

# SEMI ANNUAL REVIEW 2015

EASTERN PROPERTY HOLDINGS





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# 01 MANAGEMENT REPORT



# MANAGEMENT REPORT

# STATEMENT OF THE BOARD OF DIRECTORS

## DEAR SHAREHOLDERS

In 2014, Eastern Property Holdings has significantly increased its investment properties base, from US\$ 100 million to US\$ 750 million. Therefore, in the first half year of 2015, the Company's focus was placed on the integration of the acquired properties: Berlin House, Geneva House, Polar Lights and Hermitage Plaza. Being successfully integrated in the organisational structure of the Group, the properties already until mid-year 2015 have made a significant contribution to the increase in the Group's operational performance: Increase in the net rental income from US\$ 4 million in the first half of 2014 to US\$ 38 million in the first half of 2015.

Another major event in the first six months of 2015 was the streamlining of the Group's external financing structure. In the beginning of June 2015, EPH subsidiaries have repaid several third party loan facilities and have replaced them with another successful bond issue at a lower interest rate.

In terms of corporate governance, EPH has changed the composition of the Company's Management Committee. In order to improve the efficiency and to strengthen the know-how of the Group's management three new members from different backgrounds have been appointed to the Management Committee. Further, in the beginning of September, EPH was able to renegotiate its management agreement with Valartis International potentially decreasing the annual fee to be paid by more than US\$ 1 million. Details on the Management Committee members and the management agreement are described on pages 6 & 7 of this report.

Although in the first half of 2015 the Russian economy as well as the property market further suffered from the political and economic developments, especially in terms of oil prices, not only we but also our external experts believe that the investments we have made offer exceptional potential for appreciation in the mid-term.

Our belief in regards to the real estate industry that "good times do not last forever, and every difficult period will inevitably be followed by a recovery" is based on our past experience in the real estate business in Russia. Discussions with market experts who believe that the downward trend will find its end and the exceptional quality of our recently acquired investment property portfolio with stable income and cash flows allows us to have an optimistic view of the future and the opportunities it should present.

Rather than reprint a large amount of information found in our Annual Report for the Semi Annual Review, we have opted to focus on what has changed during the period under review in this report, and include static background information only as necessary. If you are looking at Eastern Property Holdings for the first time, or perhaps for the first time in some years, please be sure to also have the 2014 Annual Report on hand. You will find it on the Company's website, or a printed copy will be sent to you by request.

Sincerely,

The Board of Directors  
September 2015

# 6 MANAGEMENT REPORT

## CORPORATE GOVERNANCE

This section contains parts of the annual corporate governance report focusing on significantly changed matters since 31 December 2014.

### MANAGEMENT COMMITTEE

On 21 April 2015, the Company has changed the composition of its Management Committee. Since then the Management Committee consists of five persons, whereof one member is still designated by Valartis International Ltd., the Manager. The composition of the Management Committee is in accordance with the Real Estate Management Agreement between the Company and the Manager.

As of 30 June 2015, the Management Committee is composed of the following members:

**Vera Christodoulou, Cypriot**

Management Committee Member since April 2015

Mrs. Vera Christodoulou is the Managing Director and Member of the Board of PNL Media Ltd, Capital Estate Group (C.E.G.) Ltd., EPH Real Estate Ltd. and Lexworth Finance Ltd., all subsidiaries of EPH Group. She specialises in corporate governance, operation and communications. She has over 20 years of professional experience in client relations, business development, compliance and communications in Cyprus. Mrs. Christodoulou worked in various management positions for Linebrook limited, Eurasia Capital, Mars Capital and DCS Group in Cyprus. Mrs. Christodoulou graduated from the University of Lvivska Polytechnika Ukraine in 1989 with a degree in System Engineering.

**Olga Melnikova, Russian**

Management Committee Member since September 2013

Chairman of the Board of Directors since April 2013

Mrs. Olga Melnikova is Deputy CEO at LLC Business Adviser, a legal consulting firm in Russia. Mrs. Melnikova provides its clients with full legal support both in Russia and abroad. She is specialized in the strategic planning of legal support through internal legal experts and external advisers in local or international legal environments. Besides, she provides legal support and structuring for real estate transactions in Russia and Europe. Mrs. Melnikova graduated from Moscow State University of Railway Engineering in 1991 with a degree in Engineering and Mathematics.

**Hans Messmer, German**

Management Committee Member since April 2015

Board Member since April 2013

Mr. Hans Messmer is the CIO of CAIAC Fund Management AG in Liechtenstein. Before joining CAIAC, he held management functions in various asset management companies and acted as head of business development at Baader Bank (Munich) for exchange traded products. Prior to that, he was partner and manager for CK Trading Bank (Frankfurt) and director for several public funds. Mr. Messmer started his career as registered stock broker in New York and gained a license as EUREX trader at Deutsche Börse AG. During his career he qualified as Investment Specialist for Structured Products, Hedge Fund Advisor and Commodity Advisor. He holds an academic degree as MBA of Johann Wolfgang Goethe University Frankfurt specializing in Banking and Insurance.

**Alexander Nikolaev, Russian**

Management Committee Member since September 2013

Alexander Nikolaev is responsible for execution of the Company's projects and acquisitions, and management of the Moscow-based project management and property operation teams. Mr. Nikolaev is Managing Director of Valartis Group's Russia and CIS operations. After graduating from Moscow State University for Foreign Affairs he was Head of Russian and CIS operations for Smith Management LLC, a U.S. private investment corporation. He has over fourteen years of experience in real estate development and managing investments in private and public equity.

**Christodoulos G. Vassiliades, Cypriot**

Management Committee Member since April 2015

Board Member since April 2013

Mr. Christodoulos G. Vassiliades is a lawyer and the managing director of the Cyprus law firm Christodoulos G. Vassiliades & Co LLC. He is specialized in corporate and commercial law, international tax planning, shipping, banking and private clients. After graduating from the University of Athens in 1980, Mr. Vassiliades founded the law firm, Christodoulos G. Vassiliades & Co LLC in 1984. Since then, the company has become one of the leading law firms in Cyprus. In 1999 he has been appointed Honorary Consul of Belize in Cyprus.



#### REAL ESTATE MANAGEMENT AGREEMENT

The management agreement between Eastern Property Holdings Ltd. and Valartis International Ltd. is effective from 1 January 2013 and concluded for the period of four years with the possibility of prolongation for another year.

The overall management fee under the Real Estate Management Agreement consists of separate payments for each of the specific services provided. Under the agreement, the annual fixed management fee in respect to property management, investor relations and administrative services amounts to approximately US\$ 1,470,000. The variable fees payable to the Manager amount for Turgenevskaya property management to the higher of US\$ 70,000 or 15% of the annual net operating income and for Arbat development and sales services to 1.5% of the annual Arbat NAV.

In September 2015, the fee to be paid to the Manager has been adjusted. After completion of Arbat construction the variable fee relating to Arbat maintenance and sales will be replaced by a fixed fee to be determined based on market terms.



Our Property Holdings are reflected on our 30 June 2015 balance sheet as Investment Property, Investment Property Held for Sale and Assets under Development.

### Berlin House

Berlin House is exclusively located in the heart of Moscow - on one of the most prominent shopping streets - and was completed and leased in 2002. The property is currently 100% occupied. The major tenants are Richemont Group, Apple and Thomson Reuters. In August 2014, EPH re-acquired 90% stake in Berlin House, becoming its 100% owner.

### Geneva House

Geneva House is located next to Berlin House and was completed by EPH in 2010. The majority of the lease agreements have been signed in 2010 and 2011. Due to the exceptional design, location and quality, Geneva House is fully occupied now. The major tenants are Merrill Lynch, Chanel, Akin Gump and S7 Airlines. In August 2014, EPH re-acquired 90% stake in Geneva House, becoming its 100% owner.

### Polar Lights

Polar Lights, a B+ class business center, has a beneficial location in one of the most developed business districts in the North of Moscow, inside the Third Transport Ring Road, and an efficient tenant mix of international and Russian companies: BNP Paribas, Heineken, Moët Hennessy, Omron and Rosagroleasing. The building has been constructed in 2006 with 14 above ground levels and was fully renovated in 2012. The vacancy rate as of 30 June 2015 is 7%. EPH acquired 100% of Polar Lights in September 2014.

### Hermitage Plaza

Hermitage Plaza is an A-class office building constructed / renovated in 2006. The property is beneficially located in proximity to the Kremlin area and is fronting the Moscow Garden Ring. 99% of the leasable area is rented to Vypelcom, one of the leading Russian telecommunication companies. EPH acquired 100% of Hermitage Plaza in December 2014.

### Turgenevskaya Parking

The Turgenevskaya Parking property in Moscow, which is 50%-owned by the Company through its Vestive joint venture, opened in January 2012. The property has stable Rouble-denominated income from mid-term and hourly rentals to individuals and corporate clients.

### Magistral'naya

EPH's Magistral'naya Class-B office property in Moscow is leased till March 2022 to a single tenant, the Gazprom subsidiary "Gazprom Geotekhnologii". The lease agreement is subject to annual indexation and compensation of operating expenses, although is fixed in Roubles.

### Arbat Projects

In 2015, the Company continues the development of the Arbat mixed-use residential, office and retail projects in the historic Arbat district of Moscow. The full completion of construction of both buildings is scheduled by the end of 2015, while certain remaining fit-out works will be performed in 2016. First apartments have already been sold. Due to the high profile location, and the design of the project, which does feature large well-lit living areas and sizeable terraces, the apartment premises in the buildings will be of elite standing. The Company owns 60% of these mixed-use developments.

### Scandinavia Land

Scandinavia land site is located near St. Petersburg, Russia. After the sale of 48 hectares in 2014 the Group still owns 55 hectares, which are intended to be sold.

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## PROPERTY REVIEW

The following table provides a breakdown of appraised values of the investment and development properties at the end of June 2015 which EPH owns in full or in part. Please note that the appraised values are shown for 100% of each asset, including for those properties in which EPH's stake is lower, and the carrying values are shown for the Group's stake in the asset.

	Appraised Value * in US\$	Valuation movement in the period in US\$	Group's stake Carrying Value in US\$	Equivalent yield in %
<b>Rental Properties</b>				
Geneva House *	149,020,000	-4,000,000	149,020,000	9.50%
Berlin House *	142,680,000	-980,000	142,680,000	9.75%
Polar Lights *	141,110,000	-9,060,000	141,110,000	10.50%
Hermitage Plaza *	266,270,000	-8,900,000	266,270,000	9.25%
Magistral'naya *	5,365,000	-79,000	5,365,000	12.25%
Inkonika / Turgenevskaya *	8,900,000	-300,000	4,450,000	n/a

\* Valuation based on Income Approach

	Appraised Value * in US\$	Valuation movement in the period in US\$	Group's stake Carrying Value in US\$
<b>Development Projects</b>			
Arbat Multi-Use I *	86,200,000	-1,400,000	48,526,696
Arbat Multi-Use II *	72,600,000	2,200,000	41,284,000
Scandinavia * - land held for sale	4,300,000	- **	4,300,000

\* Valuation based on Residual Value Approach

\*\* The value of a land held for sale is supported by an offer from an independent buyer

Location, Address	State of Project	Projected Completion	Purchase Date	Holding Company	Ownership Percentage
<b>Development Properties</b>					
<b>Arbat Multi-Use I, Moscow</b>	<b>In construction since October 2005</b>				
Mixed use development, Residential and Retail	The project, located in the old town of Moscow, will include retail, office, theatre, and luxury apartment space, consists of approx. 27,000 sqm gross building area on a site area of 3,700 sqm.	2015	July 2007	Vakhtangov Place Ltd.	60%
<b>Arbat Multi-Use II, Moscow</b>	<b>In construction since 2012</b>				
Mixed use development, Residential and Retail	The second project, located near the first, consists of approx. 11,500 sqm of gross building area on a site area of 2,850 sqm and will also consist of retail space and luxury apartments.	2015	Jul 2007/ Dec 2007	Vakhtangov Place Ltd.	60%
<b>Scandinavia Land Site, St. Petersburg region</b>	<b>Land held for sale</b>				
Land site close to St. Petersburg zoned for residential development	55 hectares of land located 22 kms from St. Petersburg, near the "Scandinavia" highway which connects St. Petersburg and Helsinki, Finland. The land borders the Sestra River, and is correctly zoned for development.	open	Aug 2007/ Jan 2008	Philadelphia Ltd.	100%

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## PROPERTY REVIEW

	Building Area m <sup>2</sup>	Office Area (NLA m <sup>2</sup> )	Retail Area (NLA m <sup>2</sup> )	Total Rentable Area m <sup>2</sup>
<b>Investment Properties</b>				
<b>Location, Address</b>				
Berlin House, 5 Petrovka Street, Moscow	13,381	5,016	2,336	7,352
Geneva House, 7 Petrovka Street, Moscow	16,455	7,930	1,917	9,847
Polar Lights, 26 Pravyd Street, Moscow	37,815	26,473	1,642	28,115
Hermitage Plaza, 2/4 Krasnoproletarskaya Street, Moscow	40,216	32,363	386	32,749
Magistral'naya Buildings, 1st Magistralnaya Street 11/2, Moscow	3,552	2,546	n/a	3,099
Turgenevskaya Parking, 3/1 Turgenevskaya Ploshad, Moscow	10,132	n/a	n/a	n/a

\* percentage of net rentable area

Parking Spaces	Vacancy Rate % *	Year of Construction	Year of Renovation	Purchase Date	Owning Entity	Ownership Percentage
62	0%	2002	n/a	Aug 2014	Connecta GmbH & Co KG	100%
127	0%	2010	n/a	Aug 2014	EPH Real Estate Ltd via 000 EPH One	100%
161	7%	2006	2012	Sep 2014	PNL Media Ltd via 000 Tengri	100%
284	0%	1937; 2006	2006	Dec 2014	Capital Estate Group Ltd via JSC Tizpribor	100%
39	0%	1966; 1994	2003-2007	Oct 2007	Housefar Ltd via 000 Inspetstroy	100%
300	n/a	2012	n/a	Mar 2008	Vestive Ltd via 000 Inkonika	50%





# 02 EXTERNAL REPORTS

# 16 EXTERNAL REPORTS REPORT FROM THE PRINCIPAL EXTERNAL VALUER



Jones Lang LaSalle LLC

2 Letnikovskaya St., Bldg. 1, Moscow 115114

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14 September 2015

Jones Lang LaSalle LLC has been instructed to prepare valuation reports regarding the following properties:

Parking on Turgenevskaya (Moscow)

Magistral'naya office building (Moscow)

Arbat 24 development (Moscow)

Arbat 39 development (Moscow)

Geneva House office building (Moscow)

Berlin House office building (Moscow)

Polar Lights office building (Moscow)

Hermitage Plaza office building (Moscow)

We understand that the reports are required for accounting purposes. The date of valuation: 30 June 2015.

Our valuation has been carried out in compliance with the requirements of RICS Valuation - Professional Standards January 2014.

Market Value is defined by the RICS Valuation - Professional Standards as *'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'*

In addition, our calculations have been carried out and are presented exclusive of VAT. Our reports summarise our key assumptions, estimations and conclusions used in arriving at our opinion of Market Value. The purpose of the reports is to present the basic facts and conclusions adopted in relation to the properties in arriving at our opinions.

Finally, and in accordance with our normal practice, we confirm that the reports are confidential to the party to whom they are addressed for the specific purpose to which they refer. No responsibility whatsoever is accepted to any third party and neither the whole of the reports, nor any parts, nor references thereto, may be published in any document, statement or circular, nor in any communication with third parties without our prior written approval of the form and context in which it will appear.

**Yours faithfully**

A handwritten signature in black ink, appearing to read 'Tim Millard', is written over a light grey circular stamp.

**Tim Millard MRICS**

**Regional Director**

**For and on behalf of JLL**

# INDEPENDENT AUDITOR'S REPORT



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To the Board of Directors of

**Eastern Property Holdings Limited, Tortola, British Virgin Islands**

Zurich, 22 September 2015

## **Report on the review of the condensed consolidated interim financial information**

### *Introduction*

We have reviewed the accompanying interim condensed consolidated financial report (interim condensed consolidated statement of financial position, interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of cash flow, interim condensed consolidated statement of changes in equity and selected notes to the interim condensed consolidated financial information) (pages 20 to 41) of Eastern Property Holdings Limited for the period from 1 January 2015 to 30 June 2015. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" and article 17 of the Directive on Financial Reporting (DFR) of the SIX Swiss Exchange. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" and article 17 of the Directive on Financial Reporting (DFR) of the SIX Swiss Exchange.

Ernst & Young Ltd

Stefan Marc Schmid  
Swiss Certified Accountant  
(Auditor in charge)

Philipp Bertschinger  
Swiss Certified Accountant



# 03 FINANCIAL REPORT

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## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in US\$	Note *	30.06.2015	31.12.2014
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	6	725,283,175	749,707,046
Goodwill		45,621,368	45,621,368
Loans and receivables	9	77,957,479	74,216,663
Deferred tax assets	12	8,362,641	8,380,577
Furniture and equipment		141,316	142,369
<b>Total non-current assets</b>		<b>857,365,979</b>	<b>878,068,023</b>
<b>Current assets</b>			
Cash & cash equivalents	10	36,919,143	26,460,024
Assets under development	8	73,688,696	66,896,144
Accounts receivable		1,722,991	1,703,781
Loans and receivables	9	1,168,389	1,207,334
Advance payment		852,897	1,074,650
Prepaid taxes		1,809,859	3,713,451
<b>Total current assets</b>		<b>116,161,975</b>	<b>101,055,384</b>
Investment property held for sale	6	4,300,000	4,300,000
<b>Total assets</b>		<b>977,827,954</b>	<b>983,423,407</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	11	420,559,294	401,456,510
Deferred tax liabilities	12	120,744,338	126,364,886
Accounts payable and accrued expenses	13	70,004,458	67,280,955
Other non-current liabilities		15,871,261	15,364,469
<b>Total non-current liabilities</b>		<b>627,179,351</b>	<b>610,466,820</b>
<b>Current liabilities</b>			
Accounts payable and accrued expenses	13	147,226,382	156,095,550
Borrowings	11	4,579,575	7,414,992
Property tax		393,051	134,995
Financial liabilities at fair value through profit or loss		1,234,036	2,096,445
Provisions for current liabilities and charges		24,850	54,787
<b>Total current liabilities</b>		<b>153,457,894</b>	<b>165,796,769</b>
<b>Equity</b>			
Share capital		414,418,955	414,418,955
Treasury shares		-30,050,173	-30,050,173
Accumulated deficit		-111,501,027	-80,650,920
Cumulative translation adjustment		-75,677,046	-96,558,044
<b>Shareholders' equity attributable to the holders of the Company</b>		<b>197,190,709</b>	<b>207,159,818</b>
<b>Total equity and liabilities</b>		<b>977,827,954</b>	<b>983,423,407</b>
Net asset value per share		46.26	48.60

\* The notes are an integral part of these financial statements

# INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

in US\$	Note *	30.06.2015	30.06.2014
<b>Rental income</b>			
Gross rental income	14	37,392,425	3,963,981
Ground rents paid	14	-275,266	-170,654
Service charge income on principal basis	14	6,065,487	1,381,967
Service charge expenses on principal basis	14	-1,596,574	-677,030
Property operating expenses	14	-1,703,034	-50,460
Repair and maintenance costs	14	-211,252	-119,599
Non-income taxes	14	-1,503,152	-204,770
<b>Net rental income</b>	<b>14</b>	<b>38,168,634</b>	<b>4,123,435</b>
<b>Administrative expenses</b>			
Management fees	18	-1,849,351	-1,715,497
Professional and administration fees		-1,094,076	-719,174
Salaries and social charges		-101,327	-236,652
<b>Total administrative expenses</b>		<b>-3,044,754</b>	<b>-2,671,323</b>
<b>Other income/ (expenses)</b>			
Interest income		3,019,032	3,863,717
Loan impairment charge		-239,110	-2,140,639
Other expenses		-398,057	-324,570
Depreciation		-4,365	-193
Net foreign exchange loss	15	-34,215,020	-3,773,757
<b>Net other expenses</b>		<b>-31,837,520</b>	<b>-2,375,442</b>
<b>Valuation movements</b>			
Net gain from fair value adjustment on financial investments		988,369	237,202
Net loss from fair value adjustment on investment properties	6	-25,565,212	-7,326,361
<b>Net valuation movements</b>		<b>-24,576,843</b>	<b>-7,089,159</b>
<b>Net operating loss before finance cost</b>		<b>-21,290,483</b>	<b>-8,012,489</b>
Finance costs	16	-16,891,047	-1,099,062
<b>Share of associates' profits</b>		<b>-</b>	<b>1,451,268</b>
<b>Loss before taxes</b>		<b>-38,181,530</b>	<b>-7,660,283</b>
Income taxes		7,331,423	14,896
<b>Net loss for the period</b>		<b>-30,850,107</b>	<b>-7,645,387</b>
Attributable to:			
Equity holders of the Company		-30,850,107	-7,645,387
<b>Earnings per share for profit attributable to equity holders of the Company during the period</b>			
Basic and diluted		-7.24	-1.79

\* The notes are an integral part of these financial statements

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in US\$	Note *	30.06.2015	30.06.2014
<b>Net loss for the period</b>		-30,850,107	-7,645,387
<b>Other comprehensive gain/ (loss)</b>			
Other comprehensive gain/ (loss) to be reclassified to profit or loss in subsequent periods:			
Gain on currency translation differences		20,880,998	506,875
Net other comprehensive gain to be reclassified to profit or loss in subsequent periods		20,880,998	506,875
Other comprehensive gain/ (loss) not to be reclassified to profit or loss in subsequent periods:			
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
<b>Total comprehensive loss for the period</b>		-9,969,109	-7,138,512
<b>Attributable to:</b>			
Equity holders of the Company		-9,969,109	-7,138,512

\* The notes are an integral part of these financial statements



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

in US\$	Note *	30.06.2015	30.06.2014
<b>Cash flows from operating activities</b>			
Net loss for the period		-30,850,107	-7,645,387
Net foreign exchange loss	15	34,215,020	3,773,757
Net unrealised loss on investment properties	6	25,565,212	7,326,361
Loan impairment charge		239,110	2,140,639
Net unrealised gain on financial investments		-988,369	-237,202
Depreciation		4,365	193
Interest income		-3,019,032	-3,863,717
Share of associates' profits		-	-1,451,268
Finance costs	16	16,891,047	1,099,062
Income tax benefit		-7,331,423	-14,896
<b>Cash generated from operations before movements in working capital</b>		<b>34,725,823</b>	<b>1,127,542</b>
<b>Increase / decrease in receivables and payables</b>			
(Decrease) / increase in payables and other liabilities		-7,764,468	42,954
Decrease in receivables and other assets		2,106,135	2,588,141
Increase in assets under development	8	-2,604,175	-6,773,894
<b>Cash generated from / (used in) operations</b>		<b>26,463,316</b>	<b>-3,015,257</b>
Interest income received		328,619	47,244
Income tax paid		-2,683,268	-182,725
<b>Net cash generated from/ (used in) operating activities</b>		<b>24,108,667</b>	<b>-3,150,737</b>
<b>Cash flows from investing activities</b>			
Investments in investment properties	6	-749,019	-1,175,085
Loans granted to joint operation entities		-1,413,959	-2,933
Loans granted to associates		-7,468	-6,329
Proceeds from loans		-	626,006
<b>Net cash used in investing activities</b>		<b>-2,170,446</b>	<b>-558,341</b>
<b>Cash flows from financing activities</b>			
Finance costs paid		-17,366,124	-1,186,605
Proceeds from bonds		134,417,238	-
Proceeds from borrowings		-	3,180,000
Repayment of borrowings		-127,389,481	-900,000
Dividends		-	-
<b>Net cash (used in)/ generated from financing activities</b>		<b>-10,338,367</b>	<b>1,093,395</b>
<b>Net change in cash &amp; cash equivalents</b>		<b>11,599,854</b>	<b>-2,615,683</b>
Cash & cash equivalents at beginning of the period		26,460,024	6,648,367
Net loss from foreign currency translation		-1,140,735	479,702
<b>Cash &amp; cash equivalents at the end of the period</b>	<b>10</b>	<b>36,919,143</b>	<b>4,512,386</b>

\* The notes are an integral part of these financial statements

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in US\$	Share capital	Treasury shares	Accumulated deficit	Currency translation adjustment	Shareholders' equity attributable to the holders of the Company
<b>Balance as at 01.01.2014</b>	414,418,955	-30,050,173	-125,706,311	-4,443,838	254,218,633
Loss for the period	-	-	-7,645,387	-	-7,645,387
Other comprehensive gain	-	-	-	506,875	506,875
Total comprehensive (loss)/ gain for the period	-	-	-7,645,387	506,875	-7,138,512
<b>Balance as at 30.06.2014</b>	414,418,955	-30,050,173	-133,351,698	-3,936,963	247,080,121
Gain for the period	-	-	52,700,778	-	52,700,778
Other comprehensive loss	-	-	-	-92,621,081	-92,621,081
Total comprehensive gain/ (loss) for the period	-	-	52,700,778	-92,621,081	-39,920,303
<b>Balance as at 31.12.2014</b>	414,418,955	-30,050,173	-80,650,920	-96,558,044	207,159,818
Loss for the period	-	-	-30,850,107	-	-30,850,107
Other comprehensive gain	-	-	-	20,880,998	20,880,998
Total comprehensive (loss)/ gain for the period	-	-	-30,850,107	20,880,998	-9,969,109
<b>Balance as at 30.06.2015</b>	414,418,955	-30,050,173	-111,501,027	-75,677,046	197,190,709

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

The Interim Condensed Consolidated Financial Statements of Eastern Property Holdings Limited and its subsidiaries (together the "Group") for the half year ended 30 June 2015 were authorised for issue in accordance with a resolution of the directors on 22 September 2015. Eastern Property Holdings Limited (the "Company") is a limited liability company incorporated and domiciled in British Virgin Islands whose shares are publicly traded on the SIX Swiss Exchange. The registered office is located at Blenheim Trust (BVI) Limited, R.G. Hodge Plaza, Wickhams Cay 1, P.O. Box 3483, Road Town, Tortola, British Virgin Islands.

The principal activities of the Group are described in Note 4.

## 2. BASIS OF PREPARATION

The Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2015 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The Interim Condensed Consolidated Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2014.

The Interim Condensed Consolidated Financial statements are presented in US dollars ("US\$").

## 3. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year.

None of the amendments and interpretations effective as of 1 January 2015 is relevant to the Group.

### Early adoption of standards

In 2015, the Group did not early adopt any new or amended standards and does not plan to early adopt any of the issued, but not yet effective standards.

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

#### 4. SEGMENT INFORMATION

The Chief Operating Decision Maker of the Group has been identified as the Management Committee, which has been given responsibility for allocating the Group's resources between its various assets.

The Management Committee has access to detailed financial reports for all the Group's assets and evaluates the performance of each on an individual basis. Based on the shared natures of products and services, production processes, type of customer, distribution methods, and regulatory environment, the Group's assets have been aggregated into three operating segments: rental properties, development properties, and development financing and administration.

##### 1. Rental Properties which consist of:

- 100% of five commercial properties: Berlin House, Geneva House, Polar Lights, Hermitage Plaza and Magistal'naya in Moscow
- 50% of an underground parking garage: Turgenevskaya Square in Moscow

Rental Properties generate rental income and incur expenses primarily for maintenance and building operations. The Group's Rental Properties are in Russia's capital city Moscow. Except for Turgenevskaya parking, they are predominantly comprised of office space, though all, except Magistal'naya, have space dedicated to retail. The assets are kept at fair value, which is generally based on the leases in place and market-wide valuation criteria (yields, reversion rents).

The Rental Properties segment generates product or service-based recurring revenues by providing commercial premises, or in the case of Turgenevskaya, car parking space, for which rental income is received. Generally, gross and net rents for the Segment are reflected as such in both the Consolidated Income Statement and accounts presented by segment.

##### 2. Development Properties which consist of:

- 60% of joint operations to develop two mixed-use properties in Moscow: Arbat Multi-use Complexes
- 100% of a raw land plot: 55 hectare "Scandinavia" site near St. Petersburg

Development Properties generate revaluation gains and losses, also based on certain dynamics (cost and availability of financing to developers, risk appetite, stage of completion, market sales prices) which are shared by all projects, yet different from those impacting Rental Properties. The Group's Development assets are in or near Russia's two largest cities: Moscow and St. Petersburg. Development Properties reflect a mixture of properties which, when completed, will either be retained and held as Rental Properties or will be, in the course of business, held for sale (also applicable to Scandinavia land plots, see note 6).

##### 3. Development Financing and Administration which consists of:

- Loans to Vakhtangov Place Ltd., the 60%-owned joint operation company which is developing the Arbat Multi-use Complexes
- Loans to Vestive, the 50%-owned joint venture company owning parking lot developer Inkonika
- Administration expenses

Development Financing represents interest-bearing loans made for the purpose of developing real estate in Russia. All outstanding loans reflected on the Group's Consolidated Statement of Financial Position are to entities in which the Group has significant influence or owns a stake of at least 50%, but does not consolidate or does not fully consolidate, and has the ability to actively protect its interests. The loan amount reflected in the Group's accounts is that portion which is not eliminated in consolidation. Development financing generates interest income for the Group.

All of the Group's Rental Properties and Development Properties are in Russia, as are the assets securing the Group's Development Financing. Information provided to the Management Committee is measured in a manner consistent with that in the financial statements.

Revenue of the Group by operating activities for the periods is as follows:

30.06.2015				
in US\$	Rental Property	Development Properties	Development Financing and Administration	Total
Gross rental income	37,392,425	–	–	37,392,425
Other rental income/ (expenses)	776,209	–	–	776,209
Net rental income	38,168,634	–	–	38,168,634
Interest income	–	–	3,019,032	3,019,032
Loan impairment charge	–239,110	–	–	–239,110
Net foreign exchange gain/ (loss)	–41,111,343	4,173,887	2,722,436	–34,215,020
Valuation movements	–23,768,020	–808,823	–	–24,576,843
Finance costs	–16,875,723	–2,078	–13,247	–16,891,047
Income taxes	7,614,625	–281,595	–1,607	7,331,423
Other income/ (expenses)	–811,213	–1,222,537	–1,413,426	–3,447,176
<b>Net (loss) / profit for the period</b>	<b>–37,022,149</b>	<b>1,858,854</b>	<b>4,313,189</b>	<b>–30,850,106</b>

30.06.2014				
in US\$	Rental Property	Development Properties	Development Financing and Administration	Total
Gross rental income	3,963,981	–	–	3,963,981
Other rental income/ (expenses)	159,454	–	–	159,454
Net rental income	4,123,435	–	–	4,123,435
Interest income	1,367,864	–	2,495,853	3,863,717
Loan impairment charge	–2,140,639	–	–	–2,140,639
Net foreign exchange (loss)/ gain	764,434	–1,235,956	–3,302,236	–3,773,758
Valuation movements	–6,310,000	–1,016,361	237,202	–7,089,159
Finance costs	–	–	–1,099,062	–1,099,062
Share of associates' profits	1,451,268	–	–	1,451,268
Income taxes	–101,939	299,560	–182,725	14,896
Other income/ (expenses)	–307,142	–1,545,315	–1,143,628	–2,996,085
<b>Net (loss) / profit for the period</b>	<b>–1,152,719</b>	<b>–3,498,073</b>	<b>–2,994,596</b>	<b>–7,645,387</b>

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

The Management Committee also assesses the performance of operating segments based on the results of valuation of the respective assets.

### Assets and liabilities valuation as of 30.06.2015

	Rental Properties	Development Properties	Development Financing and Administration	Total
Investment properties	709,161,175	16,122,000	–	725,283,175
Investment property held for sale	–	4,300,000	–	4,300,000
Goodwill	45,621,368	–	–	45,621,368
Assets under development	–	73,688,696	–	73,688,696
Loans and receivables	8,729,767	–	70,396,101	79,125,868
Cash & cash equivalents	32,442,793	403,655	4,072,696	36,919,143
Other Assets	4,219,717	8,532,487	137,500	12,889,704
<b>Total Assets</b>	<b>800,174,820</b>	<b>103,046,837</b>	<b>74,606,297</b>	<b>977,827,954</b>
<b>Total Liabilities</b>	<b>760,868,246</b>	<b>19,499,164</b>	<b>269,836</b>	<b>780,637,245</b>

### Assets and liabilities valuation as of 31.12.2014

	Rental Properties	Development Properties	Development Financing and Administration	Total
Investment properties	732,902,846	16,804,200	–	749,707,046
Investment property held for sale	–	4,300,000	–	4,300,000
Goodwill	45,621,368	–	–	45,621,368
Assets under development	–	66,896,144	–	66,896,144
Loans and receivables	8,981,801	–	66,442,196	75,423,997
Cash & cash equivalents	23,978,846	1,331,304	1,149,874	26,460,024
Other Assets	6,386,992	8,372,568	255,268	15,014,828
<b>Total Assets</b>	<b>817,871,853</b>	<b>97,704,216</b>	<b>67,847,338</b>	<b>983,423,407</b>
<b>Total Liabilities</b>	<b>757,717,003</b>	<b>17,714,821</b>	<b>831,765</b>	<b>776,263,589</b>

## 5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these Interim Condensed Consolidated Financial Statements, the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Consolidated Financial Statements as at and for the year ended 31 December 2014.

Valuation of real estate assets, especially in the case of development projects, involves a significant number of assumptions and judgement calls by the valuers. These variables include, but are not limited to: future rent and sale price levels, amount of time needed to rent or sell space, time needed to deliver new construction, construction costs, best and highest use of an asset or space in an asset, and exchange rates. Varying any of these factors can have a material impact on valuations, and variations in a number of these factors at once can have a significant effect.

When possible, valuers make their assumptions based on available evidence. When such evidence is lacking, which is often the case in the Russian market, assumptions are based on the experience and judgement of the valuer.

The Group reviews its Loans and Receivables balances to assess impairment on a periodic basis. In determining whether an impairment loss should be recorded in the Interim Condensed Consolidated Income Statement, the Group makes judgements as to whether there is any observable data indicating an impairment trigger. Management also uses estimates in order to determine the fair value of collateral assets for calculating an impairment.

## 6. INVESTMENT PROPERTIES

in US\$	30.06.2015	31.12.2014
<b>Investment Properties</b>		
<b>Beginning of the period</b>	<b>754,007,046</b>	<b>100,140,472</b>
Acquisitions arising from business combinations	–	757,311,098
Additions from subsequent expenditure	749,019	5,664,839
Disposals	–	–57,766,569
Revaluations	–25,565,212	–49,914,029
Forex effect from land lease obligations and derivatives	265,698	–1,765,607
Interest capitalization	126,623	336,842
Total Investment Properties	729,583,175	754,007,046
Less: classified as held for sale	–4,300,000	–4,300,000
<b>End of period</b>	<b>725,283,175</b>	<b>749,707,046</b>
in US\$	30.06.2015	31.12.2014
<b>Market value as estimated by the external valuer</b>		
<b>external valuer</b>	<b>724,867,000</b>	<b>748,568,200</b>
Add: finance lease obligation recognised separately	3,482,139	3,342,401
Add: embedded derivatives recognised separately	1,234,036	2,096,445
<b>Fair value for financial reporting purposes</b>	<b>729,583,175</b>	<b>754,007,046</b>

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

Investment Properties comprise the following:

in US\$	30.06.2015	31.12.2014
<b>Investment Properties</b>		
A. Berlin House	143,022,461	144,021,921
B. Geneva House	150,007,362	153,933,742
C. Polar Lights	142,344,036	152,266,445
D. Hermitage	268,318,876	277,152,633
E. Magistral'naya	5,468,440	5,528,105
G. Arbat Multi-use Complexes	16,122,000	16,804,200
H. "Scandinavia" Land plots		
in St. Petersburg	4,300,000	4,300,000
Total Investment Properties	729,583,175	754,007,046
Less: classified as held for sale	-4,300,000	-4,300,000
<b>End of period</b>	<b>725,283,175</b>	<b>749,707,046</b>

Although the rental income generating properties are performing well, the reduction in the appraised values of the properties are caused by using more conservative assumptions by the appraiser to reflect the current Moscow real estate market.

The impact of Investment Property revaluations on the financial results of the Group is presented below on an asset by asset basis:

in US\$	30.06.2015	30.06.2014
<b>Net gain/ (loss) from fair value adjustment on investment properties</b>		
A. Berlin House	-980,000	-
B. Geneva House	-4,000,000	-
C. Polar Lights	-10,788,161	-
D. Hermitage	-8,909,228	-
E. Magistral'naya	-79,000	-190,000
F. Petrovsky Fort	-	-6,120,000
G. Arbat Multi-use Complexes	-808,823	483,639
H. "Scandinavia" Land plots		
in St. Petersburg	-	-1,500,000
<b>Total</b>	<b>-25,565,212</b>	<b>-7,326,361</b>

### RENTAL PROPERTIES

#### A. Berlin House

in US\$	30.06.2015	31.12.2014
<b>Berlin House</b>		
Beginning of the period	144,021,921	-
Acquisition of Berlin House	-	150,072,948
Revaluation	-980,000	-6,000,000
Forex effect from land lease obligations	-19,460	-51,027
<b>End of period</b>	<b>143,022,461</b>	<b>144,021,921</b>

Berlin House is a 13,400 square meter commercial property located at 5, Petrovka Street in Moscow. The building's 7,400 square meters of net rentable space is divided between 5,000 square meters of office space and 2,400 square meters of retail space. The building has 62 underground parking spaces.

As of 30 June 2015, the vacancy rate as a percentage of the total rentable area of the building was 0% (31 December 2014: 0%).

The fair value of Berlin House was determined to be US\$ 142.68 million as of 30 June 2015 (31 December 2014: US\$ 143.66 million), based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Berlin House represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (US\$ 0.34 million). The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases.



## B. Geneva House

in US\$	30.06.2015	31.12.2014
<b>Geneva House</b>		
Beginning of the period	153,933,742	–
Acquisition of Geneva House	–	165,684,411
Revaluation	–4,000,000	–11,140,000
Forex effect from land lease obligations	73,620	–610,670
<b>End of period</b>	<b>150,007,362</b>	<b>153,933,742</b>

Geneva House is a 16,500 square meter commercial property at 7, Petrovka Street in Moscow. The building has about 9,800 square meters of net rentable space, divided between 7,900 square meters of office space and 1,900 square meters of retail space. The building also has 127 underground parking spaces.

As of 30 June 2015, the vacancy rate as a percentage of the total rentable area of the building was 0% (31 December 2014: 0%).

The fair value of Geneva House was determined to be US\$ 149.02 million as of 30 June 2015 (31 December 2014: US\$ 153.02 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Geneva House represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (US\$ 0.99 million). The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases.

## C. Polar Lights

in US\$	30.06.2015	31.12.2014
<b>Polar Lights</b>		
Beginning of the period	152,266,445	–
Acquisition of Polar Lights	–	164,401,105
Additions from subsequent expenditure	739,792	–
Revaluation	–10,788,161	–11,552,678
Forex effect from derivatives	125,960	–581,982
<b>End of period</b>	<b>142,344,036</b>	<b>152,266,445</b>

Polar Lights is a B+ class business center with a total area of 37,800 square meter located at 26, Pravdy Street in Moscow. The building's 28,100 square meters of net rentable space is divided between 26,500 square meters of office space and 1,600 square meters of retail space. The building has an underground parking facility with 161 parking spaces and an above ground car park.

As of 30 June 2015, the vacancy rate as a percentage of total rentable area of the building was 7% (31 December 2014: 3%).

The fair value of Polar Lights was determined to be US\$ 141.11 million as of 30 June 2015 (31 December 2014: US\$ 150.17 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Polar Lights represents its fair value plus the adjustment for embedded derivatives (US\$ 1.23 million). The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases.

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

### D. Hermitage Plaza

in US\$	30.06.2015	31.12.2014
<b>Hermitage Plaza</b>		
Beginning of the period	277,152,633	–
Acquisition of Hermitage Plaza	–	277,152,633
Additions from subsequent expenditure	9,228	–
Revaluation	–8,909,228	–
Forex effect from land lease obligations	66,244	–
<b>End of period</b>	<b>268,318,876</b>	<b>277,152,633</b>

Hermitage Plaza is an A class business center including three buildings with a total area of 40,200 square meter located at Krasnoproletarskaya Street in Moscow. Of the net rentable space, 32,400 square meters are designated for office use and about 400 square meters for retail space. The buildings have an underground parking facility with 284 parking spaces and an above-ground car park.

As of 30 June 2015, the vacancy rate as a percentage of the total rentable area of the building was 0% (31 December 2014: 0%).

The fair value of Hermitage Plaza was determined to be US\$ 266.27 million as of 30 June 2015 (31 December 2014: US\$ 275.17 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Hermitage Plaza represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (US\$ 2.05 million). The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases.

### E. Magistral'naya

in US\$	30.06.2015	31.12.2014
<b>Magistral'naya</b>		
Beginning of the period	5,528,105	8,298,443
Revaluation	–79,000	–2,705,000
Forex effect from land lease obligations	19,335	–65,338
<b>End of period</b>	<b>5,468,440</b>	<b>5,528,105</b>

Magistral'naya is an operational Class B office complex of three buildings with a total combined area of 3,552 square meters and leasehold rights in two conjoined land plots, located in Moscow at the intersection of Zvenigorodskoye Highway and the 3rd Transport Ring Road.

As of 30 June 2015, the entire office complex, with the exception of 135 square meters, used by the Group, is let to one tenant for a 10 year lease agreement signed in March 2012.

The fair value of Magistral'naya was determined to be US\$ 5.37 million as of 30 June 2015 (31 December 2014: US\$ 5.44 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Magistral'naya represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (US\$ 0.10 million). The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases.

## PROPERTIES UNDER DEVELOPMENT

### G. Arbat Multi-use Complexes (retail and office premises)

in US\$

#### Arbat Multi-use complexes

	30.06.2015	31.12.2014
Beginning of the period	16,804,200	17,998,800
Additions from construction expenditure	–	5,664,839
Revaluation	–808,823	–7,196,281
Interest capitalization	126,623	336,842
<b>End of period</b>	<b>16,122,000</b>	<b>16,804,200</b>

The Company owns 60% of the joint operation company, Vakhtangov Place Limited (VPL), which has the rights to two construction and development projects at Arbat Street 24-26 and Arbat Street 39-41 in Moscow. The projects represent the construction of two multi-use buildings of approximately 27,000 and 11,500 square meters. The Group recognizes 60% of VPL's assets, liabilities, incomes and expenses.

The two Arbat Multi-use Complexes each contain retail/office premises and residential apartments with underground parking. Though within the same buildings, areas which will be retail/office premises are treated differently for reporting purposes than areas which will be apartments. Retail/office premises are recognised as Investment Property and carried at appraised value. Apartments, which are intended for sale, are recognised as Assets under Development and carried at cost but tested against an appraisal for impairment at each balance sheet date (Note 8).

The fair value of the retail premises was determined to be US\$ 16.12 million as of 30 June 2015 (31 December 2014: US\$ 16.80 million) based on an independent valuation prepared by Jones Lang LaSalle, which was allocated between retail and residential apartments proportionately, based on estimated future revenues. The method of valuation, which was applied by the appraiser, calculates the site value as an amount the rational, third party or hypothetical developer could afford to bid or pay for the site given the highest and best use of the asset.

## PROPERTIES CLASSIFIED AS HELD FOR SALE

### H. "Scandinavia" Land plots in St. Petersburg

in US\$

#### "Scandinavia" Land

	30.06.2015	31.12.2014
Beginning of the period	4,300,000	11,100,000
Revaluation	–	–2,330,070
Disposal	–	–4,469,930
<b>End of period</b>	<b>4,300,000</b>	<b>4,300,000</b>

The Company owned a land plot located at Leninskoye Settlement, "Pervomaiskoye Selskoye Poseleniye", Vyborgsky District, in the Leningrad Region near St. Petersburg, Russia, with a total area of 103 hectares.

As the Company considers these land plots as non-core asset, in 2014 the Company's Board of Directors approved the decision to sell Scandinavia land plots. Part of land plots with a total area of 48 hectares, were sold during 2014. The remaining part of 55 hectares, which the Company still owns, is classified as held for sale.

The fair value of these 55 hectares land plots was determined to be US\$ 4.3 million as of 31 December 2014 based on an independent valuation prepared by Jones Lang LaSalle. As of 30 June 2015 the Company did not obtain an independent third party valuation. The value of the land plots is supported by an offer from an independent buyer who purchased the first part of the land plots and is willing to buy the rest by the end of 2015.

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

### 7. FAIR VALUE MEASUREMENT – INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER DEVELOPMENT

The fair value of each Investment Property is determined by independent real estate valuation experts using recognised valuation techniques in compliance with the requirements of RICS valuation standards. These techniques comprise both the Yield Method and the Discounted Cash Flow Method within the income approach.

The determination of the fair value of Investment Property requires the use of estimates such as future cash flows from assets (including lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and letting risks) are taken into consideration when determining the fair value of investment properties under construction. Future revenue streams, inter alia, comprises contracted rent (passing rent) and estimated rental income (ERV) after the contract period. In estimating ERV, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. All these estimates are based on local market conditions existing at the reporting date.

For all investment properties that are measured at fair value, the current use of the property is considered the highest and best use. Except for Hermitage Plaza, the Group did not change the valuation techniques for its investment property during 2015.

#### Techniques used for valuing investment property

The Yield Method converts anticipated future cash flow benefits in the form of rental income into present value. This approach requires careful estimation of future benefits and the application of investor yield or return requirements. One approach to value the property on this basis is to capitalise net rental income on the basis of an Equivalent Yield, which represents the "overall" rate of return on a reversionary investment and is therefore the "weighted average" yield, reflecting the rent change and term length, adjusted for any factors not included in net rental income, such as vacancy, lease incentives, refurbishment, etc.

The Discounted Cash Flow Method involves the projection of a series of periodic cash flows either to an operating property or a development property. To these projected cash flow series, an appropriate, market-derived discount rate is applied to achieve an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross rental income less vacancy and collection losses and less operating expenses/outgoings and investment costs. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the market value of the property.

#### Investment Properties fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of investment properties by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at 30 June 2015, the Group held the investment properties carried at fair value in the statement of financial position:

In US\$	Level 1	Level 2	Level 3	30.06.2015
<b>Investment properties measured at fair value</b>				
A. Berlin House	–	–	143,022,461	143,022,461
B. Geneva House	–	–	150,007,362	150,007,362
C. Polar Lights	–	–	142,344,036	142,344,036
D. Hermitage	–	–	268,318,876	268,318,876
E. Magistral'naya	–	–	5,468,440	5,468,440
G. Arbat Multi-use Complexes	–	–	16,122,000	16,122,000
H. "Scandinavia" Land plots in St. Petersburg	–	–	4,300,000	4,300,000
<b>Total</b>	–	–	<b>729,583,175</b>	<b>729,583,175</b>

During the period ending 30 June 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

As at 31 December 2014, the Group held the investment properties carried at fair value in the statement of financial position:

In US\$	Level 1	Level 2	Level 3	31.12.2014
<b>Investment properties measured at fair value</b>				
A. Berlin House	–	–	144,021,921	144,021,921
B. Geneva House	–	–	153,933,742	153,933,742
C. Polar Lights	–	–	152,266,445	152,266,445
D. Hermitage	–	–	277,152,633	277,152,633
E. Magistral'naya	–	–	5,528,105	5,528,105
G. Arbat Multi-use Complexes	–	–	16,804,200	16,804,200
H. "Scandinavia" Land plots in St. Petersburg	–	–	4,300,000	4,300,000
<b>Total</b>	–	–	<b>754,007,046</b>	<b>754,007,046</b>

During the period ending 31 December 2014, there were no transfers between Level 1 and Level 2 fair value measurements.

The Group determines whether transfers have occurred between level in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

### Valuation techniques used to derive Level 3 fair values

The table below presents the following for each investment property:

- The fair value measurement at the end of the reporting period
- A description of the valuation techniques applied
- Quantitative information about significant unobservable inputs used in the fair value measurement

Property	Fair value as of 30.06.15	Valuation technique	Key unobservable inputs	Range (Weighted average)
				US\$ 950 - US\$ 2,260 (US\$ 1,367)
Berlin House	\$142,680,000	Income capitalisation	ERV Equivalent yield	9.75%
				US\$ 1,000 - US\$ 4,275 (US\$ 1,271)
Geneva House	\$149,020,000	Income capitalisation	ERV Equivalent yield	9.50%
				US\$ 200 - US\$ 1,194 (US\$ 500)
Polar Lights	\$141,110,000	Income capitalisation	ERV Equivalent yield	10.50%
				US\$ 416 - US\$ 725 (US\$ 724)
Hermitage Plaza	\$266,270,000	Income capitalisation	ERV Equivalent yield	9.25%
				US\$ 90 - US\$ 240 (US\$ 214)
Magistral'naya	\$5,365,000	Income capitalisation	ERV Equivalent yield	12.25%
				US\$ 500 - US\$ 1,700 (US\$ 939)
			Discount rate	13.0% - 13.5%
Arbats IP	\$16,122,000	DCF, Income capitalisation	Capitalisation rate	10.0% - 10.5%

### Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy

The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy of the entity's portfolios of investment property are:

- ERV
- Equivalent yield
- Discount rate
- Capitalisation rate

Significant increases (decreases) in the ERV in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in the discount rate/ equivalent yield/ capitalisation rate in isolation would result in a significantly lower (higher) fair value measurement.

The table below presents the sensitivity of the valuation to changes in the most significant unobservable inputs used in the fair value measurement categorized within Level 3 :

in US\$	Sensitivity used	Effect on fair value	
		Completed investment property	Investment property under construction
Decrease in ERV	5%	–22,404,000	–840,000
Increase in equivalent yield	0.25 bps	–17,927,000	–
Increase in discount rate	0.25 bps	–	–420,000
Increase in capitalisation rate	0.25 bps	–	–360,000

## 8. ASSETS UNDER DEVELOPMENT

in US\$	30.06.2015	31.12.2014
<b>Assets under development</b>		
Beginning of the period	66,896,143	101,833,883
Additions from construction expenditure	2,604,175	14,231,798
Interest capitalization	621,676	1,551,359
Forex effect	3,566,701	-50,720,897
<b>End of period</b>	<b>73,688,696</b>	<b>66,896,143</b>

ARBAT MULTI-USE COMPLEXES UNDER DEVELOPMENT  
(APARTMENT PREMISES)

The Group's 60% joint operation company, Vakhtangov Place Limited (VPL), is developing two multi-use complexes on Moscow's Arbat Street. The complexes will be composed of both retail/office space and residential apartments. As residential space in Moscow is generally sold, rather than held for rental income, the areas in the projects which are being developed as apartments are recognised as Assets under Development. Space in the same projects which will be developed as retail space, and presumably held for rental income, is being recognised as Investment Property (Note 6).

Assets under Development are kept at cost and tested against appraised values for impairment at each balance sheet date. The carrying value is thus the lower of cost or fair value. The cost of the space allocated for apartments in the Arbat Multi-use Complexes was determined to be US\$ 73.69 million as of 30 June 2015 (31 December 2014: US\$ 66.90 million).

## 9. LOANS AND RECEIVABLES

in US\$	30.06.2015	31.12.2014
<b>Loans (long term)</b>		
Vakhtangov Place Limited	68,638,613	64,681,792
Bluestone Investments	589,099	553,070
Vestive	8,729,767	8,981,801
<b>Total</b>	<b>77,957,479</b>	<b>74,216,663</b>
<b>Loans (short term)</b>		
Other	1,168,389	1,207,334
<b>Total</b>	<b>1,168,389</b>	<b>1,207,334</b>

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

### 10. CASH AND CASH EQUIVALENTS

in US\$	30.06.2015		31.12.2014	
	Valartis Bank	Others	Valartis Bank	Others
Cash at bank and in hand	3,078,500	26,340,743	71,948	18,184,361
Fiduciary deposits	–	7,499,900	833,190	7,370,525
<b>Cash and cash equivalents</b>	<b>3,078,500</b>	<b>33,840,643</b>	<b>905,138</b>	<b>25,554,886</b>
<b>Total</b>		<b>36,919,143</b>		<b>26,460,024</b>

### 11. BORROWINGS

in US\$	30.06.2015	31.12.2014
<b>Borrowings (long term)</b>		
Bonds issued	403,322,609	268,832,935
Reneas Finance Limited	–	64,937,349
Narya Enterprises Limited	–	51,197,840
Jilford Investments Limited	17,236,685	16,488,386
<b>Total</b>	<b>420,559,294</b>	<b>401,456,510</b>

<b>Borrowings (short term)</b>		
Bonds interest accrued	4,487,813	4,711,667
Reneas Finance Limited	–	1,774,421
Narya Enterprises Limited	–	841,608
Other	91,762	87,296
<b>Total</b>	<b>4,579,575</b>	<b>7,414,992</b>

In June 2015 the Company performed a bond placement for the total amount of US\$ 135.00 million with a 7.25% annual interest rate maturing in 2024, with an issue price of 100% of the principal amount. The proceeds from the bond placement were used to repay the borrowings from Reneas Finance Ltd and Narya Enterprises Ltd.

Bonds are measured at amortised cost using the effective interest rate (EIR). Amortised cost is calculated by taking into account transaction costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

The information on all three bond placements performed by the Company is presented in the table:

	Nominal value, US\$	Nominal interest rate	Maturity date
Bonds issued in Aug 2014	140,000,000	5.5%	Aug 2023
Bonds issued in Sep 2014	130,000,000	5.5%	Sep 2023
Bonds issued in Jun 2015	135,000,000	7.25%	Jun 2024



## 12. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities reflected in the financial statement are:

in US\$	Consolidated statement of financial position	
	30.06.2015	31.12.2014
<b>Deferred tax assets</b>		
Losses available for offset against future taxable income	8,362,641	8,380,577
<b>Deferred tax liability</b>		
Revaluation of investment property to fair value	-120,744,338	-126,364,886
<b>Reflected on the statement of financial position as follows</b>		
Deferred tax assets	8,362,641	8,380,577
Deferred tax liability	-120,744,338	-126,364,886
<b>Deferred tax liabilities net</b>	<b>-112,381,697</b>	<b>-117,984,309</b>

Tax losses have been recognised as a Deferred Income Tax Asset as it is probable that taxable profit will be available against which the unused tax losses can be utilised. As of 30 June 2015, the available tax losses capable of being carried forward can be offset against taxable profits. Generally tax losses can be offset within 10 years starting from the year of recognition. The oldest losses refer to 2009 thus they can be offset before 2019.

Deferred tax liabilities represent temporary differences resulting from excess of Berlin House, Geneva House, Polar Lights and Hermitage Plaza fair values over their tax values.

Deferred tax liability on an asset by asset basis:

in US\$	30.06.2015	31.12.2014
<b>Deferred tax liabilities due to revalua- tion of investment properties</b>		
Berlin House	-25,168,999	-25,596,564
Geneva House	-21,413,455	-22,951,770
Polar Lights	-25,201,194	-27,054,563
Hermitage	-48,960,690	-50,761,989
<b>Total</b>	<b>-120,744,338</b>	<b>-126,364,886</b>

## 13. ACCOUNTS PAYABLE

in US\$	30.06.2015	31.12.2014
<b>Accounts Payable (long term)</b>		
Deferred part of the purchase price of Polar Lights	43,468,728	41,802,992
Contingent consideration of the purchase price of Hermitage Plaza	26,535,730	25,477,963
<b>Total</b>	<b>70,004,458</b>	<b>67,280,955</b>
<b>Accounts Payable (short term)</b>		
Deferred part of the purchase price of Hermitage Plaza	100,869,411	100,869,411
Deferred part of the purchase price of Berlin House and Geneva House	31,293,568	31,293,568
Due to other 3rd parties	13,176,483	22,982,627
Due to Valartis (Note 18)	1,886,920	949,944
<b>Total</b>	<b>147,226,382</b>	<b>156,095,550</b>

The calculation of contingent consideration as of 30 June 2015 is based on the same assumptions as for year end 2014 as key performance indicators of Hermitage Plaza did not change as of the reporting date.

Deferred part of the purchase price of Berlin House and Geneva House is pledged by 4,500 shares (45% of shares) of EPH Real Estate Limited, deferred part of the purchase price of Polar Lights is pledged by 600 shares (app. 30.0% of shares) of PNL Media Limited and deferred part of the purchase price of Hermitage Plaza is pledged by 47,000 shares (50% of shares) of Capital Estate Group Limited.

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

### 14. GROSS AND NET RENTAL INCOME

The breakdown of Net Rental Income on an asset by asset basis is presented below:

	30.06.2015						
in US\$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	Magistral'naya	Petrovsky Fort	Total
Gross rental income	8,424,661	8,137,804	7,970,428	12,550,676	308,855	–	37,392,425
Ground rents paid	–17,022	–47,903	–66,528	–122,916	–20,897	–	–275,266
Service charge income on principal basis	1,195,862	1,010,315	1,522,996	2,203,044	133,271	–	6,065,487
Service charge expenses on principal basis	–331,822	–345,662	–521,952	–307,458	–89,680	–	–1,596,574
Property operating expenses	–16,824	–13,299	–664,028	–1,007,611	–1,273	–	–1,703,034
Repair and maintenance costs	–38,817	–	–10,986	–161,449	–	–	–211,252
Non-income taxes	–390,689	–502,080	–529,234	–77,718	–3,431	–	–1,503,152
<b>Net rental income</b>	<b>8,825,348</b>	<b>8,239,175</b>	<b>7,700,696</b>	<b>13,076,569</b>	<b>326,845</b>	<b>–</b>	<b>38,168,634</b>

	30.06.2014						
in US\$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	Magistral'naya	Petrovsky Fort	Total
Gross rental income	–	–	–	–	460,234	3,503,747	3,963,981
Ground rents paid	–	–	–	–	–9,183	–161,471	–170,654
Service charge income on principal basis	–	–	–	–	201,916	1,180,051	1,381,967
Service charge expenses on principal basis	–	–	–	–	–143,675	–533,355	–677,030
Property operating expenses	–	–	–	–	–1,859	–48,601	–50,460
Repair and maintenance costs	–	–	–	–	–27,631	–91,968	–119,599
Non-income taxes	–	–	–	–	–5,765	–199,005	–204,770
<b>Net rental income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>474,037</b>	<b>3,649,398</b>	<b>4,123,435</b>

### 15. NET FOREIGN EXCHANGE LOSS

in US\$	30.06.2015	30.06.2014
<b>Net gain/ (loss) from foreign currency translation</b>		
Third party loans	–5,187,264	–1,149,948
Intercompany loans	6,935,165	–5,697,597
Berlin House	–7,510,210	–
Geneva House	–8,056,564	–
Polar Lights	–8,022,228	–
Hermitage Plaza	–14,521,977	–
Magistral'naya	–285,407	274,715
Arbat Multi-use Complexes investment property	–621,568	467,808
"Scandinavia" Land plots in St. Petersburg	–222,634	414,281
Petrovsky Fort	–	2,144,624
Other	3,277,667	–227,640
<b>Total</b>	<b>–34,215,020</b>	<b>–3,773,757</b>

### 16. FINANCE COSTS

in US\$	30.06.2015	30.06.2014
Interests on bonds issued	8,208,623	–
Interest on loans payable	5,752,870	–
Interest on bank loans	–	892,788
Bank charges	200,414	198,928
Other finance cost	2,729,140	7,346
<b>Total</b>	<b>16,891,047</b>	<b>1,099,062</b>

### 17. SHAREHOLDERS' EQUITY

#### AUTHORISED CAPITAL

Art. 5 of the Company's Memorandum of Association, as amended by the resolutions passed at the Extraordinary Shareholders Meeting of 29 June 2004, 19 November 2004, 7 March 2005, the General Meeting of Members of 16 May 2006, 3 May 2007, 24 June 2008, the Extraordinary Shareholders Meeting of 15 April 2013 and Shareholders Meeting of 17 June 2014 provides for an authorised capital which entitles the Board of Directors to issue a total of 11,000,000 registered ordinary shares without par value and 1,000,000 registered Series A preferred shares without par value.

## 18. RELATED PARTIES

The financial statements include the financial statements of the Company and its subsidiaries and joint operations. The Company's holdings in subsidiaries and joint operations are listed in the following table:

Name of subsidiary	Incorporated in	% Holding	
		30.06.2015	31.12.2014
Eastern Property Partners II LP	Grand Cayman, Cayman Islands	100%	100%
Housefar Limited	Limassol, Cyprus	100%	100%
Idelisa Limited	Limassol, Cyprus	100%	100%
Silverlake Limited	Limassol, Cyprus	100%	100%
Whiterock Investments Limited	Limassol, Cyprus	100%	100%
Redhill Investment Limited	Limassol, Cyprus	100%	100%
Connecta Gmbh & Co. KG	Frankfurt am Main, Germany	100%	100%
EPH Real Estate Limited	Limassol, Cyprus	100%	100%
PNL Media Limited	Limassol, Cyprus	100%	100%
Capital Estate Group Limited	Limassol, Cyprus	100%	100%
T&A Services Limited	Tortola, BVI	100%	100%
Lexworth Finance Limited	Limassol, Cyprus	100%	100%
<b>Joint operations</b>			
Vakhtangov Place Limited	Limassol, Cyprus	60%	60%
Bluestone Investments Limited	Limassol, Cyprus	60%	60%

The Company owns 50% of Vestive, 25.9% of Hypercenter Investment SA and 10% of Sarnatus Trading Limited.

Valartis International Ltd. is General Partner of EPP II LP; and in this capacity owns a nominal interest in the partnership, though its value is not material. As such, each of the companies named above is to be considered as related party. The Group's transactions with these companies in the period under review, subsequent to the period's close, and planned in the future are described in corresponding notes.

The real estate activities of the Company are managed by Valartis International Ltd, a subsidiary of Valartis Group AG. Employees of Valartis Group are members of the Management Committee and Board of Directors of the Company.

The following contractual agreements exist in place between the Group and Valartis International Limited under which management fee is charged:

- Valartis International Ltd has a real estate management agreement with EPH
- Valartis International Ltd has property management agreements in place with Inkonika LLC (Turgenevskaya parking), Connecta KG (Berlin House) and EPH One LLC (Geneva House)

The Group's related party balances as of 30 June 2015 and 31 December 2014 consisted of the following:

in US\$	30.06.2015	31.12.2014
Loans and receivables (joint operation and joint venture)	77,957,479	74,216,663
Accounts receivable (other related party)	265,254	265,796
Cash & cash equivalents (other related party)	3,078,500	905,138
Accounts payable (other related party) and accrued expenses	1,886,920	949,944

The Group's transactions with related parties for the period ended of 30 June 2015 and 2014 consisted of the following:

in US\$	30.06.2015	30.06.2014
Gross rental income (other related party)	316,207	–
Management fees (other related party)	–1,849,351	–1,715,497
Interest income (joint operation and joint venture)	2,681,986	3,816,473
Finance costs (other related party)	–475	–113,300

## 19. SEASONALITY OF INTERIM OPERATIONS

The Group's operating income is due to rent income from real estate assets, or interest income from loans and cash on deposit. While operations are subject to long-term cyclical patterns in rent and interest rates, Management of the Group does not believe interim operations are subject to seasonality.

## 20. SUBSEQUENT EVENTS

- On 5 August 2015, the Company fully repaid the deferred part of the purchase price for Berlin House acquisition in amount of US\$ 18.96 million.
- On 4 September 2015, the Company fully repaid the deferred part of the purchase price for Geneva House acquisition in amount of US\$ 12.31 million.

# 42 GENERAL INFORMATION

## CORPORATE DETAILS

### BOARD OF DIRECTORS

Olga Melnikova  
Michael Cuthbert  
Tomasz Dukala  
Hans Messmer  
Gustav Stenbolt  
Christodoulos G. Vassiliades

### DOMICILE

Eastern Property Holdings Limited  
R.G. Hodge Plaza, Wickhams Cay 1  
P.O. Box 3483  
Road Town, Tortola  
British Virgin Islands

### AUDITORS

Ernst & Young AG  
Maagplatz 1  
Postfach  
CH-8010 Zürich  
Switzerland  
(since June 2010)

### SECURITY NUMBER

1673866

### ISIN NUMBER

VGG290991014

### REAL ESTATE MANAGER

Valartis International Limited  
Vanterpool Plaza, 2nd Floor  
Wickhams Cay 1  
Road Town, Tortola  
British Virgin Islands (since January 2010)

### TICKER SYMBOL

EPH

### COMPANY WEBSITE

[www.easternpropertyholdings.com](http://www.easternpropertyholdings.com)

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CONCEPT AND DESIGN

Schrägstrich Kommunikationsdesign, Zurich, Switzerland

