see note 27) . . . . .	138,475	11,419	—
Prepayments for the acquisition of investments . . . . .	—	—	30,968
Advances to builders . . . . .	41,098	3,663	4,258
Amounts receivable from related companies . . . . .	149	—	134
Trade receivables . . . . .	12,319	466	842
Other receivables . . . . .	6,950	3,246	1,842
VAT recoverable . . . . .	551	235	114
Tax receivables . . . . .	35	46	157
	<u>199,577</u>	<u>19,075</u>	<u>38,315</u>

*Prepayments for the acquisition of investments*

Bellgate Constructions Ltd, one of Company's wholly owned subsidiaries, paid during 2004 a lump sum amount in advance for the acquisition of Odintsovo land rights which were transferred to RAPO upon completion of the transaction in 2005.

*Advances to builders*

The advances made to builders in respect of work to be done on the projects under construction, are interest free.

**20. Cash and Cash Equivalents**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		US\$'000	
Cash and cash equivalents consist of:			
Cash at banks . . . . .	26,263	10,723	2,936
Cash in hand . . . . .	9	798	364
	<u>26,272</u>	<u>11,521</u>	<u>3,300</u>

**21. Share Capital and Reserves**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		US\$'000	
<b>Share capital</b>			
Authorised			
2004 and 2005: 1,000 shares of CY£1 each (translated at the rate of CY£1:US\$1.50) . . . . .		<u>2</u>	<u>2</u>
2006: 1,000,000,000 shares of US\$0.001 each . . . . .	<u>1,000</u>		
Issued and fully paid			
2004 and 2005: 1,000 shares of CY£1 each (translated at the rate of CY£1:US\$1.50) . . . . .		<u>2</u>	<u>2</u>
2006: 423,847,027 shares of US\$0.001 each . . . . .	<u>424</u>		

The authorised, issued and fully paid share capital of the Company on incorporation was 1,000 shares of CY£1 each. In November 2006 at an Extraordinary General Meeting (EGM) of the shareholders the following resolutions were approved:

- (i) The nominal value of the shares to be translated into US Dollars at the rate CY£1:US\$2.10.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**21. Share Capital and Reserves (Continued)**

- (ii) The shares to be split into shares of nominal value of US\$0.001 each.
- (iii) The authorised share capital to be increased to 1 billion shares of US\$0.001 each by creating 997,900,000 new shares of US\$0.001 each.
- (iv) On 31 December 2006 the issued share capital to be increased to 423,847,027 shares of US\$0.001 each with the issue of 421,747,027 shares of US\$0.001 and offered to the existing shareholders at the price of US\$1 each including a premium of US\$0.999 each. The shares were fully paid by converting the balance of the long term loans by the shareholders on 31 December 2006 to capital.

**Share premium**

The share capital of the companies acquired which were previously under common control, Borengo Enterprises Limited and Scotson Limited, is presented as share premium at the beginning of the earliest reporting period. Any amount paid for the acquisition of such investments in 2006 was subtracted from share premium.

Moreover, as previously mentioned the shares at the conversion of the loans into capital were issued at a premium of US\$0.999 each. A total of US\$421,325 thousand being share premium was recognised on 31 December 2006.

**Translation reserve**

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations to the Group presentation currency.

**Retained earnings**

The amount at each reporting date is available for distribution. No dividends were proposed, declared or paid during the three year period ended 31 December 2006.

**22. Earnings Per Share**

	2006			2005	2004
	Continuing operations	Discontinued operations	Total		
	US\$'000				
Profit/(loss) for the year attributable to ordinary shareholders . . . . .	<u>112,067</u>	<u>(83)</u>	<u>111,984</u>	<u>42,134</u>	<u>8,588</u>
Weighted average number of shares	Shares in thousands				
Issued ordinary shares at 1 January . . . . .	1	1	1	1	1
Effect of split in 2006 . . . . .	2,099	2,099	2,099	2,099	2,099
Effect of shares issued on 31 December 2006 . . . .	<u>1,155</u>	<u>1,155</u>	<u>1,155</u>	—	—
Weighted average number of shares . . . . .	<u>3,255</u>	<u>3,255</u>	<u>3,255</u>	<u>2,100</u>	<u>2,100</u>
Earnings/(loss) per share (dollars) . . . . .	<u>34.43</u>	<u>(0.03)</u>	<u>34.40</u>	<u>20.06</u>	<u>4.09</u>

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**23. Loans and Borrowings**

	<u>2006</u>	<u>2005</u> US\$'000	<u>2004</u>
<b>Non-current liabilities</b>			
Secured bank loans . . . . .	61,684	—	—
Unsecured loans from shareholders . . . . .	—	176,187	99,458
Unsecured loan from other related companies . . . . .	—	—	2,596
Unsecured loan from Joint Venture . . . . .	62	—	—
Unsecured loan from S&T Equity (Overseas) Ltd . . . . .	—	6,473	1,533
	<u>61,746</u>	<u>182,660</u>	<u>103,587</u>
<b>Current liabilities</b>			
Secured bank loan . . . . .	10,517	—	—
Unsecured loan from shareholder . . . . .	—	5,460	—
Unsecured loan from S&T Equity (Overseas) Ltd . . . . .	3,807	—	—
Unsecured short term loans from other from related companies . . . . .	—	2,765	241
Unsecured short term loan from Joint Venture . . . . .	462	—	—
	<u>14,786</u>	<u>8,225</u>	<u>241</u>

The loans from banks comprise of two loans:

- (i) Loan from Quasar Capital Limited with Deutsche Bank London Branch acting as facility agent. The loan was acquired for financing the Ozerkovskaya Embankment project. According to the loan agreement dated 13 February 2006 the total amount of the loan granted was US\$60 million, it carries interest at an annual rate of 2.4% above 6 months USD LIBOR and will be paid with fixed instalments with the last being on 13 February 2011. The full amount of the loan is guaranteed by Africa Israel the ultimate holding company.
- (ii) The second loan is from MDM Bank Plc and was acquired for the financing of Four Winds Plaza I & II projects. According to the loan agreement dated 19 April 2006 the total amount of the loan approved was Euro 43,560 thousand out of which only Euro 9,889 thousand were drawn. It carries interest at an annual rate of 12% and its repayment date is 28 December 2007. The loan is secured by two flats, non residential premises and parking places of a total value of US\$70,730 thousand.

The loan from S & T Equity (Overseas) Ltd was originally given by Brent Industrial Holdings Limited to Westec and was assigned later to S & T Equity (Overseas) Ltd. It bears interest at the rate of 5% p.a. and it is repayable on 31 December 2007. There were no securities or guarantees given for the loan. S&T Equity Overseas Ltd is the other 50% shareholder of Westec Four Winds Limited.

The loans from the shareholders, Moonbeam Enterprises Ltd and Nirro Group S.A., were acquired to finance the construction projects in progress. According to the loan agreements dated 2 April 2002 and 20 July 2001 and their addendums, the loans carry interest of 2.5% per annum above 3 months USD LIBOR. According to the loans agreement with Moonbeam Enterprises Ltd the repayment date was 31 December 2010. However, on 31 December 2006 the loans were converted to capital and the amount of the loans was considered fully repaid. The loan from Nirro Group S.A. was repaid during 2006. The loan agreements did not provide for any guarantees by the borrower; however they stated that the borrower was at any time obliged to register and pledge a security to the lender upon request.

The loan from the related party, Parcost Overseas Ltd was acquired for the financing of the Blaster Plus construction project and the Tverskaya Zastava Shopping Mall project. According to the loan agreement dated 7 October 2001, the total amount of the loan received was US\$2.25 million, it carried interest at an annual rate of 2.5% above 3 months USD LIBOR and was repayable within five years. The loan was considered fully repaid as it was also converted to capital on 31 December 2006.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**23. Loans and Borrowings (Continued)**

**Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

	<u>Currency</u>	<u>Nominal interest rate</u>	<u>Year of maturity</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
					<b>US\$'000</b>	
Unsecured loan from shareholder . . . . .	USD	3M USD LIBOR + 2.5%	2010	—	176,187	95,182
Unsecured loan from shareholder . . . . .	USD	3M USD LIBOR + 2.5%	2006	—	5,460	4,276
Unsecured loan from related party . . . . .	USD	3M USD LIBOR + 2.5%	2006	—	2,765	2,596
Unsecured short term loans from related parties . . .	RUB	5%	2005	—	—	241
Loan from Quasar Capital Limited . . . . .	USD	6M USD LIBOR + 2.4%	2009-2011	61,684	—	—
Loan from MDM Bank Plc . . . . .	EURO	12%	2007	10,517	—	—
Unsecured loan from Joint Venture . . . . .	RUB	9%	2011	62	—	—
Unsecured short term loan from Joint Venture . . . .	RUB	9%	2007	462	—	—
Unsecured loan—S&T Equity (Overseas) Ltd . . . .	USD	5%	2007	3,807	6,473	1,533
				<u>76,532</u>	<u>190,885</u>	<u>103,828</u>
				<b>2006</b>	<b>2005</b>	<b>2004</b>
					<b>US\$'000</b>	
The loans and borrowings are payable as follows:						
Less than one year . . . . .				14,786	8,225	241
Between one and five years . . . . .				51,746	6,473	8,405
More than five years . . . . .				<u>10,000</u>	<u>176,187</u>	<u>95,182</u>
				<u>76,532</u>	<u>190,885</u>	<u>103,828</u>

**24. Deferred Tax Assets and Liabilities**

Deferred tax assets and liabilities are attributable to the following:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		<b>US\$'000</b>	
Investment property under development . . . . .	787	267	—
Property, plant and equipment . . . . .	37	33	(13)
Trading properties under construction . . . . .	1	—	—
Trade and other receivables . . . . .	(363)	152	(21)
Trade and other payables . . . . .	(24)	(255)	—
Deferred income . . . . .	3	(28)	—
Other items . . . . .	(12)	16	—
Tax losses carried forward . . . . .	<u>(307)</u>	<u>(63)</u>	<u>4</u>
Deferred tax liability/(asset) . . . . .	<u>122</u>	<u>122</u>	<u>(30)</u>

**25. Trade and Other Payables**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		<b>US\$'000</b>	
Trade payables . . . . .	1,305	129	172
Payables to related companies . . . . .	420	411	254
Amount payable to builders . . . . .	581	997	1,134
VAT and other taxes payable . . . . .	253	172	154
Down payments received for construction projects . . . . .	542	2	2,886
Other payables . . . . .	<u>2,768</u>	<u>463</u>	<u>1,974</u>
	<u>5,869</u>	<u>2,174</u>	<u>6,574</u>

The above are payable within one year and bear no interest.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**26. Deferred Income**

Represents rental income received in advance, which corresponds to periods after the reporting date.

**27. Disposal of Subsidiaries**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<u>US\$'000</u>		
<b>The profit on disposal of subsidiaries consists of:</b>			
Profit on disposal of 50% shareholding of OOO Krown Investments . . . . .	112,365	—	—
Profit on disposal of OOO Techinvestgroup . . . . .	10,645	—	—
(Loss)/profit on disposal of OOO Blaster Plus . . . . .	(3,665)	32,111	—
Profit on disposal of 50% shareholding of OOO RAPO . . . . .	—	11,038	—
Profit on disposal of OOO Moint . . . . .	—	—	9,672
	<u>119,345</u>	<u>43,149</u>	<u>9,672</u>

The above disposals had the following effect on the Group's assets and liabilities:

	<u>2006 Krown Investments 50%</u>	<u>2006 Techinvest- Group 100%</u>	<u>2005 Blaster Plus 100%</u>	<u>2005 RAPO 50%</u>	<u>2004 Moint 100%</u>
	<u>US\$'000</u>				
Investment properties under development . . .	(35,945)	—	(9,362)	—	—
Long term loan receivable . . . . .	(117)	—	(73)	—	—
VAT recoverable . . . . .	(641)	(365)	(317)	—	—
Trading properties under construction . . . . .	—	(11,433)	—	(18,960)	(6,543)
Short term loans receivable . . . . .	(717)	—	—	—	—
Trade and other receivables . . . . .	(649)	—	(12,845)	—	—
Cash and cash equivalents . . . . .	(349)	(26)	(18)	—	—
Deferred tax liability . . . . .	175	—	—	—	—
Trade and other payables . . . . .	75	—	32	—	—
Net identifiable assets . . . . .	<u>(38,168)</u>	<u>(11,824)</u>	<u>(22,583)</u>	<u>(18,960)</u>	<u>(6,543)</u>
Consideration received in cash . . . . .	15,000	18,525	42,756	29,998	39,000
Cash disposed of . . . . .	<u>(349)</u>	<u>(26)</u>	<u>(18)</u>	<u>—</u>	<u>—</u>
Net cash inflow from the disposal of subsidiaries . . . . .	<u>14,651</u>	<u>18,499</u>	<u>42,738</u>	<u>29,998</u>	<u>39,000</u>
				<u>2006</u>	<u>2005</u>
				<u>US\$'000</u>	
Total cash inflow from disposal of subsidiaries . . . . .				<u>33,150</u>	<u>72,736</u>
					<u>2004</u>
					<u>39,000</u>

The selling price of the disposal of Krown Investments was US\$150,000 thousand. The resulting gain on sale amounting to US\$111,831 thousand and the realised exchange gain amounting to US\$534 thousand were recognised in the income statement. An amount of US\$135,000 thousand was outstanding on 31 December 2006 which was received in full in February 2007.

The selling price of the disposal of Techinvestgroup was US\$22,000 thousand. The resulting gain on sale amounting to US\$10,177 thousand and the realised exchange gain amounting to US\$468 thousand were recognised in the income statement. An amount of US\$3,475 thousand is still outstanding.

The selling price of the disposal of Blaster Plus was US\$54,175 thousand. The resulting gain on sale amounting to US\$31,592 thousand and the realised exchange difference amounting to US\$519 thousand were recognised in the income statement. An amount of US\$11,419 thousand was outstanding on 31 December 2005 and was paid in full in 2006.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**27. Disposal of Subsidiaries (Continued)**

The selling price of the 50% shareholding of RAPO was US\$29,998 thousand. The resulting gain on sale amounting to US\$11,038 thousand was recognised in the income statement.

In 2004 the second part of the disposal of contract of Moint was honored. The selling price for this part was US\$16,215 thousand and the total cost US\$6,543 thousand. The resulting gain amounting to US\$9,672 thousand was recognised in the income statement.

**28. Financial Instruments**

Exposure to credit, interest rate, currency and business environment risks arises in the normal course of the Group's business.

*Credit risk*

Management has no credit policy in place because as of the reporting date there were no significant concentrations of credit risk. The maximum credit risk exposure is represented by the carrying amount of each financial asset on the balance sheet.

*Interest rate risk*

The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes in the interest rates. Short term receivable and payables are not exposed to interest rate risk.

*Foreign currency risk*

The Group is exposed to foreign currency risk on sales, purchases, construction costs, expenses and borrowings denominated in a currency other than the respective functional currency of the Group entities. The currencies giving rise to this risk is primarily Russian Rouble (RUB) and Euro.

*Russian business environment*

Most of the Group entities are registered in the Russian Federation. The Russian Federation has been experiencing political and economic instability which has affected, and may continue to affect, the activities of entities operating in this environment. Consequently, operations in the Russian Federation involve risks that do not typically exist in other markets.

*Fair values*

The fair values of financial assets and liabilities are not materially different than their carrying amount shown in the balance sheet.

**29. Operating Leases**

*Leases as lessee*

Non cancellable operating lease rentals are payable as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		US\$'000	
Less than a year . . . . .	2,143	1,934	2,032
Between one and five years . . . . .	5,955	5,769	5,784
More than five years . . . . .	20,056	21,975	23,894
	<u>28,154</u>	<u>29,678</u>	<u>31,710</u>
Amount recognised as an expense during the year . . . . .	<u>1,018</u>	<u>451</u>	<u>512</u>

Under the Russian law the ownership of land in the Russian Federation is rare and especially within Moscow Region, in which all of the property with only a few exceptions, is owned by the City of Moscow. The majority of land is occupied by private entities pursuant to lease agreements between occupants, of the building located on the land, and the City of Moscow. The Group has several long term operating leases

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**29. Operating Leases (Continued)**

for land. These leases, also called “investment contracts”, are entered into with the intention and right to develop the land and carry out construction. Typically they run for an initial period of one to five years which is the period of development and upon completion of development the developer has the right to renew for a long term period of usually up to 49 years. Under both leases the lessee is required to make periodic lease payments, generally on a quarterly basis to the City of Moscow.

There is also the option of long term land lease prior to commencement of construction which the developer can acquire with a lump sum payment that is determined from time to time by the City of Moscow and is based on the size of the land, its location and the proximity to amenities. The Group has two such land rights and they run for period of 49 years.

One of the Group’s subsidiaries leases its offices under operating lease. The lease is for a period of five years with an annual lease of US\$1,376 thousand expiring on the 31 December 2010.

***Leases as lessor***

The Group leases out investment property under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
	<u>US\$’000</u>		
Less than a year . . . . .	<u>538</u>	<u>82</u>	<u>194</u>
Amount recognised as income during the year . . . . .	<u>1,358</u>	<u>577</u>	<u>808</u>

**30. Capital Commitments**

Up to 31 December 2006 the Group has entered into a number of contracts for the construction of investment or trading properties:

<u>Project name</u>	<u>Commitment</u>
	<u>US\$’000</u>
Moscow City shopping centre . . . . .	279,376
Tverskaya Zastava development . . . . .	255,451
Otradnoye . . . . .	108,129
Ozerkovskaya Embankment—Phase II . . . . .	74,506
Four Winds I and II . . . . .	44,121
Paveletskaya Embankment . . . . .	<u>37,643</u>
	<u>799,226</u>

The following is a summary of the most significant contracts giving rise to future capital commitments:

Moscow City Shopping Centre project includes a contract with Enka Insaat Ve Sanayi Anonim Sirketi (“Enka”) who will act as the general constructor of the project. The amount of future capital commitment according to the contract is US\$228,035 thousand.

Tverskaya Zastava development includes a contract also with Enka who will act as the general constructor of the project. The amount of future capital commitments according to the contract is US\$240,333 thousand.

Ozerkovskaya Embankment Phase II project includes two contracts with Danya Cebus who will act as the general constructor. The amount of future capital commitments according to these contracts is US\$51,011 thousand.

Four Winds I and II project includes a contract with Rasen Construction Ltd who will act as the general constructor of the project. The amount of future capital commitments according to the contract is US\$43,474 thousand.

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**31. Contingencies**

The Group has no material contingent assets or liabilities arising from litigation, potential claims or other matters. In regard to the investment contracts signed with the City of Moscow, the Board of Directors believes that there will be no material contingent liabilities in relation to meeting specific completion time deadlines as specified in the investment contracts, nor will there be any material contingent liabilities in cases where such deadlines may need to be renegotiated.

**32. Related Parties**

*Outstanding balances with related parties*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		US\$'000	
<b>Assets</b>			
Long term loans to joint ventures . . . . .	—	8,666	1,761
Long term loans to other related parties . . . . .	104	201	201
Short term loans to joint ventures . . . . .	3,782	—	—
Short term loans to other related parties . . . . .	104	766	786
Amounts receivable from ultimate shareholder . . . . .	97	160	24
Amounts receivable from related companies . . . . .	149	—	134
<b>Liabilities</b>			
Long term loans from shareholders . . . . .	—	176,187	99,458
Long term loans from joint venture . . . . .	62	—	—
Long term loans from other related companies . . . . .	—	—	2,596
Short term loans from shareholders . . . . .	—	5,460	—
Short term loan from joint venture . . . . .	462	—	—
Short term loan from other related companies . . . . .	—	2,765	241
Amounts payable to ultimate shareholder . . . . .	182	87	87
Amounts payable to shareholders . . . . .	26	—	—
Amounts payable to other related companies . . . . .	212	324	167

All outstanding balances with these parties are priced at an arm's length basis and are to be settled in cash. For repayment dates, securities and interest rates of the loans see notes 14 and 23. None of the other balances is secured.

*Transactions with the key management personnel*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		US\$'000	
Key management personnel compensation comprised:			
Short term employee benefits . . . . .	<u>1,429</u>	<u>687</u>	<u>496</u>

*Other related party transactions*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		US\$'000	
<b>Revenue</b>			
Joint venture—consulting services . . . . .	—	40	—
Joint venture—interest income . . . . .	325	200	56
Other related companies—rental income . . . . .	219	59	19
Other related companies—consulting services . . . . .	—	6	—
Other related companies—interest income . . . . .	1	1	80
Other related companies—other income . . . . .	36	3	6

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**32. Related Parties (Continued)**

	2006	2005	2004
	US\$'000		
<b>Expenses</b>			
Shareholder—interest expense . . . . .	20,601	8,450	2,940
Other related companies—operating expenses . . . . .	151	171	131
Other related companies—administrative expenses . . . . .	133	—	34
Other related companies—interest expense . . . . .	230	170	105

**33. Group Entities**

<b>Ultimate controlling party:</b>	Lev Leviev	Israel
<b>Ultimate holding company:</b>	Africa Israel Investments Limited	Israel
<b>Holding Company:</b>	Moonbeam Enterprises Limited	Cyprus

Significant Subsidiaries	Ownership interest			Country of incorporation
	2006	2005	2004	
1    OOO Avtostoyanka Tverskaya Zastava . . . . .	100	100	100	Russian Federation
2    OOO MayStroy . . . . .	100	100	100	Russian Federation
3    OOO Techinvestgroup . . . . .	100	100	100	Russian Federation
4    OOO Buildstroy . . . . .	100	100	100	Russian Federation
5    OOO Krown Investments . . . . .	50	100	100	Russian Federation
6    OOO InzhStroy AG . . . . .	100	100	100	Russian Federation
7    OOO IncomStroy . . . . .	100	100	100	Russian Federation
8    OOO Tain Investments . . . . .	100	100	100	Russian Federation
9    OOO Tain Management . . . . .	100	100	100	Russian Federation
10   OOO Ozerkovka . . . . .	100	100	—	Russian Federation
11   OOO Corin Development . . . . .	100	—	—	Russian Federation
12   OOO LessyProf . . . . .	100	—	—	Russian Federation
13   OAO Moskovskiy Kartonazhno-poligraficheskiy Kombinat (MKPK) . . . . .	98.2	—	—	Russian Federation
14   OOO Blaster Plus . . . . .	—	—	100	Russian Federation
15   Bellgate Construction Limited . . . . .	100	100	100	Cyprus
16   Moscow City Centre PLC . . . . .	100	100	—	United Kingdom
17   Slytherin Development Limited . . . . .	100	—	—	Cyprus
18   OOO Ultrastroy . . . . .	100	—	—	Russian Federation
19   OOO Ultrainvest . . . . .	100	—	—	Russian Federation
20   OOO Regionalnoe AgroProizvodstvennoe Objedinenie (RAPO) . . . . .	100	50	—	Russian Federation
21   Severus Trading Limited . . . . .	100	—	—	Cyprus
22   OOO Aristeya . . . . .	100	—	—	Russian Federation
23   Talena Development Limited . . . . .	100	—	—	Cyprus
24   Temalis Limited . . . . .	100	—	—	Cyprus
25   Buildola Properties Limited . . . . .	100	—	—	Cyprus
26   Bugis Finance Limited . . . . .	100	—	—	British Virgin Islands
27   Westec Four Winds Limited . . . . .	50	50	50	Cyprus
28   Borenco Enterprises Limited . . . . .	100	100	100	Cyprus
29   OOO Stroyinkom-K . . . . .	100	100	100	Russian Federation
30   OOO Elite-Business . . . . .	100	100	100	Russian Federation
31   OOO PSO Dorohovo . . . . .	100	100	100	Russian Federation
32   Scotson Limited . . . . .	100	100	100	Cyprus
33   ZAO Rostransconsult . . . . .	100	—	—	Russian Federation

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**33. Group Entities (Continued)**

Subsidiary Blaster Plus was sold during 2005 and the resulting gain on sale was recognised in the income statement of 2005.

50% of subsidiary Krown Investments was sold during 2006. The resulting gain on sale was recognised in the income statement of 2006.

Bellgate Constructions Ltd (“Bellgate”) acquired during 2005, the 97% shareholding of RAPO and Inzhstroy AG the other 3%. In July 2005 Bellgate sold 50% shareholding of RAPO to Ultrastroy (20%) and to Ultrainvest (30%) which were not part of the group then. On the same date Bellgate transferred the 47% to Inzhstroy AG. During 2006, Slytherin Development Ltd acquired 100% shareholding of Ultrastroy and Ultrainvest. These two subsidiaries jointly own the 50% shareholding of RAPO, which was sold to them in 2005 by Bellgate. Therefore the Group currently holds 100% shareholding of RAPO.

During November 2006 the Company acquired the following entities, which were under common control: Borenco Enterprises Limited, registered in Cyprus, which owns 100% of Stroyinkom-K registered in the Russian Federation and its principal activity is the management of construction projects, 100% of OOO Elite-Business, or “Elite-Business”, registered in the Russian Federation which is a business services provider and 100% of PSO Dorohovo registered in the Russian Federation and its principal activity is agriculture.

Furthermore, the Company acquired 100% of Scotson Limited, registered in Cyprus whose principal activity is financing, which was also previously under common control. Scotson Limited owns 100% shareholding of OOO Rostransconsult.

**34. Subsequent Events**

Subsequent to 31 December 2006 the following events have taken place:

*Acquisition of loans:*

On 22 February 2007 the Company signed a term loan facility agreement with Deutsche Bank AG (London Branch) to borrow US\$200 million. The loan will bear interest of 1.45% above 6-month USD LIBOR and will be repayable 18 months after the date at which the loan will be made available to the borrower.

*Formation or acquisition of new entities and/or projects:*

Cristall Development was acquired and in turn formed, together with OOO Stroyinkom-K, Volga Stoyinkom in February 2007. Volga Stroyinkom Development owns 78% of the Volgograd project, a multi phase, retail development complex located in the Volgograd city centre. Currently, the project is at the concept stage and design and construction have not yet begun. The project is being developed jointly with a third party.

Krusto Enterprises Limited (Krusto), a Cypriot company, was formed jointly with Danya Cebus. Danya Cebus Rus holds 40% and the Group holds 60% of Krusto. In turn Krusto is expected to own 50% of ZAO Kama Gate which is the owner of the Perm project, a three phase mixed use development with a large residential component, in Perm city centre. Perm is at the concept stage of development and design and construction have not yet begun. The remaining 50% of ZAO Kama Gate will be held by the Group’s Russian partner who owns the lease rights to the land plots located on the project site. As of April 2007 the Group is in the process of establishing Kama Gate by registering its shares with the relevant regulatory authorities.

The Group acquired 100% of Keyiri Trading & Investments Limited, a Cypriot company that holds 100% of Favorit. Favorit, a Russian registered entity, holds 76% interest in the land plot on which the St. Petersburg project will be located. Moreover, the Group has entered into a share purchase agreement, through its wholly owned Cypriot subsidiary, Buildola Properties Limited for the purchase of 100% of

**AFI DEVELOPMENT PLC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**For the years ended 31 December 2006, 2005 and 2004**

**34. Subsequent Events (Continued)**

KO Proekt. In turn, KO Proekt entered into a share purchase agreement for the purchase of 76% KO Development, that will develop the St. Petersburg project. The remaining 24% of KO Development is currently held by the Group's local partner in St. Petersburg. The St. Petersburg project will consist of a retail shopping outlet and in addition a metro station is planned to be constructed in proximity to the St. Petersburg development. St. Petersburg is at the concept stage of development and design and construction have not yet begun. In addition, KO Development will enter into a land lease agreement with Favorit with respect to the land plot on which the St. Petersburg project will be located, for the period of the construction.

In February 2007 the Group, through its subsidiary MayStroy, has entered into a share purchase agreement for the acquisition of 100% of the share capital of ZAO Armand an entity which has certain land rights reserved to it, under a City of Moscow's resolution, in two hectares of land at the Kuntsevo project site. As of the date of the report of these Financial Statements, 100 per cent. of the share capital of ZAO Armand is pledged in favour of a third party. MayStroy has the permission to prepare and present a design of the Kuntsevo project, a 20 hectare multi phase office buildings development complex located in the western Moscow.

On 12 February 2007, the Group entered into an agreement with Ramis Limited, a Seychelles company, regarding the purchase of a 74% participatory interest in the charter capital of Bizar, a Russian limited liability company which is holding ownership rights to two non-residential buildings and will be holding ownership rights to another two non-residential buildings located at Berezhkovskaya emb., 16A, with a total area of 11,612.2 sq.m. The Group's total investment in the acquisition of the 74% participatory interest will approximately amount to US\$37 million.

On 12 February 2007, the Group entered into another agreement with Ramis, regarding the purchase of a 100% participatory interest in the charter capital of Milinar, a Russian limited liability company, which is holding or will be holding ownership rights to buildings located at Leninskaya Sloboda str., 19 with a total area of 96,217.6 sq. m called Dinamo project. The Group's total investment in the acquisition of the participatory interest in Milinar will approximately amount to US\$149 million.



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Morgan Stanley & Co. International plc and Deutsche Bank AG, on their own behalf as Joint Global Coordinators and Joint Bookrunners, together with Goldman Sachs International as Joint Bookrunners, as representatives of the underwriters defined in this prospectus produced by AFI Development PLC.

14 April 2007

Dear Sirs

#### **AFI DEVELOPMENT PLC**

#### **VALUATION OF A PORTFOLIO OF FREEHOLD AND PART FREEHOLD/PART LEASEHOLD PROPERTIES**

##### **Instructions**

In accordance with our engagement letter, dated 29 March 2007, with AFI Development PLC (the “**Company**”), we, (Jones Lang LaSalle), Chartered Surveyors, have considered the properties referred to in the attached schedules (the “**Schedules**”), in order to advise you of our opinion of the Market Value (as defined below) of the freehold or part freehold and part leasehold interests (as appropriate) of the Company in each of these properties (the “**Properties**”). The effective date of the valuation is 31 March 2007.

##### **Purpose of Valuation**

We understand that this valuation report and the attached Schedules (together, the “**Valuation Report**”) are required for inclusion in a prospectus which investors will rely on in making their decision to invest in the Company.

We can confirm that we have prepared our Valuation as “External Valuers” as defined in the RICS Appraisal and Valuation Standards, 5th Edition (also known as the “**Red Book**”), and are qualified for the purpose of the valuation. Although this is a UK basis of valuation, it is internationally accepted as a basis of arriving at the value of real estate. We confirm that this Valuation Report is a Regulated Purpose Valuation as defined in the Red Book.

##### **Disclosure**

The member of the Royal Institution of Chartered Surveyors (the “**RICS**”) signing this report has not previously been the signatory to any valuations provided to the Company for the same purposes as this Valuation Report.

Jones Lang LaSalle has periodically provided other professional or agency services to the Company and has done so for a period of less than five years. In relation to the most recent financial year, the

proportion of the total fees payable by the Company to the total fee income of Jones Lang LaSalle is less than 5% of the total.

## **Basis of Valuation**

We set out below the basis of valuation we have used in preparing our Valuation Report attached to which, as Appendices II and III, are two schedules summarising the individual properties appraised together with a summary of our opinion of their Market Values.

We confirm that the valuations have been made in accordance with the appropriate sections of both the current Practice Statements (“PS”), and United Kingdom Practice Statements (“UKPS”) contained within the RICS Appraisal and Valuation Standards, 5th Edition (the “Red Book”). This is an internationally accepted basis of valuation.

Market Value is defined 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.”*

As well as acting as External Valuers, as defined within the Red Book, our valuation has also been undertaken in accordance with the relevant provisions of the Prospectus Directive and related guidance. The Properties comprise a variety of development projects and we have, therefore, used the residual valuation methodology to calculate the individual Market Values. A more detailed summary of our valuation methodology is attached to this Valuation Report as Appendix I.

In arriving at our opinions of Market Value we have also arrived at our opinions of current estimated net annual rent. These are assessed on the assumption that they are the best rent at which a new letting of an interest in property would have been completed at the date of valuation assuming:

- (i) a willing landlord;
- (ii) that, prior to the date of valuation there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the letting;
- (iii) that the state of the market, levels of value and other circumstances were, on any earlier assumed date of entering into an agreement for lease, the same as on the valuation date;
- (iv) that no account is taken of any additional bid by a prospective tenant with a special interest;
- (v) that where relevant the length of term and principal conditions assumed to apply to the letting and other tenants terms are the same as those set out in the rent review clause contained in the occupational lease which we confirm are not exceptionally onerous or beneficial for letting of the type and class of the subject property and;
- (vi) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

Taking into account the fact that, with the exception of a limited number of lettings at the properties known as H20 and a number of pre-leases at the Four Winds, Tverskaya Zastava and Ozerkovskaya I projects, none of the properties is currently leased to tenants at the date of Valuation, the “net annual rent” for each Property, where relevant, is referred to in the Schedules as the ‘Estimated Market Rental Value on Completion’.

Net Annual Rent is defined 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 good condition to command its rent.”*

We can confirm that each property has been valued in accordance with the above bases of valuation.

## Assumptions and Sources of Information

An assumption is stated in the Glossary to the Red Book to be a “supposition taken to be true” (“**assumption**”). Assumptions are facts, conditions or situations affecting the subject of, or approach to, a valuation that, by agreement, need not be verified by a Valuer as part of the valuation process. In undertaking our valuations, we have made a number of assumptions and have relied on certain sources of information. Where appropriate, the Company’s advisers have confirmed that our assumptions are correct so far as they are aware. We believe that the assumptions we have made are reasonable, taking into account our knowledge of the properties, and the contents of reports made available to us. However, in the event that any of these assumptions prove to be incorrect then our valuations should be reviewed. The assumptions we have made for the purposes of our valuations are referred to below.

We would state that the adopted development commencement dates and construction periods in respect of each property have been made in isolation of the remaining properties also subject to development. As a result, the valuations reported do not reflect the effect of numerous properties being developed simultaneously or being released to the market at the same time.

We have also made an assumption that the information the Company and its professional advisers have supplied to us in respect of the Properties is both full and correct.

It follows that we have made an assumption that details of all matters likely to affect value within their collective knowledge such as prospective lettings, outstanding requirements under legislation and planning decisions have been made available to us and that the information is up to date.

In addition to those assumptions which we have made, it has also been necessary for us to prepare our valuation of the Property on the basis of a number of “Special Assumptions”. In this respect, a Special Assumption is referred to in the Red Book as an Assumption that either:

- (i) requires the valuation to be based on facts that differ materially from those that exist at the date of valuation; or*
- (ii) is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the date of valuation, having regard to prevailing market circumstances*

With regard to this Valuation Report, we are of the opinion that the Special Assumptions set out below are valid, realistic and relevant.

In those instances where full ownership rights are yet to be held, or where the granting of a ground lease is awaited, meaning that the basis of the “Projects” to be developed are not yet finalised, our valuations take into account any reasonably anticipated risks of delay and costs in receiving the Project documentation. However, we have assumed that there will be no unforeseeable additional costs or delays in comparison to those generally experienced and that such rights or interests are in due course obtained.

In those instances where investment contracts are held for the development of properties, our valuations are on the basis that a ground lease and an ownership certificate will be obtained by the developer upon completion of the development and this is in line with normal market practice in Russia.

It should be noted that the land upon which the majority of properties are developed in Moscow, as well as many other cities in Russia, are held by way of ground leasehold interests granted by the City Authorities, despite the buildings thereon being held freehold. The ground rental payments of such interests may be reviewed on an annual basis, in either an upwards or downwards direction, by reference to an established formula. Within the terms of the lease, there is a right to extend the term of the lease upon expiry in line with the existing terms and conditions thereof. It should be noted, however, that very few leasehold interests have yet to reach termination and, hence, the effective ability to renew on such a basis is relatively untested. In arriving at our opinions of Market Value, we have assumed that the respective ground leases are capable of extension in accordance with the terms of each lease. In addition, given that such interests are not capable of assignment, we have assumed that each leasehold interest is held by way of a special purpose vehicle (“SPV”), and that the shares in the respective SPVs are capable of assignment.

With respect to each of the Properties, the Company has, or will have, a freehold interest in each of the buildings/structures currently on, or to be constructed on, the Properties. However, with the exception of the Ruza, St. Petersburg and Volgograd Properties, which are held freehold, due to applicable City of Moscow or other City Authority legislation, the Company is only entitled to hold a leasehold, and not a freehold, interest in the land underlying the Properties.

As noted above, within the terms of the ground lease for each of these Properties, there is or will be the right to extend the term of the lease upon expiry in line with the existing terms and conditions thereof. In terms of the valuation, however, there is effectively no difference between the methodology used to value Properties which are subject to ground leases and those with respect to which the Company will have a freehold interest in the underlying land. The only actual difference in the valuation methodologies is that, in the case of Properties which are subject to ground leases, the valuation factors in a deduction for ground lease payments, whereas for Properties that will be held in freehold with respect to the underlying land, the valuation factors in a deduction for land tax payments. Accordingly, the accompanying schedule of values of the Properties does not contain separate valuations for those Properties which are subject to ground leases and those Properties which will be held in freehold with respect to the underlying land.

With regard to each of the Properties considered, in those instances where Project documentation has been agreed with the respective local authorities, our opinions of value have been arrived at on the basis of these agreed agreements. Where such documentation is yet to be agreed we have had regard to the Company's individual proposals, but have not necessarily adopted these in arriving at our opinions of value, where we have felt it more prudent to adopt other assumptions as to volume of development etc.

With regard to the property known as Moscow City Central Core, which is held by way of a shared ownership but where an agreement is in place with the co-owner for the purchase of this share, we have taken such costs into account in arriving at our opinion of value and have valued the property on the basis that there is a 100% share in the income received with the exception of that from the concert hall, which is to be received by the co-owner. In addition, with regard to those properties where rights of ownership have yet to be fully purchased, our valuations take into account all outstanding payments required to be made in order to acquire full ownership.

In those instances where the Properties are held in part ownership, our valuations assume that these interests are capable of sale in the open market without any restriction from the co-owner and that there are no encumbrances within the share agreements which would impact upon the saleability of the Properties concerned.

In terms of the Assumptions and Special Assumptions which we have made and which are summarised within this Valuation Report, the Company has confirmed that our Assumptions are correct as far as they are aware. In the event that any of our Assumptions prove to be incorrect, the valuations contained in this valuation report should be reviewed and modified as necessary.

## **Valuation**

On the bases outlined within this Valuation Report, we are of the opinion that the aggregate of the individual gross Market Values, as at 31 March 2007, of the freehold and part freehold and part leasehold interests subject to the existing lettings but otherwise with vacant possession is as set out below:

**\$3,691,260,000**

**(Three Billion, Six Hundred and Ninety One Million, Two Hundred and Sixty Thousand US Dollars)**

It should be noted that the above valuation represents the aggregate of the individual values attributable to each property and should not be regarded as a valuation of the portfolio as a whole in the context of a sale as a single lot.

## **Realisation Costs**

Our Valuation is exclusive of VAT and no allowances have been made for any expenses of realisation nor for taxation which might arise in the event of a disposal of any property. Our valuation is, however, net of purchaser's acquisition costs.

## **Tenure and Tenancies**

We have not had access to the title deeds of the Properties. As a result, we have assumed that the title is marketable and that the Properties are free from encumbrances, mortgages and charges. We have also assumed that, where the interest in the Properties is part 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.

In respect of a number of the properties, the Company is in possession of a share of the ownership of the entire asset. In these cases, where the Company will receive a share of the income to be generated by

the property on completion, we have valued this share and have arrived at our opinion of value on this basis. In those instances where the company does have a part ownership, we would state that the Company may have a higher proportional liability of the construction costs (up to 100%). This factor has also been taken into account in arriving at our opinions of value.

With regard to the property known as Moscow City Central Core, the Company is under an obligation to provide a 25% share of the completed development to the Moscow City Authorities. We understand that, as part of the development of the property, there is the ability for the Company to purchase back this share from the City. We have been informed by the Company that this amount equates to \$75,000,000 (seventy five million US Dollars) and we have assumed that this option will be exercised in arriving at our opinion of value.

In terms of those properties which are held by way of ground leases, we understand that such ground leases are not capable of being transferred in Moscow. We further understand that each asset is held as a SPV. Consequently, as noted above, we have valued the Properties on the Special Assumption that the shares in each of these SPVs can be sold and, in addition, that there are no further assets or liabilities held by each SPV which might affect the ability to sell the shares in the vehicles.

It is important to note that the rights to complete a development may be lost or, at least, delayed if the lessee fails to complete a permitted development within the timescale set out by the ground lease. In addition, in the event that a development has not been commenced upon the expiry of a lease then the City Authorities are entitled to decline the granting of a new lease on the basis that the land is not used in accordance with its designation. Furthermore, where all necessary permissions and consents for the development are not in place, this may provide the City with grounds for rescinding or non-renewal of the ground lease. In undertaking the valuations reported herein, we have made the assumption that no such circumstances will arise to permit the City to rescind the land lease or to not grant a renewal.

In some instances we understand that the Company is still in the process of acquiring rights to a number of the Properties. As previously stated, we have valued these properties on the Special Assumption that these rights will be obtained. We have reflected within our valuations any outstanding costs which will be incurred in obtaining full ownership rights.

As at the date of valuation there were no concluded occupational leases passing on any of the subject properties, with the exception of six lease agreements passing at the property known as H2O and a number of pre-leases at the Four Winds, Tverskaya Zastava and Ozerkovskaya I projects. We have been provided with copies of these lease agreements and have read them prior to forming our opinion of value.

We have not conducted credit enquires into the financial status of any of the tenants. However, in undertaking our valuations we have reflected our understanding of the market perception of the financial status of the tenants. We have also assumed that each tenant is capable of meeting its leasehold obligations and that there are no undisclosed breaches of covenant.

With regard to all valuations reported within this document, we have assumed that vacant possession of all parts of the Properties required prior to redevelopment is obtained.

## Inspections

The Properties have been inspected externally and, where appropriate, internally between January and March 2007. The properties have been inspected by either Robert Mayhew BSc (Hons) MRICS, Sergey Belov, Alla Axyonova, Natalia Galakhova, Elena Medvedskaya, Pavel Kartsev or Svetlana Shorina.

<u>Property</u>	<u>Date of Inspection</u>
Tverskaya Zastava . . . . .	26 January 2007
Moscow City Centre . . . . .	25 January 2007
Ozerkovskaya . . . . .	23 January 2007
Otradnoye . . . . .	24 January 2007
Paveletskaya . . . . .	23 January 2007
Ruza . . . . .	26 January 2007
Dinamo . . . . .	28 February 2007
Berezhkovskaya . . . . .	28 February 2007
St. Petersburg . . . . .	30 January 2007
Perm . . . . .	6 February 2007
Volgograd . . . . .	30 January 2007
Kuntsevo . . . . .	31 January 2007

With the exception of a limited number of buildings, we understand that the structures existing on the majority of the sites which have yet to be developed do not form part of the Company's intended developments and are proposed to be demolished prior to the redevelopment of the sites.

### **Floor Areas**

We have not undertaken any measured surveys of the Properties and have relied entirely on information as to site areas and floor areas and dimensions of existing and proposed developments as provided to us by the Company.

### **Planning**

The process of obtaining planning permits and all necessary planning consents is a particularly time consuming and difficult process in Moscow, and Russia generally. Prior to the granting of a ground lease, a number of preliminary planning approvals are required. Once the ground lease has been granted, a "Project" must be approved through a division of the City Authorities and this will effectively summarise all design details of the proposed development. This document then provides the basis upon which a formal planning consent may be applied for and subsequently granted, and will outline all necessary contributions and technical requirements from utility providers.

Where available, the Company has provided us with such project documentation in respect of each of the development projects and we have had regard to this information in arriving at our opinions of Market Value.

In arriving at our opinions of Market Value we have had regard, where available, to the Company's specific proposals to develop each asset. However, although we have taken these proposals into account, each valuation reflects our opinion of such a development which may form the basis of a bid for the property by a prospective purchaser. As a result, our valuations do not necessarily fully reflect the Company's proposed development programme.

Where such documentation has not been available, we have incorporated our reasonable estimates of all costs necessary to obtain all necessary consents and documentation, together with the time necessary to obtain such. It should be understood that these are only estimates and the actual payments requirement may vary.

Although we have not made any formal searches in terms of planning consents and issues, we have generally relied upon guidelines provided within the Moscow City 2020 Structure Plan or other relevant structure plans, as well as information provided by the Company as well as project documentation (where available) in respect of each of the Properties.

We have assumed that all existing properties have been erected and are being occupied and used in accordance with all necessary consents and that there are no outstanding statutory notices. We have also assumed that all buildings comply with all statutory and Local Authority requirements including building, fire and health and safety regulations.

In arriving at our opinions of market value we have assumed that all necessary planning consents will be obtained within a reasonable and standard timescale and that there will be no extraordinary issues which may delay the receipt of the necessary consent and which may impact on the value or marketability of the Property.

### **Environmental Investigations and Ground Conditions**

We have not been instructed to carry out site surveys or environmental assessments nor have we investigated any historical records, to establish whether any land or premises are or have been, contaminated. Unless we have been provided with information to the contrary, we have assumed that the properties are not, nor are likely to be, affected by land contamination and that there are no ground conditions which would affect the present or future use of the properties.

We were not instructed to carry out structural surveys of the properties but we have reflected any apparent wants of repair in our opinion of the value as appropriate. Properties have been valued on the basis of the issuer's advice save where we have been specifically advised to the contrary, no deleterious materials have been used in the construction of any of the subject buildings.

### **Plant and Machinery**

In respect of any existing buildings, landlords' plant and machinery such as lifts, escalators, air-conditioning and other normal service installations have been treated as an integral part of each property and are included within our valuations. Plant and machinery, tenant's fixtures and specialist trade fittings have been excluded from our valuations.

No specialist tests have been carried out on any of these service systems and for the purposes of our valuations we have assumed that all are in good working order and in compliance with any relevant statute bylaw or regulation.

### **Exchange rates**

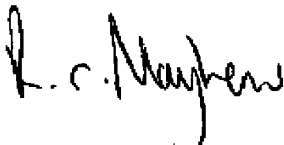
We have indicated the Market Values of the subject properties in the attached valuation schedule in US Dollars. In arriving at our opinions of value we have adopted the exchange rate of the \$ (USD) against the Russian Ruble (RUB) of 1 USD = 26.3 RUB.

### **Responsibility**

Our Valuation and the Schedules are for the specific purpose to which they refer and form part of this prospectus. Before this Valuation Report, or any part thereof, is reproduced or referred to in any other document, circular or statement and before its contents, or any part thereof, are otherwise disclosed orally or otherwise to a third party, the Valuer's written approval as to form and context of such publication or disclosure must first be obtained.

For the avoidance of doubt, such approval is required whether or not Jones Lang LaSalle are referred to by name and whether or not the contents of our Valuation Report are combined with other reports.

Yours faithfully



**Robert C Mayhew BSc (Hons) MRICS**  
**Director**  
**For and on behalf of Jones Lang LaSalle**



**Sergey Belov**  
**Associate Director**

## APPENDIX I

### Valuation Methodology

The Properties comprise a number of development projects, each of which is in differing stages of development, some being close to completion and others being at the very early stages of the development process. When undertaking the valuation of development sites, there are generally two approaches which can be adopted, the approach selected being generally dependent upon the specific market and characteristics of the property concerned.

The first approach which can be adopted is referred to as the “sales comparable” approach. Where this relates to development sites, the approach involves the analysis of comparable transactions which are generally reported on an area basis, to which adjustments can then be made to reflect differences in location, size, volume of proposed development etc. Adoption of the sales comparison approach necessitates the existence of detailed information on the various transactions available. Where such information is available, for example from a database held by a Land Registry, then this approach can be particularly useful and enables the accurate assessment of the value of properties comprising sites held for development.

Adopting the sales comparison approach for the valuation of development sites in Russia is particularly difficult as a result of the lack of transparency in the market and a general shortage of detailed comparable evidence. This situation hinders the ability to accurately compare the sale of development sites, meaning that the approach is generally not capable of being adopted at present. This current situation is likely to start to change as the property market matures and the availability and credibility of transactional evidence improves.

As a result of the above, we have not adopted this approach as the primary valuation methodology in arriving at our opinion of Market Value of the Properties. Where we are aware of details of comparable transactions, we have had regard to them in arriving at our opinions and these are reflected within the Market Values adopted. However, given the relatively limited number of such transactions we have been required to adopt an alternative technique as the principal approach to valuation.

The second approach which can be adopted in valuing properties in the course of development is the income approach and, in particular, the residual approach to valuation. The residual valuation approach involves the calculation of the value of the property upon completion of the development, through the capitalisation of an anticipated rental income at a chosen yield, from which all costs required to develop the property are deducted, including an allowance, where appropriate, for a profit payment to the developer. This approach is particularly suitable for those properties which are in the course of construction, as are the majority of the Properties considered for the purposes of this Valuation Report.

In adopting the residual approach to valuation, there are two different choices of methodology which can be used by the valuer assessing the Market Value of the asset. First, the discounted cash flow (“DCF”) methodology can be used which involves the calculation of the net present value (“NPV”) of all future costs and income to be incurred and generated by the development of the property. This cash flow is discounted at an appropriate rate and this in turn generates an NPV of the cash flow, which is the sum available for the purchase of the site at the date of valuation.

The second methodology using the residual valuation involves adopting the more straightforward residual method, which does not entail the use of a full discounted cash flow. Using this method, the value of the property upon completion as at the valuation date is assessed, as opposed to a projected value in the DCF, and then all costs necessary to be incurred in order to realise the development of the property, allowing for an element of developer’s profit where appropriate, are deducted to leave a sum which represents the Market Value of the site. The timing of the differing development stages is also reflected in this method in terms of the cost of financing the development, where incorporated, as is any income received upon completion prior to sale. In adopting this method we have employed the use of the “Circle Visual Developer” valuation software and, therefore, will refer to it as the “Circle” method.

Both the DCF and “Circle” residual methods contain a variety of different variables, such as development costs, income, capitalisation rate/exit yield and, within the DCF, a discount rate. Small changes in these variables can result in relatively significant changes in the Market Value obtained and, therefore, each of these variables should be thoroughly researched in order that the inputs adopted are fully supportable.

It should be noted that, with specific regard to property valuation in Russia, where the DCF methodology to residual valuation is most commonly adopted, there is generally no explicit allowance for the cost of debt. As a result, the discount rate used will reflect the anticipated return the developer requires to undertake the development implicit of the need to fund, or purely reflecting a return on capital employed. The DCF method also requires the estimation of an exit yield upon the forecasted sale of the completed development. Given that the Russian investment property market is currently in a phase of significant growth where capitalisation rates are generally seen to be in the process of compressing, the estimation of an appropriate exit yield is difficult.

Given the above factors, in arriving at our opinions of Market Value, we have adopted the “Circle” method as the basis of our residual valuations. In comparison with the DCF methodology, fewer of the variables adopted within the “Circle” basis are projected and, with the exception of the yield used to calculate the value upon completion, there is no requirement to adopt a discount rate, which is not only required to reflect perceived investor requirements for investments of this type, but also lacks of an explicit allowance for funding within the cash flow. The principal variables within the “Circle” method are all effectively as at the date of valuation, including the capitalisation rate adopted, construction costs and rental levels. We consider this to be a very persuasive reason to adopt such a methodology, given the dynamic nature of the Russian property market at present and looking forward to the short and medium term.

We have also allowed for the financing of a proportion of the development costs of each project and are of the opinion that this is a realistic assumption. Although, until relatively recently the ability to finance property developments was limited, this situation has now changed with many leading property lenders now present in the market. In addition, the majority of the Properties under consideration are of a highly institutional standard and we consider that the majority of developers seeking to develop such schemes would seek to finance the construction costs.

### **Valuation Approach**

In addition to the above general valuation methodology, we would point out the following specific assumptions and bases of valuation we have taken into account in arriving at our opinions of Market Value:

#### *Pre Development*

In those instances where the nature of the “Project” has been agreed with the City Authorities, we have assumed that the subject property will be developed in accordance with this blueprint, unless we have considered it prudent to adopt our own assumed concept.

#### *Development*

Where we have considered it appropriate, we have assumed that the proposed projects will be developed in phases in order to bring a manageable amount of supply to the market in stages.

In terms of construction costs, we have had regard to those budgeted costs provided to us by the Company and have taken these into account in considering our opinions of value. However, we have also had regard to current construction rates passing in the market which a prospective purchaser may deem appropriate to adopt in constructing each individual scheme. Although in some instances we have adopted the budgeted costs provided to us by the Company, in some cases we have opted to use own opinions of costs.

Where there are outstanding payments to be made in respect of the acquisition of rights or costs of permitting, we have adopted those figures provided to us by the Company. In addition, with regard to outstanding costs for the provision of utilities together with the undertaking any road or transport works we have also adopted those figure provided to us by the Company. We have assumed that these costs are accurate.

With regard to Valued Added Tax (“VAT”), our valuations of the commercial elements of the property are effectively assumed to be tax transparent. However, in respect of those parts of the Properties which include residential accommodation, VAT (at the rate of 18%) is not recoverable on construction costs and, therefore, our cost assumptions include this tax within our calculations.

### *Post Development*

Rental values have been assessed as at the date of valuation but having regard to the existing occupational markets taking into account the likely supply and demand dynamics anticipated during the anticipated development periods concerned.

We have assumed that upon completion, the Properties will be let in line with market practices in terms of lease lengths, indexation of rents and recoverability of costs. The length of lease will vary depending upon the property type but, generally, these tend to be for periods of between three and five years. In terms of indexation, we have not explicitly reflected the indexation of rents in arriving at our opinions of value. We have assumed standard letting fees within our valuations.

Upon completion of construction we have adopted our opinion of an appropriate holding period prior to the sale of the property. This period represents our considered view of the period a developer would hold the property in order to reach a target occupancy level and to be able to demonstrate a stable income flow to potential investors. It should be understood that this opinion would not necessarily concur with the assumptions of the actual owner or developer.

In arriving at our estimates of gross development value (“GDV”), we have capitalised our opinion of net operating income (“NOI”), having deducted any anticipated non-recoverable expenses, such as property tax, and permanent void allowance, which has then been capitalised into perpetuity. All rents are exclusive of VAT.

The capitalisation rates adopted in arriving at our opinions of GDV reflect our opinions of the rates at which the properties could be sold for on the assumption that they are completed as at the date of valuation. The current property investment market is highly dynamic and current investor appetite is significant, driven by a perceived hardening of yields in the short term, limited supply of stock and a growing weight of funds looking to be invested. Taking these factors into account, the adopted capitalisation rates reflect our opinions of where we consider rates to be at present, although as a result of a lack of transparency in the market, and a relatively limited number of concluded transactions, this is a subjective exercise to a certain extent.

In terms of residential accommodation, the sales prices per m<sup>2</sup> again reflect current market conditions and represent those levels we consider to be achievable at present. We have assumed that there are no irrecoverable operating expenses and that all costs will be recovered from the occupiers/owners by way of a service charge.

Our valuations take into account the requirement to pay property tax and ground rental payments and these are assumed not to be recoverable from the occupiers. Property tax is assessed on the book value of property, excluding the proportion relating to the land value, and currently equates to 2.2% of this sum, although the actual sum payable varies depending upon the tenure type. In terms of ground rent payments, we have assessed these on the basis of information provided to us by the Company, where available, and if not provided we have calculated these payments based on current legislation defining the basis of these assessments.

## APPENDIX II

### AFI DEVELOPMENT PLC PORTFOLIO ASSETS SCHEDULE OF VALUES Valuation as at 31 March 2007

#	Development	City	Address	Name of project	Tenure	Estimated market rental upon completion US\$ per annum excluding VAT & Operating Expenses	Valued interest (%)	Market Value US\$	Type of property	Gross lettable/sellable area, including car parking (m²)	Lettable/sellable area excluding car parking (m²)				Car parking (m²)	Estimated completion date	Market Value on Completion US\$
											Offices	Retail	Hotel	Residential			
1	Tverskaya Zastava	Moscow	Tverskaya Zastava Square	Shopping Centre	Freehold interest in the buildings and leasehold interest in the land	\$ 62,936,045	100%	\$ 200,365,000	Shopping centre	70,706	—	36,279	—	—	34,427	1-Jan-10	\$ 605,770,600
			1st Brestskaya Street, 64-66	Plaza I	Freehold interest in the buildings and leasehold interest in the land	\$ 54,896,600	100%	\$ 333,830,000	Offices, hotel and residential	143,103	47,663	5,132	24,555	12,989	52,764	1-Jul-11	\$ 871,124,400
			Gruzinsky Val Street, 31	Plaza II	Freehold interest in the buildings and leasehold interest in the land	\$ 59,943,200	100%	\$ 309,700,000	Offices	89,820	60,537	3,208	—	—	26,075	1-Jul-11	\$ 712,837,000
			Butyrsky Val str., bld. 1	Plaza II (a)	Freehold interest in the buildings and leasehold interest in the land	\$ 3,966,800	100%	\$ 16,730,000	Offices	7,823	4,220	101	—	—	3,502	1-Jul-11	\$ 45,575,000
			Gruzinsky Val Street, 11	Plaza IV	Freehold interest in the buildings and leasehold interest in the land	\$ 30,279,998	50%	\$ 75,300,000	Offices	91,254	63,278	2,976	—	—	25,000	1-Jul-11	\$ 358,992,000
			Bolshaya Gruzinskaya str., 69/71	Four Winds I	Freehold interest in the buildings and leasehold interest in the land	\$ 10,673,784	50%	\$ 143,500,000	Offices	25,988	17,556	3,416	—	—	5,016	1-Jan-08	\$ 122,934,800
				Four Winds II	Freehold interest in the buildings and leasehold interest in the land	\$ 1,425,915	50%		Residential	36,421	—	4,854	—	17,875	13,692	1-Jan-08	\$ 77,206,200
2	Moscow City Centre	Moscow	MIBC Moscow City², land plots No.6, 7, 8b	Moscow City Central Core	Freehold interest in the buildings and leasehold interest in the land	\$ 132,413,850	100%	\$ 889,000,000	Retail, offices and concert hall	114,989	3,246	111,743	—	—		1-Jan-09	\$1,376,955,000



#	Development	City	Address	Name of project	Tenure	Estimated market rental upon completion US\$ per annum excluding VAT & Operating Expenses	Valued interest (%)	Market Value US\$	Type of property	Gross lettable/sellable area, including car parking (m²)	Lettable/sellable area excluding car parking (m²)			Car parking (m²)	Estimated completion date	Market Value on Completion US\$	
											Offices	Retail	Hotel				
10	Perm	Perm	Leninsky district, block 5	Phase I of Residential complex "Kama Gate"	Freehold interest in the buildings and leasehold interest in the land	\$ 990,778	30%	\$ 6,300,000	Residential and retail	103,093	—	11,100	—	61,116	30,877	1-Oct-09	\$ 69,500,000
110	Perm	Perm	Leninsky district, block 6	Phase II of the Residential complex "Kama Gate"	Freehold interest in the buildings and leasehold interest in the land	—	30%	\$ 3,540,000	Residential	83,616	—	—	—	61,116	22,500	1-Oct-10	\$ 61,388,000
111	Volgograd	Perm	Leninsky district, block 7	Phase III of the Residential complex "Kama Gate"	Freehold interest in the buildings and leasehold interest in the land	\$ 1,501,062	30%	\$ 420,000	Offices	21,875	16,205	—	—	—	5,670	1-Jul-11	\$ 10,977,500
111	Volgograd	Volgograd	Bakounina str. 11-G/ Nevskaya str. 2-A/ Parkhomenko str.	Multi-functional complex	Freehold interest	\$ 21,701,160	78%	\$ 4,500,000	Retail, offices and hotel	114,960	25,500	54,100	7,360	—	28,000	1-Jan-10	\$ 188,745,000
112	Kuntsevo	Moscow	Rublevskoe shosse, Ivana Franko, Moldavskaya, Bolshaya Filevskaya streets	Kuntsevo	Freehold interest in the buildings and leasehold interest in the land	\$ 628,802,475	100%	\$ 650,000,000	Offices and retail	1,275,414	933,314	125,100	—	—	217,000	1-Jan-12	\$ 5,721,121,500
Total						\$1,165,552,026		\$3,691,260,000									\$13,386,155,000

## **APPENDIX III**

### **SCHEDULES OF PORTFOLIO ASSETS AND VALUATIONS**

**AFI DEVELOPMENT PLC**  
**SCHEDULE**  
**Portfolio Assets**  
**Valuation as at 31 March 2007**

#	Property Name	Location, Description, Tenure & Tenancy	Market Value US\$	Estimated market rental upon completion US\$ per annum excluding VAT & Operating Expenses	Market Value on Completion US\$
1	<b>Tverskaya Zastava</b>	The Property comprises six individual development sites with an aggregate site area of 8.13 hectares. The Property is intended for the development of an underground shopping centre, with a gross area of 113,100 m <sup>2</sup> , to be known as Tverskaya Zastava, a mixed-use complex called Plaza I, which will include a 5 star hotel, Class A office and residential uses, as well as separate office developments known as Plaza II, II (a) and IV. In addition, the Property comprises a mixed use development called "Four Winds I" and "Four Winds II", which is currently being developed to provide office space and residential apartments located in two self-contained buildings. The aggregate gross building area of all phases will be 549,009 m <sup>2</sup> .			
	Shopping Centre	The shopping centre will be located on a site with an area of 3.35 hectares situated on Tverskaya Zastava square. The shopping centre, which will have gross lettable area of 36,279 m <sup>2</sup> , will be principally located on two underground levels together with three further levels of underground car parking providing a total of 1,240 spaces, located beneath the retail levels. The construction of the shopping centre is planned to be completed by the first quarter of 2010.	\$ 200,365,000	\$ 62,936,045	\$ 605,770,600
	Plaza I	The Plaza I mixed-use scheme will consist of two buildings: the first located at 1st Brestskaya Street 64-66 and the second at 2nd Brestskaya Street 50/2. The combined site area will total 1.55 hectares. Plaza I will include a 300 room 5 star hotel, 60,200 m <sup>2</sup> of office and retail space, approximately 13,000 m <sup>2</sup> of residential area for sale and 1,404 car parking spaces. The Plaza I phase is proposed to be delivered during 2011.	\$ 333,830,000	\$ 54,896,600	\$ 871,124,400

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	Plaza II	Plaza II will predominantly provide offices together with retail space at ground floor level. It is located at Gruzinsky Val, 31 and the site area is 0.53 hectares. The Property will have a gross building area of 98,075 m <sup>2</sup> and a gross lettable area of 63,745 m <sup>2</sup> . In addition, 944 car parking spaces will be located at underground level. The Property's gross building area will total 152,800 m <sup>2</sup> . The Plaza II phase is proposed to be delivered during 2011.	\$ 309,700,000	\$ 59,943,200	\$ 712,837,000
	Plaza II (a)	Plaza II (a) will predominantly provide office accommodation with retail space at ground floor level. It is located at Butyrsky Val, bld. 1 on a site of 0.17 hectares. The Property will have a gross building area of 8,397 m <sup>2</sup> and a gross lettable area of 4,321 m <sup>2</sup> plus 72 car parking spaces to be located at underground level. The Plaza IIa phase is proposed to be delivered during 2011.	\$ 16,730,000	\$ 3,966,800	\$ 45,575,000
	Plaza IV	Plaza IV will comprise a Class A office building located at Gruzinsky Val, 11. The Property occupies a site of 1.4 hectares and the development is proposed to have a gross building area comprising 100,000 m <sup>2</sup> and a gross lettable area of approximately 75,000 m <sup>2</sup> . In addition, there will be underground and surface car parking totalling 770 spaces. The Plaza IV phase is proposed to be delivered during 2011.	\$ 75,300,000	\$ 30,279,998	\$ 358,992,000
	Four Winds I	The office building is located on a site with an area of 0.42 hectares. It is proposed to have a gross building area of 31,932 m <sup>2</sup> and a gross lettable area of 20,971 m <sup>2</sup> together with 142 underground car parking spaces. The offices will be of Class A specification and construction is due to be completed by the end of 2007.	\$ 143,500,000 (Four Winds I and II)	\$ 10,673,784	\$ 122,934,800
	Four Winds II	The residential building is located on a site with an area of 0.71 hectares. The proposed gross building area is 44,704 m <sup>2</sup> . The total number of apartments within the residential building equates to 109 and there are also a total of 258 car parking spaces. The apartments will be of 'business class' standard. In addition to the principal uses, there will be support retail accommodation and a fitness centre. As at the date of valuation, 8,085 m <sup>2</sup> of apartment space and 58 car parking spaces have been sold.		\$ 1,425,915	\$ 77,206,200

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		<p>Each of the phases of the Tverskaya Zastava project is located within the Tverskoy district of Moscow, to the north-west of the city centre. Tverskoy forms part of Moscow's Central Business District and is located between one of the city's main railway stations, Belorussky Station, and Manege Square. In addition to being an important business district, Tverskoy provides one of Moscow's most popular entertainment, social and retailing destinations. These facilities are concentrated around a variety of squares, including Pushkin, Triumfalnaya and Tverskaya Zastava Squares.</p> <p>The shopping centre and Plaza phases of the subject property are located on or around a large square known as Tverskaya Zastava, which forms one of the busiest traffic interchanges in Moscow. In terms of adjoining uses, the square is bordered from the west by a number of buildings forming the Belorussky railway station and various pavilions comprising the Belorusskaya Metro station.</p> <p>The Four Winds part of the subject property is located at Bolshaya Gruzinskaya Street 69/71. In terms of adjoining streets, it is bordered by 1st and 2nd Brestskaya Streets, 1st Tverskaya-Yamskaya Street, Tverskaya Zastava Square and Bolshaya Gruzinskaya Street. This location has good accessibility by car and by public transport. The nearest metro station is Belorusskaya located within five minutes walk.</p> <p>The Company owns a 100% share in the freehold interest for the buildings and has a leasehold interest in the land in respect of the shopping centre, Plaza I, Plaza II and Plaza II (a).</p> <p>The Company owns a 50% share in the freehold interest for the buildings and leasehold interest for the land in the Four Winds and Plaza IV phases.</p>			
2	Moscow City Centre	<p>The Property comprises a development site with a total area of 4.37 hectares. At present, the Property is in the course of construction to provide a mixed-use development project known as Moscow City Central Core. The scheme will provide gross lettable areas of 3,246 m<sup>2</sup> of office space, 179,423 m<sup>2</sup> of retail accommodation and a concert hall of 12,738 m<sup>2</sup>. The aggregate gross building area of the project will be 195,407 m<sup>2</sup>.</p>	\$ 889,000,000	\$ 132,413,850	\$ 1,376,955,000

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		<p>The above ground section of the Central Core will form part of a multi-functional complex, to be constructed above an existing underground section. Within the Central Core there will be provided a 6,000 seat concert hall as well as a public square connecting the exit from Bagration Bridge with a square to the front of Mosgorduma and the Moscow City Government buildings.</p> <p>The retail centre, which will have a gross lettable area of 111,743 m<sup>2</sup>, will be located on two underground and five above-ground levels. The Centre will contain anchor shops, retail and pedestrian areas, a café, restaurant/bar zones, a cinema and a leisure zone. At present, the development is unique in terms of its relatively central location, planned scale of the development, critical mass, central planning and the support of the City authorities. The construction of the project is planned to be completed by the end of 2008.</p> <p>The subject property is located in the “Central” administrative district of Moscow on the Krasnopresnenskaya Embankment. The Central Core development project will form part of the Moscow International Business Centre (MIBC) “Moscow City” where about 1.25 million m<sup>2</sup> of high-quality office space is planned to be constructed by the end of 2010. Currently, MIBC “Moscow City” is the largest investment project in the real estate sector in Russia. The concept of the development is to create a high quality business environment to meet international requirements and standards.</p> <p>The Company has a freehold interest in the building and a leasehold interest in the land.</p>			
3	Ozerkovskaya	<p>The Property comprises three individual development sites with an aggregate site area of 3.3373 hectares. The Property is located at Ozerkovskaya Embankment 22-28 and Bolshaya Tatarskaya Street 35 and is part of a larger multi-functional complex called “Aquamarine”.</p>			

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		<p>The subject property consists of three phases referred to as Phases II, III and IV. Phase II comprises an office building combined with a residential and hotel complex, while Phase III and Phase IV comprise a further two office buildings. The combined gross building area of the phases will be 172,378 m<sup>2</sup> and will comprise the following developments:</p>			
	Phase II	<p>Phase II will comprise a Class A office building together with a residential and hotel complex on a site with an area of 1.5265 hectares and a combined gross building area of 66,058 m<sup>2</sup>.</p> <p>The office building is currently under construction and will have a gross building area of 16,800 m<sup>2</sup> and a lettable area of 12,460 m<sup>2</sup> provided within a nine storey building with two underground levels for car parking of 112 spaces. Construction of this phase is almost completed and the building should be operational during Q2 2007. At present, about 75% of premises have been pre-leased.</p> <p>The residential &amp; hotel part of Phase II will have a gross building area of 49,258 m<sup>2</sup> included within which is a 4 star hotel totalling 11,130 m<sup>2</sup> having 156 rooms and 31 car parking spaces. The residential element will consist of three blocks with a gross building area of 38,128 m<sup>2</sup> and a net residential area for sale of 15,317.7 m<sup>2</sup> plus 2,665.5 m<sup>2</sup> of balcony space. In total there will be 114 apartments for sale as well as 401 underground car parking spaces. The residential space is of "business class" standard. Completion of construction of this phase is scheduled for the second half of 2008</p>	\$ 142,700,000	\$ 5,087,767	\$ 189,856,700
	Phase III	<p>A proposed Class A office building together with residential apartments having a gross building area of 75,500 m<sup>2</sup>, located on a site of 1.44 hectares. This phase will include four blocks of which three will provide office space and the fourth will be residential. The business centre will have a gross building area is 64,017 m<sup>2</sup> and a lettable area of 41,190 m<sup>2</sup> and will benefit from 562 underground car parking spaces. The residential gross building area will be 11,483 m<sup>2</sup> providing a net area for sale of 5,029 m<sup>2</sup>. In addition there will be a total of 49 apartments for sale together with 144 underground car parking spaces. Completion of construction for this phase is scheduled for the first half of 2009.</p>	\$ 101,600,000,	\$ 17,197,655	\$ 186,438,300

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	Phase IV	<p>Phase IV involves the redevelopment of an existing administrative property currently owned by the federal institution "Federal Fund of Industrial Innovations".</p> <p>The proposal is to develop a Class A office building having a gross building area of 30,820 m<sup>2</sup> and a lettable area of 23,000 m<sup>2</sup> together with 178 underground car parking spaces. Construction is scheduled for completion during the first half of 2009.</p> <p>The Ozerkovskaya project is located in one of the most developed business districts in Moscow known as "Zamoskvorechiye", within the Central Administrative District. The Property is located inside and within a short distance of the Garden Ring and the general area is one where both high office rents and residential prices are witnessed. The nearest metro stations are Paveletskaya and Novokuznetskaya, both of which are within a 10 minute walk.</p> <p>The Company has a freehold interest in the buildings and a leasehold interest in the land.</p> <p>In respect of Phases I, II and III, the Company has a 50% interest in the Property with the exception of the hotel, 24 apartments and 48 car parking spaces, which are owned 100%. In respect of Phase IV, the Company has a 70% interest in the Property.</p>	\$ 49,300,000	\$ 12,801,320	\$ 133,074,000
4	Otradnoye	<p>The Property comprises a site with an area of 37.9 hectares upon which it is proposed to construct a residential development. Upon completion the Property will have an aggregate gross building area of 741,400 m<sup>2</sup> within eight 25-storey apartment blocks providing a total of 450,100 m<sup>2</sup> of 'economy class' residential accommodation, retail space totalling 22,000 m<sup>2</sup>, commercial space totalling 17,960 m<sup>2</sup>, common areas of 31,090 m<sup>2</sup> and parking of 106,400 m<sup>2</sup> (with 3,040 parking spaces). The projected completion date is scheduled for 2012.</p>	\$ 370,000,000	—	\$ 1,483,812,400

#	Property Name	Location, Description, Tenure & Tenancy	Market Value US\$	Estimated market rental upon completion US\$ per annum excluding VAT & Operating Expenses	Market Value on Completion US\$
		<p>The Property is located in Odintsovo, which is situated in the western part of Moscow Region within a forested and park belt. The city is situated 4 km to the west of Moscow between the Mozhayskoe and Minskoe highways. The Odintsovo district has both well developed transport infrastructure and accessibility and is considered to be one of the most ecologically attractive areas in Moscow Region.</p> <p>The Otradnoye district is located in the north-western part of Odintsovo. In terms of adjoining uses, the subject property is bordered by the “Verhnee Otradnoye” settlement to the north while an area occupied by the Zvenigorodsky State lies on the north-western side. Marshala Biryuzova Street borders the site from the north-eastern side while Severnaya Street borders the site from the south-eastern side.</p> <p>The Company has a 94% share of the residential and 90% share of the commercial freehold interests in the Property.</p>			
5	<b>Paveletskaya</b>	The Paveletskaya development includes two properties as below:			
	Paveletskaya Embankment	<p>A proposed commercial development with a site area of 5.0683 hectares. The project involves the redevelopment of an existing industrial estate to provide a Class B business park with an overall projected gross building area of approximately 90,000 m<sup>2</sup> and a lettable office area of 67,000 m<sup>2</sup>. The Property will be provided with surface parking spaces in the amount of 550 spaces. The projected completion date is the middle of 2009.</p> <p>The Property is located in a Southern Administrative District of Moscow, in the Danilovsky area. This district is currently characterised by a variety of industrial zones and heavy road traffic. However, the process of relocation of the industrial zones, due to the redevelopment of sites to provide business centres and residential accommodation, has resulted in a gradual improvement of the area.</p>	\$ 45,300,000	\$ 28,235,175	\$ 210,063,600

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		<p>In terms of accessibility, the Property benefits from good transport links, being within reasonable proximity of a number of major transport routes such as the Garden Ring and 'Third Transport Ring', which provide convenient access to the city centre. The closest metro station is Tulsкая, which is approximately 20 minutes walking distance.</p> <p>The Company has a freehold title in the buildings and a leasehold interest in the land.</p>			
H2O		<p>The Property comprises an existing Class B office building recently reconstructed around the frame of a former administrative building which formed part of an industrial estate.</p> <p>The building has a gross floor area of 10,698 m<sup>2</sup> and a gross lettable area of 8,928.65 m<sup>2</sup>. The office building is arranged on six floor levels and also benefits from support retail and canteen facilities at ground floor level. Parking is provided at surface level for 80 vehicles. The Property is close to completion and a number of tenants are in the process of fitting out their premises. Approximately 56% of the lettable area has been pre-leased.</p> <p>The Property is located on a site having an area of 0.4 ha and is situated in a Southern Administrative District of Moscow, in the Danilovsky area.</p> <p>The Company has a freehold title in the buildings and a leasehold interest in the land.</p>	\$ 27,000,000	\$ 4,121,000	\$ 28,375,000

#	Property Name	Location, Description, Tenure & Tenancy	Market Value US\$	Estimated market rental upon completion US\$ per annum excluding VAT & Operating Expenses	Market Value on Completion US\$
6	Ruza	<p>The Property comprises a portfolio of land plots comprised within five individual development sites with an aggregate site area of 386.96 hectares. Plot 1 has an area of 81.6 hectares and is comprised within two adjacent sites, these being a northern site (area of circa 50 hectares) and a southern site (area of circa 32 hectares). The plot is located near Ustie village, and has all communications including Moscow and local connected telephone lines. The site has an irregular shape, is mostly flat and free from trees. Plot 2 has an area of 32.7 hectares and is located near Akulovo village. This site has an irregular shape and is mostly flat although downward sloping to its south-eastern boundary (towards the River Ruza). A small part of the plot is occupied by trees. Plot 3 has an area of 4.43 hectares and is located near Pisarevo village. The site has a regular shape and is flat and free from trees. Plot 4 has an area of 81.54 hectares and is located near Bogorodskoe village. The site has an irregular shape, is mostly flat and part of the plot is wooded. Plot 5 has an area of 186.6 hectares and is located near Bogorodskoe village. The site has an irregular shape, is mostly flat and part of the plot is wooded.</p> <p>The development concept for these land plots involves the changing of the use permit (from agricultural to “Individual Residential Construction”), fencing the entire plot, division of each section into individual plots (0.1 hectares to 1.4 hectares), the installation of utilities to each of the individual plots and the construction of roads to service these plots. In total, we have estimated that 1,840 individual land plots within the entire Property will be prepared for sale during the period 2007 to 2011.</p>	\$ 69,200,000	—	\$ 141,540,000

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		<p>The Property has a favourable location in the Ruza district of Moscow Region. This district is located to the west of Moscow city centre between the Novorizhskoye and Minskoye highways between 70 and 120 km of the capital's centre. A significant part of the district is covered by forest. The Ruzskoe and Ozerninskoe water reservoirs are well known for their excellent fishing and ecologically clean water. The territory is also crossed by such rivers as the Ruza, Moskva, Ozerna, Veina and many smaller rivers. The district enjoys a well developed infrastructure, and is presently the location of numerous holiday homes, country hotels and health resorts. Ruza district is known for such destinations as the "Dorohovo" resort, the health centre "Rusj" and "Podmoskovie".</p> <p>The Company has a freehold interest in the land.</p>			
7	Dinamo	<p>The Property comprises a redevelopment scheme with a proposal to construct a Class B business park having a total built area of 96,217 m<sup>2</sup> and a lettable area of 84,671 m<sup>2</sup>, on a site of 4.183 hectares. The development will be reconstructed around an existing industrial property and, as well as office space, will also include retail facilities such as canteens as well as support retail facilities on the ground floor with the total area of about 3,000 m<sup>2</sup>. The site area allows for the arranging of about 950 surface car parking spaces.</p> <p>The Property is bordered by a residential area to the east and an industrial area to the south. In particular, there are two industrial areas in the local neighbourhood, these being the ZIL plant, soon be reconstructed, and the Kirova plant. The immediate area is currently changing as existing industrial users relocate to the outskirts of the city. As an example, a new commercial development will be constructed on the former plot of the Likhachev's plant (ZIL), which is located a short distance from the Property.</p>	\$ 118,600,000	\$ 43,348,244	\$ 368,287,000

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		<p>The Property is located within a southern district of the Danilovsky area of Moscow at Leninskaya Sloboda Street 19 close to the embankment. The Property is located within close proximity of a number of major transport roads including the "Third Transport Ring" as well as being close to Andropova Proezd which leads to the Kashirskoe highway and thereafter Domodedovo International Airport. The site also has good pedestrian accessibility from Avtozavodskaya metro station (five minutes walk). The current development is in its conceptual stage of development with a total development period estimated at 1.5 years.</p> <p>The Company has a freehold interest in the buildings and a leasehold interest in the land.</p>			
8	Berezhkovskaya	<p>The Property comprises a site upon which is it proposed to construct a two phase office development to provide an office centre on a site with an area of 1.5 hectares. The Property is intended for the Class A office development involving the regeneration of a former industrial plant. Phase I is under construction and will comprise four buildings providing office space totalling of 12,000 m<sup>2</sup>. Phase II will see the development of a total of 100,000 m<sup>2</sup> of office space with underground car parking. Timing for the completion of construction is estimated at Q3 2007 for Phase I and Q4 2008 for Phase II. The gross lettable area of Phase I will be 7,104 m<sup>2</sup>; Phase II will provide 48,100 m<sup>2</sup> of office lettable space together with 529 underground parking spaces.</p>	\$ 117,700,000	\$ 40,547,198	\$ 374,839,000

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		<p>The subject property is located within the Dorogomilovsky district of Moscow to the west of the city centre. Dorogomilovsky forms part of Moscow's "Decentral West" business district which includes the Moscow River, Minskaya Street and Kievskaya and Smolenskaya railway lines. It is both a cultural and business district of the city. Access to the subject property is proposed to be from Berezhkovskaya Embankment, to the south-east of the Property. north-east side of the surrounded area is occupied by residential buildings and parking spaces. The Property has good transport access to a number of major transport routes including the "Third Transport Ring" and Berezhkovskaya Embankment providing easy access to the city centre.</p> <p>The Company owns a 74% share in the freehold interest for the buildings and leasehold interest for the land.</p>			
9	St Petersburg	<p>The Property comprises a development site with a total area of 3.07 hectares upon which it is proposed to development a discount shopping centre. The development will include a two storey building with projected gross area of 22,000 m<sup>2</sup> and a lettable area totalling 15,400 m<sup>2</sup>. The development will also include a surface car park provided free of charge to the customers.</p> <p>The subject property is located in the Vsevolozhsky District, which forms part of the Leningrad Region. It is located approximately 12 km south-east of St. Petersburg on the Kola highway. This location is close to the administrative boundary of St. Petersburg and a short distance from the city's KAD ring road. Nearby developments, also located on the Kola highway, include the "IKEA" and "MEGA-Dybenko" shopping malls. In addition, proposed developments include a new metro station and a nearby residential housing estate.</p> <p>The ownership is based on a 76% share in the freehold interest of the building and the land.</p>	\$ 16,675,000	\$ 4,682,000	\$ 46,742,000

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10	Perm	A multi-phase development to includes the following phases:			
	Phase I	<p>The Property comprises a multi-use development project which will include both residential and commercial uses having a total gross building area of 122,640 m<sup>2</sup>. The site area totals 1.7383 hectares. The commercial part of the Property will comprise a retail centre with a gross lettable area of 11,100 m<sup>2</sup> together with 111 underground parking spaces. The residential accommodation will be of 'business-class' standard to be housed in three towers of 25, 34 and 45 floors, having a total of 61,116 m<sup>2</sup> of net residential space in 565 units together with 583 underground parking spaces. Completion of construction is scheduled for the second half of 2009.</p> <p>The site is located in the Leninsky district (Block 5) of Perm and is bordered by Okulova Street from the north, Osinskaya from the east, Ordzhonikidze Street from the south and by Popova Street from the west. It is situated near the major transport routes of the city, Lenina Prospect and Komsomolsky Prospect. The location has good transport and pedestrian accessibility.</p>	\$ 6,300,000	\$ 990,778	\$ 69,500,000
	Phase II	<p>Phase II will comprise a residential scheme located on a site with an area of 0.988 hectares. The proposed scheme will have a gross building area of 106,340 m<sup>2</sup> and 61,116 m<sup>2</sup> of net accommodation. The project will consist of three residential towers, having 25, 34 and 45 floors and comprising a total of 565 apartments of 'business class' standard together with 583 underground car parking spaces. Construction is due for completion during the second half of 2010.</p> <p>The site is located in the Leninsky district (Block 6) and is bordered by Okulova Street from the north, Popova from the east, Ordzhonikidze Street from the south and by Sverdlovskaya Street from the west. The site is currently occupied by dated residential which will be removed once the existing residents have been relocated prior to the start of construction.</p>	\$ 3,540,000	—	\$ 61,388,000

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	Phase III	<p>Phase III comprises a proposed office development with an approximate gross building area of 25,000 m<sup>2</sup> and a lettable area of 16,205 m<sup>2</sup> together with 162 car parking spaces. Construction is scheduled for completion during the first half of 2011.</p> <p>The site is located in the Leninsky district (Block 7) and is bordered by Okulova Street from the north, Sverdlovskaya Street from the east and Ordzhonikidze Street from the south and west.</p> <p>The site has an irregular shape. Currently the site is occupied by dated residential dwellings where occupiers will be resettled prior to the start of construction. The Property is situated near various major transport routes of the city such as Lenina Prospect and Komsomolsky Prospect. The location has good transport and pedestrian accessibility.</p> <p>Each of the three phases are located on the bank of the River Kama close to the central part of the city. The Leninsky district is the administrative and financial centre of the city. Mostly commercial institutions, retail and business centres such as banks and financial institutions are concentrated in this area. The Governor's administration, the municipal Duma is also located in the district.</p> <p>The Company has a freehold interest in the buildings and a leasehold interest in the land in respect of each of the three phases held.</p>	\$ 420,000	\$ 1,501,062	\$ 10,977,500
11	Volgograd	<p>The Property comprises a multi-functional complex which will include retail, office and hotel elements having a total gross building area of 150,000 m<sup>2</sup> on a site of 6.6 hectares. The gross building area of the Class B business centre will total 30,750 m<sup>2</sup> with a lettable area of 25,500 m<sup>2</sup> and 150 underground car parking spaces. The retail centre will total 111,000 m<sup>2</sup> of gross building area with a lettable retail area of 54,100 m<sup>2</sup> and 600 underground car parking spaces. The shopping centre is proposed to be a regional catchment. The hotel will include a 3 star hotel, having 140 rooms and 50 car parking spaces within a gross building area of 8,250 m<sup>2</sup>. Completion of construction is planned for the end of 2009.</p>	\$ 4,500,000	\$ 21,701,160	\$ 188,745,000

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		<p>The project is located in the Central district of Volgograd within which the main commercial facilities are found, this being the most attractive destination in the city for most residents and visitors. The project's proximity to major routes and a railway station creates a constant flow of potential customers. In addition, new transport proposals will make access from the major transport routes considerably more convenient. The site is bordered by Nevskaya, Parkhomenko and Balonina Streets, and benefits from good transport and pedestrian accessibility.</p> <p>The ownership is based on a freehold interest in the buildings and the land.</p>			
12	Kuntsevo	<p>The Property comprises a number of development sites with an aggregate area of 22.24 hectares. The Property is intended for the development of a large-scale mixed-use development project. Upon completion, the Property will have a total built area of 1,507,250 m<sup>2</sup> and will include a number of differing phases called Esplanade (250,000 m<sup>2</sup> of office and retail spaces), Office Buildings (1,133,400 m<sup>2</sup>), Railway Overlapping (70,850 m<sup>2</sup>) and Retail Centre (53,000 m<sup>2</sup>). The Esplanade will connect all existing and proposed metro and railway stations in the vicinity together with social, retail and business complexes and residential developments. The various levels will include car parks, local transport network, social, retail and necessary technical facilities.</p>	\$ 650,000,000	\$ 628,802,475	\$ 5,721,121,500

#	Property Name	Location, Description, Tenure & Tenancy	Market Value US\$	Estimated market rental upon completion US\$ per annum excluding VAT & Operating Expenses	Market Value on Completion US\$
		<p>The transport interchange centre (Esplanade) will be arranged within buildings of 6 and 17 stories and will predominately provide office premises with a gross lettable area of 104,400 m<sup>2</sup> together with 1,175 car parking spaces. It will also include retail premises with a gross lettable area of 58,100 m<sup>2</sup>. The “Office Buildings” element will include three Class A office buildings of between 14 and 68 storeys having 775,278 m<sup>2</sup> of gross office lettable area and 4,250 car parking spaces as well as 32,000 m<sup>2</sup> of retail space, at ground floor level. “Railway Overlapping” will be arranged in buildings of between seven and nine storey with 53,636 m<sup>2</sup> and 6,440 m<sup>2</sup> of gross office and retail lettable area respectively. The “Retail Centre” of 28,560 m<sup>2</sup> lettable area will contain anchor shops, retail and pedestrian areas, a café and restaurant/bar zones.</p> <p>The development site is located at the intersection of the Rublevskoe, Mozhaiskoe, Aminievskoe and Kutuzovsky highways where a number of railway and metro lines converge. The mixed-use development will be located on the border of the Kuntsevo and Fili-Davidkovo administrative areas in Moscow. The district has a well developed transport and social infrastructure. The nearest metro station is Kuntsevskaya, which is located within five minutes walking of the Property. Currently the district is mainly a residential destination although with the delivery of this development, a new business district bringing new infrastructure will appear.</p> <p>The Company has a freehold title in the buildings and a leasehold interest in the land.</p>			
		<b>TOTAL</b>	<b>\$3,691,260,000</b>	<b>\$1,165,552,026</b>	<b>\$13,386,155,000</b>

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