

Attn: Potential Investors

Dear Sir,

Engineering Consulting Company Ltd. would like to offer you hereby positive cooperation in joint execution of works on investment project development (transport hubs, port complexes, industrial parks, auto assembly facilities, etc.) in the Far Eastern Federal District of Russia.

At the Pacific Economic Congress held in Vladivostok on 9-10 September 2011, much attention was given to consolidating efforts by Asia Pacific nations aimed at prevention of ecological and social imbalances and at response to events causing such imbalances.

Primorsky Region as a whole and Vladivostok in particular were considered by Congress participants as a region in which regional-level investment projects might be implemented such areas as power generation, natural resources, information technologies, communication and transport.

In this connection, we would like to bring to your attention that Engineering Consulting Company Ltd. has many years of practical experience in regional investment project development, an essential aspect of their successful implementation being avoidance of geodynamic, environmental and climatic risks (floods, earthquakes, etc., and their consequences) and use of most advanced designing technologies, industrial and environmental safety methods.

Specialists of Engineering Consulting Company Ltd. are ready to develop an annotated catalog of available industrial sites in the Far Eastern Federal District of Russia and take part in project implementation through contributing services in selection and acquisition of land plots for project sites, front-end engineering and designing works, technical support during construction activities at above said project sites.

List of potential projects and potential role of Engineering Consulting Company Ltd. in their implementation is described in the table below.

Item No.	Project description	Role of Engineering Consulting Company Ltd.
1	Site selection for maritime industry facilities in Russian Far East coast.	Available land plots (including land to be vacated by Defense Ministry) on seacoast. Search for potential sites for oil ports and other ports. Development of an annotated catalog of industrial sites for maritime industry in Russian Far East. Participation in project implementation through contributing services in selection and acquisition of land plots for project sites, front-end engineering and designing works, technical support during construction activities at selected project site(s).
2	Potential project sites for industrial and urban development in mainland part of Russian Far East.	Available land plots (including land to be vacated by Defense Ministry) in the region. Development of an annotated catalog of industrial sites in Russian Far East outside geodynamic risk zones. Participation in project implementation through contributing services in selection and acquisition of land plots for project sites, front-end engineering and designing works, technical support during construction activities at selected project site(s).
3	Potential project sites for AICs	Available land plots in the region. Development of an annotated catalog

	(Autonomous Industrial Colonies)	of industrial sites in Russian Far East (primarily for Japanese industrial facilities). Participation in project implementation through contributing services in selection and acquisition of land plots for project sites, front-end engineering and designing works, technical support during construction activities at selected project site(s).
4	Project sites for transport & industrial complexes (technical parks) in vicinity of Chinese border.	Available land plots (including land to be vacated by Defense Ministry). Development of an annotated catalog of industrial sites in near-border areas. Participation in designing of transport & industrial complexes (technical parks).

All above said land plot proposals may be grouped as follows:

	<b>Ownership</b>	<b>Comments, proposal justification</b>
Group 1	Land used by Defense Ministry (to be vacated)	Land inventory is available; legal framework (*); contract with RF Defense Ministry's Far Eastern Territorial Office of Proprietorship Issues.
Group 2	Land in regional-level ownership	Land inventories are available in municipalities of Primorsky Region, advantages of the office.
Group 3	Land belonging to companies/physical individuals	Catalog of land plots offered for sale.

In essence, selection procedures for a land plot meeting potential investor's requirements are basically same. The largest number of questions normally arises in connection with land used by Defense Ministry.

This proposal and the whole process of handling land used by Defense Ministry is based on the following documents:

- ✓ Russian Federation Government Decree No. 1053 of 29.12.2008;
- ✓ RF Defense Minister Directive No. 202 of 03.03.2010;
- ✓ Contract No. 002/11 on establishing a commercial center for support to investors in acquisition of military immovable property being vacated in Far Eastern Federal District (with attachment "Project on establishing a center for support to investors in acquisition of military immovable property being vacated in Far Eastern Federal District").

The table below presents a step-by-step procedure for obtaining rights for immovable property currently being vacated by RF Defense Ministry's organizations:

<b>Step</b>	<b>Action</b>	<b>Comments</b>
<b>1</b>	Entering into a contract with organization on whose books property is listed (VladKECh, ShkotKECh, OMIS, KEU TOF) for custody and maintenance of immovable property items located on a particular land plot designated for vacation by the military.	Such contract gives to Potential Investor a good possibility to assess land suitability for investment and to make a well-considered decision on its further use and development.
<b>2</b>	Preparation by Potential Investor of proposals on further development of property items vacated by Defense Ministry.	To be developed in the form of a Development Concept under a contract with Engineering Consulting Company Ltd.
<b>3</b>	Final selection of property item development alternative jointly with RF Defense Ministry's Far Eastern Territorial Office of Proprietorship Issues, determination of conditions and development prospects under a contract on property item custody and maintenance.	By doing so, auction procedures will be avoided and process of investments in property item development will be optimized.

4	Preparation of a document on justification of investments into property item development.	In cases when owner (in the person of RF Defense Ministry's Far Eastern Territorial Office of Proprietorship Issues) of the property located on land intends to become a co-investor, justification of investments will be developed in accordance with potential co-investor's proposals. At the same step, parties of the investment project discuss terms and conditions on which they will join this investment project.
5	Approval of terms and conditions and signing of investment agreement.	
6	<p>Registration of a new legal entity – Investment Project Operator.</p> <p>Transfer to Investment Project Operator of property vacated by Defense Ministry (immovable property items + land plot) in accordance with investment agreement and Russian Federation laws.</p> <p>Official registry of Investment Project Operator's rights for above said property in accordance with Russian Federation laws.</p>	<p>Investment Project Operator may be registered either for one property item (land plot) or a pool of property items (land plots).</p> <p>Possible scenarios and responses are addressed in more detail in further comments below.</p>
7	Implementation of investment project.	

When taking actions described above, special attention should be given to mechanism of transfer of ownership rights for property being vacated by the military using possibilities stated in Federal Law "On Support to Competition" No. 135-FZ of 26.07.2006 (amended and revised as of 18.07.2011), namely: possibility to enter into lease agreements without bidding or auction procedures (Article 17, Part 3, Article 53, Part 4).

Additional comments to establishing of a project operator:

**Step 1.**

Option 1.

Establishing of an open joint stock company (any legal form may be chosen) with functions to make up programs on development of property being vacated by the military, raise investments and supervise further development of territories "under its control". This option is suitable for a pool of property items.

Option 2.

Establishing of a project start-up operator\* (any legal form may be chosen). Functions and powers will be same as under Option 1 but personified: each property item will have its own project start-up operator.

(\*) Project start-up operator is a legal entity to who property owners delegate powers on registry of property being vacated by the military in context of its further use and rights for preparation of a property item development program, for raising investments.

**Step 2.**

Applicable to both above options.

Open joint stock company (project start-up operator) will, **prior to** completion of property item registration, enter into a preliminary investment agreement with potential investor which will specify purposes and interfacing procedures between its parties. Thus, potential investor receives guarantees of its participation in implementation of a program on property item further development and OJSC (project start-up operator) will, in turn, receive an able and solvent participant involved in investment process.

At the same step, process initiator (jointly with Engineering Consulting Company Ltd.) will prepare a document of justification of investments into development of a particular property item being vacated by the military in order to identify this property item's potential and specify distribution of shares between participating parties. This share distribution may be taken into account (upon adjustment as appropriate) at the stage of registry of articles of incorporation of the Project Operator – a legal entity directly managing the property item, formerly property to be vacated by Defense Ministry, or in case of its sale to the second party of the process – direct investor.

### **Step 3.**

Making property to be vacated by Defense Ministry more investor-attractive.

Above said Steps 1 and 2 aimed at raising liquidity of property items being vacated by the military and establishing effective interfacing with potential investors solve this problem to a certain degree. Still, there is one factor increasingly outstanding in last 3-5 years. This is a mechanism for legislative regulation of investment activities in the form of public-private or private-public partnership. In essence, establishing of an open joint stock company or project operators and involvement of strategic investors into development of land occupied (or formerly occupied) by property vacated by the military is a form of public-private (private-public) partnership. Therefore, potential investor may have an advantage of using an additional resource for inclusion in the project implementation program.

When considering a status of development activities on land with property being vacated by the military, particularly creative investors may be recommended establishing of a special economic zone (SEZ) if the type of activity they intend to develop falls under SEZ laws.

Sincerely,

A.G. Maximets

Director, Engineering Consulting Company Ltd.