

February 19, 2010

To Bondholders of Russian Real Estate Investment Company AB (publ)

**Regarding Russian Real Estate Investment Company AB (publ) ("Ruric") –
Company Reorganization – Composition Offer**

QVT Financial LP ("QVT"), being a representative of a group of beneficial owners of debentures and bonds issued under Ruric's 2006/2010 debentures, maximum amount SEK 700,000,000 at 8.5%, loan no. 2 ("Bond Loan No. 2") and the SEK 400,000,000 16% Bonds 2008/2010, Series No. 3 ("Bond Loan No. 3"), have by a press release issued by Ruric on its website on 11 February 2010 been informed that the administrator, appointed in Ruric's company reorganization in accordance with the Swedish Company Reorganization Act, has sent out a letter to the creditors with a composition offer and asked the creditors (including the bondholders of Bond Loan No. 2 and Bond Loan No. 3) to answer the composition offer in great haste. It is stated that "it is crucial that we receive an oral or written approval of either composition offer" not later than 26 February 2010 and that alternative 1 is "due to practical and issuing technical reasons" only open for acceptance until 5 March 2010.

QVT has read and considered the composition offer and the other documents provided by Ruric in connection with the press release, and QVT has a number of comments which we wish to bring to your immediate attention.

In summary, we believe that the proposal made by Ruric contains unusually poor terms for the bondholders and that the result, if accepted by the bondholders, will be what we believe to be very cheap long-term financing for Ruric at the expense of the bondholders. It should be especially noted in this respect that Ruric in alternative 1 will receive a period of almost 5 months of interest free financing, and that Ruric may (and most likely will) elect to only pay 3% cash interest on the bond loan until November 2014 (an especially low interest rate given today's market environment). As regards the chances that bondholders will be repaid in the end, we note that the security offered in alternative 1 is for various reasons (in our opinion) practically worthless, and we believe that the bondholders will have very limited control over the Russian real estate assets. We want to make you aware that there is in fact a third option available – **to reject the offer** and thereby force Ruric to come back with better terms for the new bonds. This will however not happen if a sufficient number of bondholders follow Ruric's instructions and make a choice between what we think are two bad options. QVT will therefore not sign any document sent out by Ruric at this

stage, but will instead continue its efforts to convince the administrator and Ruric to present a more reasonable offer to the bondholders. If you agree with our conclusions in this letter, you may want to consider acting in the same manner. Please see the following for a more detailed account of our objections to the offer.

General procedural issues

- We note that many bondholders will have less than two weeks to consider the composition offer and the related documentation (including the new bond terms), whereas this current proposal has been worked on by the administrator for the last three months and is now presented in connection with the petition for three months' prolongation of the time for the reorganisation.
- There is no opportunity offered for bondholders to meet with representatives of Ruric or with the administrator to discuss and receive clarifications of the terms of the compulsory offer and the reorganisation process going forward.
- There is no explanation by Ruric or by the administrator why this sudden haste in responding is imposed on the bondholders.
- There is also no mention of the fact that the bondholders' only choice is not between the two alternatives in the composition offer but that the bondholders can also decline the composition offer, with the effect that the administrator could withdraw the offer and work out a new proposal.
- It should also be mentioned that QVT has been represented in the creditors' committee and there expressed its view that the current composition offer is far from "good enough." Neither Ruric nor the administrator mention this.
- A conclusion that one could draw is that Ruric and the administrator wish to give the bondholders, and in particular the "smaller" bondholders, the impression that there is no alternative to accepting one of the two alternatives set out in the composition offer.

Content of composition offer

As a starting point it shall be noted that all amounts under Bond Loan No. 2 and Bond Loan No. 3, including the accrued interest that should have been paid by Ruric in November 2009, have fallen due and are immediately payable. In this situation, it appears to QVT that Ruric has decided to cancel all of its payments and has, instead of paying the bond loan, "offered," as follows from the composition offer, the bondholders' to either

- write off (irreversibly) 45% of the debt amount; or

- roll over 66.5% of the amount of the debt of the old bonds into new bonds, receive 5% payment in cash and convert 28.5% of the amount of the debt of the old bonds into new shares in Ruric.

Each bondholder needs of course to evaluate whether any of the two alternatives above are acceptable or if the entire composition offer should be rejected. From a factual standpoint, QVT notes that when Ruric now asks the bondholders to either immediately and finally waive a significant part of the amount due under Bond Loan No. 2 and Bond Loan No. 3 or refrain from immediate payment and instead roll-over the amount partly to new bonds and partly to new shares in Ruric, then one would expect that the terms offered for the new bonds and in the new issue should be attractive to the bondholders. In fact, one would expect that Ruric should have strived for the general principle that the new terms should be beneficial compared to the current bonds terms. In this respect, QVT notes the following:

Some general perceived issues with the share purchase and convertible instruments

- The subscription price in the new share issue to the bondholders (against set-off of part of the old bond loans) is SEK 7 per share, which is significantly higher than the subscription price per share (SEK 3) in the proposed new share issue to the current shareholders.
- According to Ruric, a convertible debt instrument will be issued to current shareholders or a new third party (we are not clear on that), increasing the loan burden of Ruric by up to SEK 79 million. As the terms of the convertible loan are not known, we see a significant risk that the convertible loan will be made on terms which could make bondholder rights even less preferable. This must in our view be clarified by Ruric before bondholders can effectively make a decision on the composition offer.
- We also note that the composition offer and the new issue of shares appear to be structured so that the current shareholders (if they participate in the new issue) will be able to maintain voting control over Ruric following completion of the composition offer.

New bond terms – perceived commercial issues

- The new suggested bond terms give Ruric an initial interest-free period of almost 5 months.
- The first actual interest payment by Ruric will be on November 16, 2011, more than 1.5 years from now.

- Ruric is provided with an option to roll-up the 10% annual interest until 2014 and elect to only pay 3% in cash. This essentially means that Ruric gets its new bond financing against 3% interest for over 4 years (and there is absolutely no guarantee that repayment of the full interest can be made in 2014).
- Ruric is given the opportunity under the terms of the new bonds to sell certain of its development rights over Russian real property and use the proceeds for capital expenditure in Russia rather than repayment of bond loans.
- Ruric has the right under the terms of the new bonds to sell all of its subsidiaries and will only have to use 50% (or in certain cases even less) of the proceeds to repay the bond loans.
- Ruric is given the absolute right to issue more debt, probably making the chances for ultimate repayment of the bondholders even smaller.
- The loan-to-value ratio, which is intended to protect the bondholders from Ruric acquiring a debt burden that will jeopardize its ability to repay the bonds, is 60% in the existing bond terms (i.e. that the bond loans may not be higher than 60% of the value of Ruric's total assets). In the composition proposal this has been changed to 80%, and it should be noted that the 80% does not include Ruric's debt to other parties. We believe that this weakens the protection for the bondholders and that Ruric may have loans which exceed the value of its assets without the bondholders having the right to terminate the bond loans.

New bond terms – perceived security issues

In this type of restructuring of debt, where bondholders are asked to write off a substantial part of their claims, one would clearly expect that a considerable amount of security would be offered for the remaining debt. Ruric has promised that the composition offer shall include such security to be given, but in that respect we note the following:

- Ruric directly owns 8 Swedish subsidiaries and 1 Russian subsidiary, and indirectly owns approximately 15 other subsidiaries (which basically are the companies that own the Russian assets and hold most of the value in Ruric). For some reason Ruric has chosen to offer to the bondholders share pledges over only 5 direct Swedish subsidiaries. No security in relation to the assets of what we believe to be many of the more valuable subsidiaries (including Moika Glinki) has been offered or discussed.
- The share pledges offered are in our opinion essentially worthless, since each subsidiary has very large intra-group debt to Ruric (in the accounts provided

by the administrator, intra-group debt amounts to SEK 1.4 billion at December 31, 2009), which means that we cannot see that any purchaser will be willing to buy the subsidiaries (given their large debt) if the bondholders should try to enforce their pledge. In addition, Ruric has full discretion to sell these subsidiaries, which we have been advised under Swedish law risks rendering the share pledges invalid in part or in whole.

- The intra-group debt between subsidiaries and Ruric could possibly be granted to the bondholders as security – why has this not been mentioned in the composition offer?
- Ruric has not provided any information regarding potential additional security for the bondholders. For example, no discussion has been brought forward by Ruric regarding potential security in the subsidiaries which actually own assets in the company structure. From our perspective, Ruric has instead chosen to offer only minimal security (if any).

New bond terms – other perceived contractual issues

- The agency provisions and the provisions regarding the bondholders' right to influence, which in respect of the existing bonds were imprecise and in many cases detrimental to the bondholders, have in our view been made even worse in the bond terms included in the composition proposal.
- The new agent (CorpNordic Sweden AB) is entitled to enter into agreements with binding effect for the bondholders concerning, for example, release of security and also is authorised to represent the bondholders in practically all other respects. The bondholders' right to represent themselves – also in a large group – (in case of, for example, dissatisfaction with the agent) and to request actions to be taken, such as repayment of the bond amount in default situations, are highly restricted or to a large extent even excluded.
- The bondholders' veto rights – which are intended to protect small bondholders from being forced to accept changes to the bond terms – have been significantly weakened in the composition proposal as compared to the terms of the current bond loans. A large minority of 33.4% of the votes is required to block a proposal to refrain from imposing (i.e., waiving) obligations on Ruric that would otherwise apply. The same voting requirements apply to all changes to the bond terms other than concerning reduction of capital amount and interest, due dates for payments and release of security, in which cases the minority must represent 25% of the votes in order to block a change of the bond terms. In addition, the agent may (on behalf of the bondholders) agree to changes to the bond terms that the agent considers do not “have a material adverse impact” on the interests of the bondholders.

- To compare, in Bond Loan No. 2, changes to the bond terms in general require 80% majority, unless the change concerns repayment of principal amount and payment of interest, in which case all bondholders have to consent.
- It shall also be mentioned that the agent's liability under the proposed bond terms for damages caused by its acts on behalf of the bondholders is very limited.

QVT will not at this point vote for any of the alternatives proposed in the current composition offer. Through its representation in the creditors' committee, QVT will continue to seek a better proposal to be presented to the bondholders by Ruric and the administrator.

As mentioned above, if you agree with our conclusions in this letter or otherwise object to the composition offer, you may want to consider acting in the same manner.

The text contained herein reflects the opinion of QVT on this matter, and does not constitute advice or undertakings in relation to any other party. Each bondholder must form its own opinion of the composition offer and take its own actions accordingly.

If you have any questions please contact Anna Haskell at QVT Financial LP (anna.haskell@qvt.com).

Sincerely yours,

QVT FINANCIAL LP

By its general partner, QVT Financial GP LLC

By: 

Dan Gold, Managing Member

**with a copy to: Russian Real Estate Investment Company AB (publ), attn:
Chairman of the Board Mr. Nils Nilsson, Hovslagargatan 5 B, SE – 111 48
Stockholm, Sweden**