

EPH EASTERN PROPERTY
HOLDINGS

INTERIM UNAUDITED RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

23 September 2014

AGENDA AND SPEAKERS

Introduction

Highlights for 2014 HY

2014 HY Financial Results

Q & A

Conclusion



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HIGHLIGHTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

Arbat I construction:

- Completion (including the Theatre part) is scheduled by the end of 2014
- The project is being actively marketed

Arbat II construction:

- The above-ground works are developing well
- Completion is scheduled to 3q 2015

Petrovsky Fort:

- Stable income with low vacancy (3-4%)
- Valuation decreased due to yield increase and reallocation between the areas designated for office and storage

Berlin House & Geneva House:

- Fully Leased

Scandinavia

- Valuation decreased to reflect the situation in the current land market in St-Petersburg

Inkonika

- Despite a stable income increase from month to month, the appraised value decreased due to more conservative assumptions with respect to further income growth



HIGHLIGHTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

SUBSEQUENT EVENTS:

➤ **Berlin House and Geneva House**

On 26 August 2014 the Company announced that it has acquired full ownership of Geneva House and Berlin House. The transaction price for the remaining 90% of both properties amounts to US\$ 148.5 million and is based on the market value of the properties and adjusted for the net debts of the acquired holding companies. As the properties are considered as two of Moscow's most prestigious business addresses and the financial performance of the properties significantly increased during the recent years, the Company decided to reacquire them as long-term investment objects.

➤ **Bond Placement**

On 21 August 2014, Eastern Property Holdings has successfully closed its bond offering in the amount of USD 140 million, issued at par. The bond has a term of 9 years, due in 2023, and an interest rate of 5.5% p.a., payable semi-annually on 31 March and 30 September. An early redemption put option has been granted to the bondholders after three and six years. The bond has been lead managed by Valartis Bank AG, Switzerland, and is listed on the Swiss Stock Exchange

➤ **Scandinavia Land**

A land plot, accounting for 23.4% of Scandinavia land, has been sold for US\$ 1.99 million.

2014 HY FINANCIAL RESULTS

- NAV of \$57.96 per share decreased from \$59.64 at YE2013
- Net Loss of \$7.65 million (\$1.79 per share)
- NAV-positive factors....
 - Good performance of the rental properties
 - Interest income earned on development loansare overlapped by
- NAV-negative factors....
 - \$6.1 million decrease in Petrovsky Fort and \$1.5 million decrease in Scandinavia valuations
 - Negative effect of exchange rate fluctuations: net FX loss of \$3.8 mln
 - \$2.1 million impairment of loans provided to parking projects

INVESTMENT PROPERTIES

in US\$	30.06.2014	31.12.2013
Assets		
Non-current assets		
Investment properties	84,388,657	100,140,472
Investment in associates	19,490,073	18,633,659
Loans and receivables	81,785,938	80,716,951
Deferred tax assets	3,305,969	3,212,862
Furniture and equipment	4,295	1,821
Total non-current assets	188,974,932	202,705,765
Current assets		
Cash & cash equivalents	4,512,386	6,648,367
Assets under development	105,914,833	101,833,883
Accounts receivable	396,263	3,807,038
Loans and receivables	234,714	278,774
Advance payment	1,549,237	695,768
Prepaid taxes	558,396	484,717
Total current assets	113,165,829	113,748,547
Investment property held for sale	9,600,000	-
Total assets	311,740,761	316,454,312

in US\$	30.06.2014	31.12.2013
Investment Properties		
A. Petrovsky Fort	56,529,587	62,743,229
B. Magistral'naya	8,104,070	8,298,443
C. Arbat Multi-use Complexes	19,755,000	17,998,800
D. "Scandinavia" Land plots in St. Petersburg	9,600,000	11,100,000
Total Investment Properties	93,988,657	100,140,472
Less: classified as held for sale	(9,600,000)	-
End of period	84,388,657	100,140,472

WHAT CHANGED?

- Petrovsky Fort: decreased due to yield increase and reallocation between the areas designated for office and storage
- Magistralnaya: moderate decrease
- Arbat: increase due to construction progress
- Scandinavia: decreased due to more conservative assumptions. As the Company is selling the land plot it is classified as held for sale

LOANS AND RECEIVABLES

in US\$	30.06.2014	31.12.2013
Assets		
Non-current assets		
Investment properties	84,388,657	100,140,472
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in US\$	30.06.2014	31.12.2013
Loans (long term)		
Vakhtangov Place Limited	60,578,277	58,124,204
Bluestone Investments	513,229	490,049
Vestive	10,441,390	11,816,303
EPH Real Estate	6,633,042	6,633,042
Connecta KG	3,620,000	3,653,353
Total	81,785,938	80,716,951
Loans (short term)		
EPH Real Estate	206,448	220,101
Connecta KG	28,266	58,673
Total	234,714	278,774

WHAT CHANGED?

- Inkonika loan impaired by \$ 2.1 mln down to the amounts recoverable by Inkonika's asset

CASH & CASH EQUIVALENTS

in US\$	30.06.2014	31.12.2013
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WHAT CHANGED?

MAIN INFLOWS:

- net rental income from Rental Properties
- interest received from cash generating associates (Connecta and EPH RE)
- proceeds from the sale of Arbat apartments

MAIN OUTFLOWS:

- management fee to Valartis for 2hy2013 and 1q2014
- interest and amortization on UniCredit bank loan
- proceeds from the sale of Arbat apartments were used for Arbats construction

ASSETS UNDER DEVELOPMENT

in US\$	30.06.2014	31.12.2013
Assets		
Non-current assets		
Investment properties	84,388,657	100,140,472
Investment in associates	19,490,073	18,633,659
Loans and receivables	81,785,938	80,716,951
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Investment property held for sale	9,600,000	-
Total assets	311,740,761	316,454,312

in US\$	30.06.2014	31.12.2013
Assets under development		
Beginning of the period	101,833,883	95,179,891
Additions from construction expenditure	6,773,894	16,382,233
Disposal	-	-2,887,179
Reverse of impairment/ (impairment)	-	499,635
Interest capitalization	422,248	117,234
Forex effect	-3,115,191	-7,457,931
End of period	105,914,833	101,833,883

WHAT CHANGED?

MARKET WIDE:

- No material changes

ASSET SPECIFIC:

- Apartments under construction are carried at lower of cost and appraised value
 - Cost is denominated in RUB
 - Increase of costs during 2014 is partly eliminated by negative forex effect due to RUB/USD weakening as compared to end 2013

ACCOUNT RECEIVABLE

in US\$	30.06.2014	31.12.2013
Assets		
Non-current assets		
Investment properties	84,388,657	100,140,472
Investment in associates	19,490,073	18,633,659
Loans and receivables	81,785,938	80,716,951
Deferred tax assets	3,305,969	3,212,862
Furniture and equipment	4,295	1,821
Total non-current assets	188,974,932	202,705,765
Current assets		
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Assets under development	105,914,833	101,833,883
Accounts receivable	396,263	3,807,038
Loans and receivables	234,714	278,774
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Total current assets	113,165,829	113,748,547
Investment property held for sale	9,600,000	-
Total assets	311,740,761	316,454,312

WHAT CHANGED?

- The most part of receivables recognized as of end 2013 with respect to the sale of Arbat apartments (Group recognized 60%) was received during 1hy 2014

LOANS FROM BANKS

in US\$	30.06.2014	31.12.2013
Liabilities		
Non-current liabilities		
Loans from banks and others	13,360,562	40,500,597
Other non-current liabilities	3,473,208	3,567,166
Total non-current liabilities	16,833,770	44,067,763
Current liabilities		
Accounts payable and accrued expenses	7,120,935	7,091,474
Loans from banks and others	40,572,346	10,710,016
Property tax	95,703	98,930
Financial liabilities at fair value through profit or loss	-	242,273
Provisions for current liabilities and charges	37,886	25,223
Total current liabilities	47,826,870	18,167,916
Equity		
Share capital	414,418,955	414,418,955
Treasury shares	(30,050,173)	(30,050,173)
Accumulated deficit	(133,351,698)	(125,706,311)
Cumulative translation adjustment	(3,936,963)	(4,443,838)
Shareholders' equity attributable to the holders of the Company	247,080,121	254,218,633
Total equity and liabilities	311,740,761	316,454,312

in US\$	30.06.2014	31.12.2013
Loans from banks and others (long term)		
Jilford Investments Limited	13,360,562	9,650,597
UniCredit bank loan	-	30,850,000
Total	13,360,562	40,500,597
Loans from banks and others (short term)		
UniCredit bank loan	32,013,967	2,180,984
Valartis Bank (Liechtenstein) AG	8,554,814	8,525,341
Other	3,565	3,691
Total	40,572,346	10,710,016

WHAT CHANGED?

- Loan from Unicredit bank decreased due to quarterly amortization payments. Also as this loan matures in March 2015, it is now short-term
- Additional drawdowns from Jilford are used for Arbats construction

RENTAL INCOME

in US\$	30.06.2014	30.06.2013
Rental income		
Gross rental income	3,963,981	4,046,769
Ground rents paid	(170,654)	(227,610)
Service charge income on principal basis	1,381,967	1,191,656
Service charge expenses on principal basis	(677,030)	(767,587)
Property operating expenses	(50,460)	(49,499)
Repair and maintenance costs	(119,599)	(181,917)
Non-income taxes	(204,770)	(237,250)
Net rental income	4,123,435	3,774,562
Administrative expenses		
Reverse of accrual for performance fees	-	225,603
Management fees	(1,715,497)	(1,684,543)
Professional and administration fees	(719,174)	(513,811)
Salaries and social charges	(236,652)	(267,750)
Total administrative expenses	(2,671,323)	(2,240,501)
Other income/ (expenses)		
Interest income	3,863,717	3,891,548
Loan impairment charge	(2,140,639)	-
Other expenses	(324,570)	(1,501,590)
Depreciation	(193)	(217)
Net foreign exchange loss	(3,773,757)	(8,061,446)
Net other expenses	(2,375,442)	(5,671,705)

Gross rental income (in US\$)		
	30.06.2014	30.06.2013
Petrovsky Fort	3,503,747	3,383,734
Magistral'naya	460,234	663,035
Total	3,963,981	4,046,769
Net rental income (in US\$)		
	30.06.2014	30.06.2013
Petrovsky Fort	3,649,398	3,300,467
Magistral'naya	474,037	474,095
Total	4,123,435	3,774,562

WHAT CHANGED?

- Moderate increase in Net rents

LOAN IMPAIRMENT CHARGE

in US\$	30.06.2014	30.06.2013
Rental income		
Gross rental income	3,963,981	4,046,769
Ground rents paid	(170,654)	(227,610)
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Depreciation	(193)	(217)
Net foreign exchange loss	(3,773,757)	(8,061,446)
Net other expenses	(2,375,442)	(5,671,705)

WHAT CHANGED?

- Turgenevskaya parking valuation decreased due to more conservative assumptions to income increase and the selling price for parking lots
- As a result the loans granted to Inkonika were impaired down to the amounts recoverable by Inkonika's asset

NET FOREIGN EXCHANGE LOSS

in US\$	30.06.2014	30.06.2013
Rental income		
Gross rental income	3,963,981	4,046,769
Ground rents paid	(170,654)	(227,610)
Service charge income on principal basis	1,381,967	1,191,656
Service charge expenses on principal basis	(677,030)	(767,587)
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Interest income	3,863,717	3,891,548
Loan impairment charge	(2,140,639)	-
Other expenses	(324,570)	(1,501,590)
Depreciation	(193)	(217)
Net foreign exchange loss	(3,773,757)	(8,061,446)
Net other expenses	(2,375,442)	(5,671,705)

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.
- The loss is primarily caused by the currency impact on the loans

LOSS FROM FAIR VALUE ADJUSTMENT ON IP

in US\$	30.06.2014	30.06.2013
Valuation movements		
Net gain from fair value adjustment on financial investments	237,202	416,338
Net (loss)/ gain from fair value adjustment on investment properties	(7,326,361)	1,161,834
Net valuation movements	(7,089,159)	1,578,172
Development property reverse of impairment	-	512,623
Net operating loss before finance cost	(8,012,489)	(2,046,849)
Finance costs	(1,099,062)	(1,532,750)
Share of associates' profits	1,451,268	2,803,911
Loss before taxes	(7,660,283)	(775,688)
Income taxes	14,896	1,840,266
Net (loss) / profit for the period	(7,645,387)	1,064,578

in US\$	30.06.2014	30.06.2013
Net gain/ (loss) from fair value adjustment on investment properties		
A. Petrovsky Fort	(6,120,000)	120,000
B. Magistral'naya	(190,000)	(170,000)
C. Arbat Multi-use Complexes	483,639	1,211,834
D. "Scandinavia" Land plots in St. Petersburg	(1,500,000)	-
Total	(7,326,361)	1,161,834

WHAT CHANGED?

- Petrovsky Fort: decreased due to yield increase and reallocation between the areas designated for office and storage
- Arbat: increase due to construction progress
- Scandinavia: decreased due to more conservative assumptions used

SHARE OF ASSOCIATES' PROFITS

in US\$	30.06.2014	30.06.2013
Valuation movements		
Net gain from fair value adjustment on financial investments	237,202	416,338
Net (loss)/ gain from fair value adjustment on investment properties	(7,326,361)	1,161,834
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Share of associates' profits	1,451,268	2,803,911
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Income taxes	14,896	1,840,266
Net (loss) / profit for the period	(7,645,387)	1,064,578

in US\$	30.06.2014	30.06.2013
EPH Real Estate	406,511	1,018,564
Connecta KG	1,044,757	1,785,347
Vestive	-	-
Hypercenter Investment SA	-	-
	1,451,268	2,803,911

WHAT CHANGED?

- In 1h 2014 NAV of Connecta KG and EPH RE increased due to good performance of both properties

NAV BY ASSETS

Asset	Balance Sheet value
Berlin House (10%)	\$15,275,037
Geneva House (10%)	\$14,702,792
Arbat Projects (60%)	\$176,647,280
Magistralnaya (100%)	\$8,915,719
Petrovsky Fort (100%)	\$23,009,663
Scandinavia land plots (100%)	\$9,602,358
Inkonika Parking Projects (50%)	\$10,441,390
Other Assets and Liabilities	-\$11,514,118
TOTAL NAV	\$247,080,121
NAV per share	\$57.96