

**EPH** EASTERN PROPERTY  
HOLDINGS

# **AUDITED RESULTS**

**FOR 2016**

12 May 2017

# AGENDA

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**Introduction**

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**2016 Highlights**

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**2016 Financial Results**

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**Q & A**

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## 2016 HIGHLIGHTS

### ➤ **Acquisition of CityGate in Germany**

On 2 November 2016 the Company announced the closing of the acquisition of 94% ownership interest in the newly constructed Class A office and retail complex CityGate, located in Stuttgart, Germany. CityGate is EPH's first core commercial real estate asset in Germany. This transaction follows the strategy of the Company to focus on investments in premium quality income producing commercial property assets. The building with a total area of approx. 17,300 sqm on 11 floors (including more than 15,000 sqm of office space) is perfectly located in the center of Stuttgart, in close proximity to the main railway station. As per today, the property is fully rented to reputable national and international tenants

### ➤ **Acquisition of WorkLifeCenter in Germany**

On 22 August 2016 the Company announced the signing of the share purchase agreement to acquire 94% ownership interest in the office and retail complex "Work Life Center", located in Hamburg, Germany. Work Life Center was originally constructed in 1883 – 1887 as a postal administration building, then it has been gutted and is currently rebuilt. The central building and the historic central hall will be developed and will hold modern office and retail areas, while the historic façade will remain. The closing of the transaction shall only take place when construction is finished and the property is rented out. The project has prime location close to Hamburg's city centre, the opera and the botanical gardens. After completion of the construction works, there will be a mixed-use building complex (office, retail, leisure/fitness studio and underground parking lots) with a gross leasable area of approx. 12,000 sqm.

## 2016 HIGHLIGHTS

➤ **Successful allocation of 4,635,890 new ordinary shares**

On 6 December 2016, the Company announced the successful placement of 4,635,890 ordinary shares for a total consideration of close to US\$ 180 million. The price per share was US\$ 38.18 which corresponds to the net asset value of the Company as per 30 June 2016. The proceeds from the issue of the shares are being used for financing of the operating activity of the Company.

## 2016 FINANCIAL RESULTS

- NAV of \$36.35 per share – increased from \$ 35.54 at YE2015
- Net loss of \$70.5 million (\$12.73 per share) is mainly a result of FX losses of \$85.1 million which is partially overlapped by the positive cumulative translation adjustment (CTA) of \$67.1 million (reflected directly in the equity)
- The main factors influencing NAV are:
  - Good performance of the rental properties - \$71.1 million of net rental income
  - Negative effect of exchange rate fluctuations (taking into account the change in CTA) in the amount of \$ 18.0 million
  - \$35.7 million finance costs which mainly include bond interest accrued
  - \$14.4 million decrease in investment property valuations
  - \$10.1 million loan impairment charge

# INVESTMENT PROPERTIES

in US\$	31.12.2016	31.12.2015
<b>Assets</b>		
<b>Non-current assets</b>		
Investment properties	761,615,921	661,775,910
Goodwill	58,366,480	45,621,368
Loans and receivables	71,303,980	79,139,527
Deferred tax assets	8,274,979	10,001,020
Furniture and equipment	148,207	132,524
<b>Total non-current assets</b>	<b>899,709,567</b>	<b>796,670,349</b>
<b>Current assets</b>		
Cash & cash equivalents	41,378,278	127,772,076
Financial assets at fair value through profit or loss	552,596	-
Assets under development	72,855,882	57,656,429
Accounts receivable	1,248,216	1,064,530
Loans and receivables	3,723,555	942,677
Advance payment	17,997,585	1,442,672
Prepaid taxes	3,671,061	4,906,643
<b>Total current assets</b>	<b>141,427,173</b>	<b>193,785,027</b>
Investment property held for sale	3,800,000	-
<b>Total assets</b>	<b>1,044,936,740</b>	<b>990,455,376</b>

in US\$	31.12.2016	31.12.2015
<b>Investment Properties</b>		
A. Berlin House	136,377,351	140,168,810
B. Geneva House	146,116,910	148,282,062
C. Polar Lights	111,128,167	115,960,877
D. Hermitage	233,719,228	238,571,149
E. Magistral'naya	4,521,895	4,513,012
F. City Gate	116,012,370	-
G. Arbat Multi-use Complexes	13,740,000	10,980,000
H. "Scandinavia" Land plots in St. Petersburg	3,800,000	3,300,000
<b>Total Investment Properties</b>	<b>765,415,921</b>	<b>661,775,910</b>
Less: classified as held for sale	(3,800,000)	-
<b>End of period</b>	<b>761,615,921</b>	<b>661,775,910</b>

## WHAT CHANGED?

- Moderate changes for individual properties. Total value of investment properties decreased for less than 2% of Group's investment property portfolio
- Acquisition of City Gate investment property

# GOODWILL

in US\$	31.12.2016	31.12.2015
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<b>Non-current assets</b>		
Investment properties	761,615,921	661,775,910
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<b>Total assets</b>	<b>1,044,936,740</b>	<b>990,455,376</b>

in US\$	31.12.2016	31.12.2015
<b>Goodwill</b>		
A. Berlin House	8,837,903	8,837,903
B. Geneva House	3,655,945	3,655,945
C. Polar Lights	12,372,982	12,372,982
D. Hermitage	20,754,539	20,754,539
F. City Gate	12,745,112	-
<b>Total</b>	<b>58,366,480</b>	<b>44,772,356</b>

## WHAT CHANGED?

- Acquisition of City Gate investment property
- Goodwill represents a benefit from the current tax structure of the Group - as the current structure allows performing a potential future sale transaction via a sale of the shares, the deferred tax liability, having already been recognized in the Group's consolidated accounts, will then not materialize.

# LOANS AND RECEIVABLES

in US\$	31.12.2016	31.12.2015
<b>Assets</b>		
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<b>Total assets</b>	<b>1,044,936,740</b>	<b>990,455,376</b>

in US\$	31.12.2016	31.12.2015
<b>Loans (long term)</b>		
Vakhtangov Place Limited	71,247,103	71,284,594
Bluestone Investments	56,877	618,107
Vestive	-	7,236,826
<b>Total</b>	<b>71,303,980</b>	<b>79,139,527</b>
<b>Loans (short term)</b>		
Vestive	3,650,000	-
Other	73,555	942,677
<b>Total</b>	<b>3,723,555</b>	<b>942,677</b>

## WHAT CHANGED?

- The recoverability of the loans provided to VPL and Bluestone depends on future proceeds from Arbat projects. In 2016 it became clear that deterioration on Moscow real estate market during last two years led to decrease in the estimated future cash flows from future Arbat sales. As a result, Arbat loans were impaired by \$ 6.4 mln
- Loans receivable from Vestive was impaired down to the amount equal to the expected cash proceeds from the sale of Inkonika.



## CASH & CASH EQUIVALENTS

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<b>Total assets</b>	<b>1,044,936,740</b>	<b>990,455,376</b>

## WHAT CHANGED?

### MAIN INFLOWS:

- Net rental income from Rental Properties
- Proceeds from issue of shares

### MAIN OUTFLOWS:

- Payments of deferred parts of Hermitage Plaza and Polar Lights purchase prices
- Acquisition of City Gate property in Stuttgart and down payment with respect to the acquisition of Work Life Center property in Hamburg
- Bonds interest payments
- Arbat construction financing

# ASSETS UNDER DEVELOPMENT

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in US\$	31.12.2016	31.12.2015
<b>Assets under development</b>		
Beginning of the period	57,656,429	66,896,143
Additions from construction expenditure	2,995,295	4,999,537
Disposal	-	-
Reverse of impairment/ (impairment)	-	-
Interest capitalization	1,749,000	1,564,233
Forex effect	10,455,158	-15,803,484
<b>End of period</b>	<b>72,855,882</b>	<b>57,656,429</b>

## WHAT CHANGED?

- Apartments under construction are carried at lower of cost and appraised value. As appraised value is higher than cost, apartments are treated at cost
- Increase in value is caused by the following:
  - Increase of construction costs
  - Costs are denominated in RUB, so the USD equivalent increased due to RUB/USD strengthening in 2016

# ADVANCE PAYMENT

in US\$	31.12.2016	31.12.2015
<b>Assets</b>		
<b>Non-current assets</b>		
Investment properties	761,615,921	661,775,910
Goodwill	58,366,480	45,621,368
Loans and receivables	71,303,980	79,139,527
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Financial assets at fair value through profit or loss	552,596	-
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Prepaid taxes	3,671,061	4,906,643
<b>Total current assets</b>	<b>141,427,173</b>	<b>193,785,027</b>
Investment property held for sale	3,800,000	-
<b>Total assets</b>	<b>1,044,936,740</b>	<b>990,455,376</b>

## WHAT CHANGED?

- The Company has made \$16.8 million down payment with respect to the acquisition of Work Life Center property in Hamburg

# BORROWINGS

in US\$	31.12.2016	31.12.2015
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	454,759,092	473,618,757
Deferred tax liabilities	124,241,992	111,114,947
Other non-current liabilities	14,863,499	13,195,294
<b>Total non-current liabilities</b>	<b>593,864,583</b>	<b>597,928,998</b>
<b>Current liabilities</b>		
Accounts payable and accrued expenses	60,122,219	198,552,400
Borrowings	26,175,646	3,937,566
Property tax	170,937	1,170
Financial liabilities at fair value through profit or loss	104,067	1,010,877
Provisions for current liabilities and charges	1,464,797	17,052
<b>Total current liabilities</b>	<b>88,037,666</b>	<b>203,519,065</b>
<b>Equity</b>		
Share capital	590,539,374	414,418,955
Share premium	19,176,805	19,176,805
Treasury shares	(1,016,269)	(554,361)
Accumulated deficit	(130,591,607)	(60,108,705)
Cumulative translation adjustment	(116,836,088)	(183,925,381)
<b>Shareholders' equity attributable to the holders of the Company</b>	<b>361,272,215</b>	<b>189,007,313</b>
Non-controlling interest	1,762,276	-
<b>Total equity</b>	<b>363,034,491</b>	<b>189,007,313</b>
<b>Total equity and liabilities</b>	<b>1,044,936,740</b>	<b>990,455,376</b>

in US\$	31.12.2016	31.12.2015
<b>Borrowings (long term)</b>		
Bonds issued	453,393,666	453,166,138
Meglor Holdings Limited	1,365,426	-
Jilford Investments Limited	-	20,452,619
<b>Total</b>	<b>454,759,092</b>	<b>473,618,757</b>
<b>Borrowings (short term)</b>		
Jilford Investments Limited	22,201,619	-
Bonds interest accrued	3,795,000	3,870,000
Meglor Holdings Limited	9,853	-
Other	169,174	67,566
<b>Total</b>	<b>26,175,646</b>	<b>3,937,566</b>

## WHAT CHANGED?

- Bonds almost didn't change
- Loan from Jilford became short term as matures in Q3 2017. It was agreed with the lender, however, that the loan will be extended.

## DEFERRED TAX LIABILITIES

in US\$	31.12.2016	31.12.2015
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	454,759,092	473,618,757
Deferred tax liabilities	124,241,992	111,114,947
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Non-controlling interest	1,762,276	-
<b>Total equity</b>	<b>363,034,491</b>	<b>189,007,313</b>
<b>Total equity and liabilities</b>	<b>1,044,936,740</b>	<b>990,455,376</b>

### WHAT CHANGED?

- Increase in deferred tax liabilities is primarily caused by deferred tax liabilities acquired with City Gate property

# ACCOUNTS PAYABLE

in US\$	31.12.2016	31.12.2015
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	454,759,092	473,618,757
Deferred tax liabilities	124,241,992	111,114,947
Other non-current liabilities	14,863,499	13,195,294
<b>Total non-current liabilities</b>	<b>593,864,583</b>	<b>597,928,998</b>
<b>Current liabilities</b>		
Accounts payable and accrued expenses	60,122,219	198,552,400
Borrowings	26,175,646	3,937,566
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<b>Total equity and liabilities</b>	<b>1,044,936,740</b>	<b>990,455,376</b>

in US\$	31.12.2016	31.12.2015
<b>Accounts Payable (short term)</b>		
Contingent consideration of the purchase price of Hermitage Plaza	30,000,000	27,649,769
Deferred part of the purchase price of City Gate (Note 7)	2,564,576	-
Deferred part of the purchase price of Hermitage Plaza	-	100,869,411
Deferred part of the purchase price of Polar Lights	-	45,293,659
Due to other 3rd parties	27,463,285	24,726,771
Due to Valartis (Note 18)	94,358	12,790
<b>Total</b>	<b>60,122,219</b>	<b>198,552,400</b>

## WHAT CHANGED?

- The deferred part of purchase price for Hermitage Plaza was paid in March 2016
- The deferred part of purchase price for Polar Lights was fully paid in August 2016
- Subsequent event: the deferred part of the purchase price of City Gate was paid in February 2017

# SHARE CAPITAL

in US\$	31.12.2016	31.12.2015
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<b>Non-current liabilities</b>		
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Deferred tax liabilities	124,241,992	111,114,947
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Share premium	19,176,805	19,176,805
Treasury shares	(1,016,269)	(554,361)
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Non-controlling interest	1,762,276	-
<b>Total equity</b>	<b>363,034,491</b>	<b>189,007,313</b>
<b>Total equity and liabilities</b>	<b>1,044,936,740</b>	<b>990,455,376</b>

## WHAT CHANGED?

- The Company sold 4,635,890 ordinary shares on the market for a price of \$ 38.18 per share
- Net proceeds is \$176.1 million

# RENTAL INCOME

in US\$	31.12.2016	31.12.2015
<b>Rental income</b>		
Gross rental income	69,056,277	70,939,152
Ground rents paid	(276,009)	(314,551)
Service charge income on principal basis	11,069,305	11,300,597
Service charge expenses on principal basis	(3,457,605)	(2,989,539)
Property operating expenses	(2,165,532)	(3,098,494)
Repair and maintenance costs	(846,213)	(502,235)
Non-income taxes	(2,236,209)	(1,202,549)
<b>Net rental income</b>	<b>71,144,014</b>	<b>74,132,381</b>
<b>Administrative expenses</b>		
Management fees	(2,972,285)	(3,230,977)
Professional and administration fees	(3,304,357)	(2,424,031)
Salaries and social charges	(185,921)	(186,141)
<b>Total administrative expenses</b>	<b>(6,462,563)</b>	<b>(5,841,149)</b>
<b>Other income/ (expenses)</b>		
Interest income	2,907,797	6,018,684
Other income	100,796	450,546
Loan impairment charge	(10,062,941)	(1,641,582)
Other expenses	(451,740)	(558,939)
Depreciation	(6,499)	(7,498)
Net foreign exchange (loss)/ gain	(85,054,625)	89,696,943
<b>Net other (expenses)/ income</b>	<b>(92,567,212)</b>	<b>93,958,154</b>

in US\$	31.12.2016	31.12.2015
<b>Gross rental income</b>		
Berlin House	15,091,656	15,447,624
Geneva House	13,603,274	15,058,253
Polar lights	14,536,884	16,181,909
Hermitage Plaza	24,681,320	23,693,961
Magistral'naya	532,840	557,404
City Gate	610,304	-
<b>Total</b>	<b>69,056,277</b>	<b>70,939,152</b>
<b>Net rental income</b>		
Berlin House	16,113,434	16,587,336
Geneva House	13,872,585	15,801,905
Polar lights	14,252,984	16,399,799
Hermitage Plaza	25,872,787	24,778,789
Magistral'naya	530,839	564,553
City Gate	501,385	-
<b>Total</b>	<b>71,144,014</b>	<b>74,132,381</b>

## WHAT CHANGED?

- Berlin House and Geneva House: some lease contacts with tenants were amended to reflect the changes in the real estate market, one lease was terminated
- Polar Lights: majority of lease contacts are nominated in RUR or in USD with fixed maximum USD/RUB ex-rate. During 2016 RUB was weaker against USD than during 2015, therefore, although RUB-denominated rental income increased in 2016, its USD equivalent decreased



# NET FOREIGN EXCHANGE GAIN/ LOSS

in US\$	31.12.2016	31.12.2015
<b>Rental income</b>		
Gross rental income	69,056,277	70,939,152
Ground rents paid	(276,009)	(314,551)
Service charge income on principal basis	11,069,305	11,300,597
Service charge expenses on principal basis	(3,457,605)	(2,989,539)
Property operating expenses	(2,165,532)	(3,098,494)
Repair and maintenance costs	(846,213)	(502,235)
Non-income taxes	(2,236,209)	(1,202,549)
<b>Net rental income</b>	<b>71,144,014</b>	<b>74,132,381</b>
<b>Administrative expenses</b>		
Management fees	(2,972,285)	(3,230,977)
Professional and administration fees	(3,304,357)	(2,424,031)
Salaries and social charges	(185,921)	(186,141)
<b>Total administrative expenses</b>	<b>(6,462,563)</b>	<b>(5,841,149)</b>
<b>Other income/ (expenses)</b>		
Interest income	2,907,797	6,018,684
Other income	100,796	450,546
Loan impairment charge	(10,062,941)	(1,641,582)
Other expenses	(451,740)	(558,939)
Depreciation	(6,499)	(7,498)
Net foreign exchange (loss)/ gain	(85,054,625)	89,696,943
<b>Net other (expenses)/ income</b>	<b>(92,567,212)</b>	<b>93,958,154</b>

## WHAT CHANGED?

- EPH subsidiaries have RUB as their functional currency. Accordingly, US\$-denominated assets and liabilities are converted in RUB as of the end of each reporting period
- During 2016 RUB strengthened against the US\$ from 74.0015 RUB/US\$ as of 1 January 2016 to 60.8358 RUB /US\$ as of 31 December 2016
- Substantial loss is primarily caused by the currency impact on the investment properties

# LOSS FROM FAIR VALUE ADJUSTMENT ON IP

in US\$	31.12.2016	30.06.2015	in US\$	31.12.2016	31.12.2015
<b>Valuation movements</b>			<b>Net gain/ (loss) from fair value adjustment on investment properties</b>		
Net gain/ (loss) from fair value adjustment on financial instruments	189,169	(1,791,873)	A. Berlin House	-3,780,000	-3,830,000
Net loss from fair value adjustment on investment properties	(14,410,059)	(91,504,189)	B. Geneva House	-2,260,746	-5,142,604
<b>Net valuation movements</b>	<b>(14,220,890)</b>	<b>(93,296,062)</b>	C. Polar Lights	-6,772,954	-36,730,115
<b>Net operating (loss)/ gain before finance cost</b>	<b>(42,106,651)</b>	<b>68,953,324</b>	D. Hermitage	-5,160,571	-37,968,270
Finance costs	(35,746,687)	(31,888,827)	E. Magistral'naya	-15,438	-1,009,000
<b>(Loss)/ gain before taxes</b>	<b>(77,853,338)</b>	<b>37,064,497</b>	F. City Gate	319,650	-
Income taxes	7,376,046	(16,522,282)	G. Arbat Multi-use Complexes	2,760,000	-5,824,200
<b>Net (loss) / profit for the period</b>	<b>(70,477,292)</b>	<b>20,542,215</b>	H. "Scandinavia" Land plots in St. Petersburg	500,000	-1,000,000
			<b>Total</b>	<b>(14,410,059)</b>	<b>(91,504,189)</b>

## WHAT CHANGED?

- Reductions in the appraised values of the properties are caused mainly by expected capital expenditures (Hermitage Plaza and Polar Lights) and slight decrease in current rental stream (BH, GH and Polar Lights)

# FINANCE COSTS

in US\$	31.12.2016	30.06.2015
<b>Valuation movements</b>		
Net gain/ (loss) from fair value adjustment on financial instruments	189,169	(1,791,873)
Net loss from fair value adjustment on investment properties	(14,410,059)	(91,504,189)
<b>Net valuation movements</b>	<b>(14,220,890)</b>	<b>(93,296,062)</b>
<b>Net operating (loss)/ gain before finance cost</b>	<b>(42,106,651)</b>	<b>68,953,324</b>
Finance costs	(35,746,687)	(31,888,827)
<b>(Loss)/ gain before taxes</b>	<b>(77,853,338)</b>	<b>37,064,497</b>
Income taxes	7,376,046	(16,522,282)
<b>Net (loss) / profit for the period</b>	<b>(70,477,292)</b>	<b>20,542,215</b>

in US\$	31.12.2016	31.12.2015
Interests on bonds issued	28,239,797	20,749,413
Interest on deferred part of the purchase price and contingent consideration of the purchase price	5,208,928	5,662,473
Interest on notes payable	2,047,625	-
Interest on loans payable	9,964	5,191,225
Bank charges	117,660	273,491
Other finance cost	122,713	12,225
<b>Total</b>	<b>35,746,687</b>	<b>31,888,827</b>

## WHAT CHANGED?

- Increase of cost for bonds is caused by the fact that part of them were issued in the second half of 2015 therefore the interest for those bonds was recognised not for entire 2015
- In Q3 2016, the Company issued subordinated registered notes which were settled in December 2016

# INCOME TAXES

in US\$	31.12.2016	30.06.2015
<b>Valuation movements</b>		
Net gain/ (loss) from fair value adjustment on financial instruments	189,169	(1,791,873)
Net loss from fair value adjustment on investment properties	(14,410,059)	(91,504,189)
<b>Net valuation movements</b>	<b>(14,220,890)</b>	<b>(93,296,062)</b>
<b>Net operating (loss)/ gain before finance cost</b>	<b>(42,106,651)</b>	<b>68,953,324</b>
Finance costs	(35,746,687)	(31,888,827)
<b>(Loss)/ gain before taxes</b>	<b>(77,853,338)</b>	<b>37,064,497</b>
Income taxes	7,376,046	(16,522,282)
<b>Net (loss) / profit for the period</b>	<b>(70,477,292)</b>	<b>20,542,215</b>

## WHAT CHANGED?

Income tax expense consists of:

- Current income tax expense related to the most of rental properties
- Deferred tax benefits recognized on the change in difference between fair values and tax values of the properties denominated in RUB