

EPH EASTERN PROPERTY
HOLDINGS

INTERIM UNAUDITED RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

HIGHLIGHTS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

- Turgenevskaya parking opened
- Arbat I construction proceeding full speed
- Arbat II construction started but facing opposition to new construction in historical areas
- Geneva House fully leased in May
- Good performance of bond portfolio
- Slight increase in appraised values

RESTATEMENT

CUMULATIVE TRANSLATION ADJUSTMENT (CTA)

- CTA is generated by foreign currency fluctuation. It is a running total of gains and losses over time.
- When an asset which has generated CTA is sold, associated CTA is closed out via profit & loss
- Net Loss for the interim six-month period 30 June 2011 has been increased by US\$ 2.3 million
- Implies increased profit in 2nd half 2011, but has no impact on FY2011 loss of \$55.97 million

	Reported	Reclassification	Restated
<i>Balance sheet at 30 June 2011</i>			
Total shareholders' equity	294'241'026	-	294'241'026
Accumulated deficit	(159'679'426)	(2'302'332)	(161'981'758)
Cumulative translation adjustment	(5'209'926)	2'302'332	(2'907'594)
<i>Income statement for the period ended 30 June 2011</i>			
Net loss for the period	(59'125'917)	(2'302'332)	(61'428'249)
Net foreign exchange loss	(11'491'816)	(2'302'332)	(13'794'148)
Basic and diluted earnings per share for the period ended 30 June 2011	(13.87)	(0.54)	(14.41)
<i>Comprehensive income statement for the period ended 30 June 2011</i>			
Net loss for the period	(59'125'917)	(2'302'332)	(61'428'249)
Exchange gain on translation of financial statements of foreign operation	10'059'760	2'302'332	12'362'092
Total	(49'066'157)	-	(49'066'157)

INVESTMENT PROPERTIES

in US\$	30.06.2012	31.12.2011
Assets		
Non-current assets		
Investment properties	122'031'463	117'803'658
Investment in associates	10'688'600	10'472'709
Loans and receivables	59'977'807	50'464'039
Advance for land lease	1'713'114	1'719'171
Deferred tax assets	2'555'481	1'200'282
Furniture and equipment	1'554	1'356
Total non-current assets	196'968'019	181'661'215
Current assets		
Cash & cash equivalents	11'741'952	20'798'029
Financial assets at fair value through profit or loss	46'517'557	56'011'682
Assets under development	81'484'887	76'615'089
Accounts receivable	348'892	1'249'884
Loans and receivables	1'342'132	812'807
Advance payment	454'318	582'516
Prepaid taxes	372'498	368'537
Total current assets	142'262'236	156'438'544
Total assets	339'230'255	338'099'759

in US\$	30.06.2012	31.12.2011
Investment Properties		
A. Petrovsky Fort	64'236'699	64'092'889
B. Magistral'naya	7'714'764	6'210'769
C. Arbat Multi-use Complexes	10'980'000	8'400'000
D. "Scandinavia" Land plots in St. Petersburg	39'100'000	39'100'000
End of period	122'031'463	117'803'658

WHAT CHANGED?

MARKET WIDE

- NO YIELD COMPRESSION

ASSET SPECIFIC

- Petrovsky Fort: Increased occupancy
- Magistral'naya: long term lease signed
- Arbat: construction progress
- Scandinavia: unchanged

LOANS AND RECEIVABLES

in US\$	30.06.2012	31.12.2011
Assets		
Non-current assets		
Investment properties	122'031'463	117'803'658
Investment in associates	10'688'600	10'472'709
Loans and receivables	59'977'807	50'464'039
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Prepaid taxes	372'498	368'537
Total current assets	142'262'236	156'438'544
Total assets	339'230'255	338'099'759

Loans and receivables		
in US\$	30.06.2012	31.12.2011
Loans (long term)		
Vakhtangov Place Limited	35'217'079	26'396'049
Bluestone Investments	407'247	457'521
Vestive	15'279'898	14'531'179
EPH Real Estate	8'591'114	8'591'114
Connecta KG	482'469	488'176
Total	59'977'807	50'464'039
Loans (short term)		
EPH Real Estate	1'296'347	787'114
Connecta KG	45'785	25'693
Total	1'342'132	812'807

WHAT CHANGED?

- Construction financing for Arbat Projects (60% is eliminated in consolidation)
- Funding for Vestive parking (signage, contractors)

DEFERRED TAX ASSETS

in US\$	30.06.2012	31.12.2011
Assets		
Non-current assets		
Investment properties	122'031'463	117'803'658
Investment in associates	10'688'600	10'472'709
Loans and receivables	59'977'807	50'464'039
Advance for land lease	1'713'114	1'719'171
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Total current assets	142'262'236	156'438'544
Total assets	339'230'255	338'099'759

WHAT IS THIS?

- Tax losses in subsidiary with respect to Arbat projects.

WHAT CHANGED?

- Subsidiary generating losses during construction period.
- Losses create tax credit which is very likely to be utilized in foreseeable future.

CASH & CASH EQUIVALENTS

in US\$	30.06.2012	31.12.2011
Assets		
Non-current assets		
Investment properties	122'031'463	117'803'658
Investment in associates	10'688'600	10'472'709
Loans and receivables	59'977'807	50'464'039
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Assets under development	81'484'887	76'615'089
Accounts receivable	348'892	1'249'884
Loans and receivables	1'342'132	812'807
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Prepaid taxes	372'498	368'537
Total current assets	142'262'236	156'438'544
Total assets	339'230'255	338'099'759

WHAT CHANGED?

- MAIN INFLOWS:
 - net sale of bonds
 - interest received on bonds

- MAIN OUTFLOWS:
 - construction financing of Arbat complexes
 - management fee arrears for 2011 settled
 - interest and amortization on UniCredit bank loan

FINANCIAL ASSETS

in US\$	30.06.2012	31.12.2011
Assets		
Non-current assets		
Investment properties	122'031'463	117'803'658
Investment in associates	10'688'600	10'472'709
Loans and receivables	59'977'807	50'464'039
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Accounts receivable	348'892	1'249'884
Loans and receivables	1'342'132	812'807
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Prepaid taxes	372'498	368'537
Total current assets	142'262'236	156'438'544
Total assets	339'230'255	338'099'759

Financial assets at fair value through profit or loss		
in US\$	30.06.2012	31.12.2011
Designated upon initial recognition		
Quoted debt securities	36'744'894	46'112'682
Unquoted debt securities	9'772'663	9'899'000
Unquoted equity shares	-	-
Total	46'517'557	56'011'682

WHAT CHANGED?

- Bonds mature or are sold as needed to fund Arbat construction

ASSETS UNDER DEVELOPMENT

in US\$	30.06.2012	31.12.2011
Assets		
Non-current assets		
Investment properties	122'031'463	117'803'658
Investment in associates	10'688'600	10'472'709
Loans and receivables	59'977'807	50'464'039
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Total current assets	142'262'236	156'438'544
Total assets	339'230'255	338'099'759

in US\$	30.06.2012	31.12.2011
Assets under development		
Beginning of the period	76'615'089	40'247'869
Addition due to increased ownership stake	-	12'171'287
Reclassification	(851'702)	14'156'024
Addition	5'721'500	7'208'319
(Impairment)/reverse of impairment	-	2'831'590
End of period	81'484'887	76'615'089

WHAT CHANGED?

MARKET WIDE

- No material changes. Assumed sale prices unchanged.

ASSET SPECIFIC

- Increase in appraised value is caused by deeper stage of development.
- Appraised value only relevant to test for impairment.
- Apartments under construction are carried at cost.

EQUITY

in US\$	30.06.2012	31.12.2011
Liabilities		
Non-current liabilities		
Loans from banks	33'550'000	34'450'000
Provisions for long-term liabilities and charges	12'004'640	12'632'414
Other non-current liabilities	3'569'197	3'535'770
Total non-current liabilities	49'123'837	50'618'184
Current liabilities		
Accounts payable and accrued expenses	7'349'970	6'387'805
Loans from banks and others	1'803'726	3'053'282
Property tax	106'274	112'157
Financial liabilities at fair value through profit or loss	1'144'059	1'381'414
Provisions for current liabilities and	27'798	25'660
Bank overdraft	-	-
Total current liabilities	10'431'827	10'960'318
Equity		
Share capital	414'418'955	414'418'955
Treasury shares	(30'050'173)	(30'050'173)
Share premium	-	74'761'596
Accumulated deficit	(99'701'767)	(177'832'991)
Cumulative translation adjustment	(4'992'424)	(4'776'130)
Shareholders' equity attributable to the holders of the Company	279'674'591	276'521'257
Total equity and liabilities	339'230'255	338'099'759

WHAT CHANGED?

- Share premium was accumulated prior to YE2003
- Approximately \$75 million of Accumulated Deficit was also on the Company's YE2003 Balance Sheet
- EGM of 29 July 2004 voted to eliminate nominal value for shares, making existing Share Premium at the time static.
- No longer a concept of share capital under BVI company law.
- Board elected to combine Share Premium and Accumulated Deficit in May 2012.
- Resulting offset reduces Accumulated Deficit, and will eliminate line for Share Premium from future financial statements.

RENTAL INCOME

in US\$	30.06.2012	Restated 30.06.2011
Rental income		
Gross rental income	3'734'908	10'223'477
Ground rents paid	(199'544)	(226'019)
Service charge income on principal basis	1'138'568	2'392'472
Service charge expenses on principal basis	(715'229)	(1'746'899)
Property operating expenses	(599'938)	(1'834'593)
Repair and maintenance costs	(291'570)	(474'773)
Non-income taxes	(262'678)	(1'524'150)
Net rental income	2'804'517	6'809'515
Administrative expenses		
Reverse of accrual for performance fees	627'774	729'640
Management fees	(2'791'009)	(3'152'946)
Professional and administration fees	(784'728)	(1'200'067)
Salaries and social charges	(32'964)	(174'124)
Total administrative expenses	(2'980'927)	(3'797'497)
Other income/ (expenses)		
Interest income	3'837'379	1'637'770
Gain on increased ownership stake	912'521	-
Other income	268'705	10'644
Other expenses	(2'958'893)	(3'173'186)
Depreciation	(57)	(7'714)
Net foreign exchange loss **	(1'353'972)	(13'794'148)
Net other income/ (expenses)	705'683	(15'326'634)

** Restatement

Gross rental income (US\$)		
	30.06.2012	30.06.2011
Petrovsky Fort	3,189,826	2,787,724
Magistral'naya	545,082	444,765
Berlin House	-	3,977,068
Geneva House	-	3,013,919
Total	3,734,908	10,223,477

Net rental income (US\$)		
	30.06.2012	30.06.2011
Petrovsky Fort	2,408,890	2,950,344
Magistral'naya	395,627	241,300
Berlin House	-	2,944,194
Geneva House	-	673,677
Total	2,804,517	6,809,515

WHAT CHANGED?

- Composition of Rental Income has changed, after disposal of majority stakes in Berlin House and Geneva House
- Rental Income is now derived from Petrovsky Fort and Magistralnaya
- The reduced number of assets impacts Service charge income and expenses as well as Property operating expenses and Repair and maintenance costs
- In 2011 we had one-off payment for work done by Petrovsky Fort therefore the net rental income of one decreased in 1hy2012 in comparison with 1hy 2011

ADMINISTRATIVE EXPENSES

in US\$	30.06.2012	Restated 30.06.2011
Rental income		
Gross rental income	3'734'908	10'223'477
Ground rents paid	(199'544)	(226'019)
Service charge income on principal basis	1'138'568	2'392'472
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Other income	268'705	10'644
Other expenses	(2'958'893)	(3'173'186)
Depreciation	(57)	(7'714)
Net foreign exchange loss **	(1'353'972)	(13'794'148)
Net other income/ (expenses)	705'683	(15'326'634)

** Restatement

WHAT CHANGED?

- Earlier accrued performance fees were reduced due to decrease of property valuation exceed over cost
- Management fees are lower due to lower net asset value base
- Professional and Admin Fees were lower as no major transaction was going on

INTEREST INCOME

in US\$	30.06.2012	Restated 30.06.2011
Rental income		
Gross rental income	3'734'908	10'223'477
Ground rents paid	(199'544)	(226'019)
Service charge income on principal basis	1'138'568	2'392'472
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Depreciation	(57)	(7'714)
Net foreign exchange loss **	(1'353'972)	(13'794'148)
Net other income/ (expenses)	705'683	(15'326'634)

** Restatement

Interest income	30.06.2012	30.06.2011
Interests from bonds	1,218,014	-
Vakhtangov Place Limited	1,390,087	-
Bluestone Investment	-	1,122,763
Vestive	664,886	458,489
EPH RE	511,313	-
Connecta KG	21,691	-
Other	31,388	56,518
Total	3,837,379	1,637,770

WHAT CHANGED?

- As of end 2011 Arbat construction loans provided to Bluestone were assigned to VPL
- During 1hy 2011 the Group did not held the bonds
- 1hy 2011 financial results of EPH RE and Connecta KG was fully consolidated into the Group. Beginning from July 2011 both are treated as investments in accociate hence are not consolidated.

GAIN ON INCREASED OWNERSHIP STAKE

in US\$	30.06.2012	Restated 30.06.2011
Rental income		
Gross rental income	3'734'908	10'223'477
Ground rents paid	(199'544)	(226'019)
Service charge income on principal basis	1'138'568	2'392'472
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Gain on increased ownership stake	912'521	-
Other income	268'705	10'644
Other expenses	(2'958'893)	(3'173'186)
Depreciation	(57)	(7'714)
Net foreign exchange loss **	(1'353'972)	(13'794'148)
Net other income/ (expenses)	705'683	(15'326'634)

** Restatement

WHAT CHANGED?

- EPH obtained an additional 10% equity stake in joint venture company Bluestone Investments Ltd (Arbat Projects) via non-voting preferred shares, thereby becoming a 60% owner and resulting in a gain

OTHER EXPENSES

in US\$	30.06.2012	Restated 30.06.2011
Rental income		
Gross rental income	3'734'908	10'223'477
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Depreciation	(57)	(7'714)
Net foreign exchange loss **	(1'353'972)	(13'794'148)
Net other income/ (expenses)	705'683	(15'326'634)

** Restatement

WHAT IS THIS?

- \$ 2.6 mln is related to Geneva House for fit-out works and leasing-related terms of sale agreement

NET FOREIGN EXCHANGE LOSS

in US\$	30.06.2012	Restated 30.06.2011
Rental income		
Gross rental income	3'734'908	10'223'477
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Service charge income on principal basis	1'138'568	2'392'472
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Net other income/ (expenses)	705'683	(15'326'634)

** Restatement

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.
- Slight increase in US\$/RUB ex-rate and US\$-denominated loan liabilities in subsidiaries together with US\$-denominated assets led to moderate FX-loss

NET GAIN (LOSS) FROM FINANCIAL INVESTMENTS

Valuation movements		
Net gain from fair value adjustment on financial investments	539'835	737'427
Net gain/ (loss) from fair value adjustment on investment properties	1'903'907	(13'342'316)
Net valuation movements	2'443'742	(12'604'889)
Development property impairment	-	(749'989)
Net operating gain/ (loss) before finance cost	2'973'015	(25'669'494)
Finance costs	(1'492'648)	(5'231'148)
Share of associates' gain/ (loss)	359'291	(24'660'546)
Net gain from sale of subsidiaries	-	741'168
Gain/ (loss) before taxes	1'839'658	(54'820'020)
Income taxes	1'529'970	(6'608'229)
Net Profit / (loss) for the period	3'369'628	(61'428'249)
Attributable to:		
Equity holders of the Company	3'369'628	(61'428'249)
Non-controlling interest	-	-
Weighted average number of outstanding shares	4'262'613	4'262'613

Net gain/ (loss) from fair value adjustment on financial assets and financial liabilities		
in US\$	30.06.2012	30.06.2011
Designated upon initial recognition		
Quoted debt securities	302'480	-
Unquoted debt securities	-	-
Unquoted equity shares	-	-
Interest rate sw aps	237'355	737'427
Total	539'836	737'427

WHAT CHANGED?

- Fair value of SWAP liability decreased leading to gain
- Fair value of bonds increased leading to gain

NET GAIN (LOSS) FROM INVESTMENT PROPERTIES

Valuation movements		
Net gain from fair value adjustment on financial investments	539'835	737'427
Net gain/ (loss) from fair value adjustment on investment properties	1'903'907	(13'342'316)
Net valuation movements	2'443'742	(12'604'889)
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Gain/ (loss) before taxes	1'839'658	(54'820'020)
Income taxes	1'529'970	(6'608'229)
Net Profit / (loss) for the period	3'369'628	(61'428'249)
Attributable to:		
Equity holders of the Company	3'369'628	(61'428'249)
Non-controlling interest	-	-
Weighted average number of outstanding shares	4'262'613	4'262'613

Net gain/ (loss) from fair value adjustment on investment properties

	30.06.2012	30.06.2011
A. Petrovsky Fort	128,918	1,534,455
B. Magistral'naya	1,498,705	(409,646)
C. Arbat Multi-use Complexes	276,284	(1,069,805)
D. "Scandinavia" Land plots in St. Petersburg	-	(10,688,000)
E. Geneva House	-	(2,709,320)
Total	1,903,907	(13,342,316)

WHAT CHANGED?

- Moderate increase in the valuations of investment properties.

DEVELOPMENT PROPERTY IMPAIRMENT

Valuation movements		
Net gain from fair value adjustment on financial investments	539'835	737'427
Net gain/ (loss) from fair value adjustment on investment properties	1'903'907	(13'342'316)
Net valuation movements	2'443'742	(12'604'889)
Development property impairment	-	(749'989)
Net operating gain/ (loss) before finance cost	2'973'015	(25'669'494)
Finance costs	(1'492'648)	(5'231'148)
Share of associates' gain/ (loss)	359'291	(24'660'546)
Net gain from sale of subsidiaries	-	741'168
Gain/ (loss) before taxes	1'839'658	(54'820'020)
Income taxes	1'529'970	(6'608'229)
Net Profit / (loss) for the period	3'369'628	(61'428'249)
Attributable to:		
Equity holders of the Company	3'369'628	(61'428'249)
Non-controlling interest	-	-
Weighted average number of outstanding shares	4'262'613	4'262'613

WHAT CHANGED?

- Arbat development property is carried at lower of cost and fair value.
- Cost, denominated in RUB, can change in US\$ terms due to fx fluctuation.
- Fair value is more than the cost at 30 June, so no impairment necessary.

SHARE OF ASSOCIATES' GAIN/(LOSS)

Valuation movements		
Net gain from fair value adjustment on financial investments	539'835	737'427
Net gain/ (loss) from fair value adjustment on investment properties	1'903'907	(13'342'316)
Net valuation movements	2'443'742	(12'604'889)
Development property impairment	-	(749'989)
Net operating gain/ (loss) before finance cost	2'973'015	(25'669'494)
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Net Profit / (loss) for the period	3'369'628	(61'428'249)
Attributable to:		
Equity holders of the Company	3'369'628	(61'428'249)
Non-controlling interest	-	-
Weighted average number of outstanding shares	4'262'613	4'262'613

in US\$	30.06.2012	30.06.2011
EPH Real Estate	-9'371	-101'851
Connecta KG	368'662	-260'888
Vestive	-	-24'297'807
Hypercenter Investment SA	-	-
	359'291	-24'660'546

WHAT CHANGED?

- In 1hy 2012 NAV of Connecta KG slightly increased whereas NAV of EPH RE almost did not change
- 1hy 2011 associates' loss was caused mainly by the impairment of investment in Vestive to zero value.

IN CONCLUSION

- NAV increased from \$64.87 per share at YE2011 to \$65.61 at 30 June 2012
- Net profit of \$3.4 million vs a loss of \$61.4 million for the year-ago period
- Positive results are due to company-specific factors in a flat market
- RUB/US\$ exchange rate stable YTD:
 - YE2011: 32.14 RUB/\$
 - 30 June 2012: 32.42 RUB/\$
 - Today 32.03 RUB/\$
- Share price development:
 - Last: \$22.95 (3:30pm)
 - +14.75% YTD
 - Discount to NAV: 65%