EPH EASTERN PROPERTY HOLDINGS

SEMI ANNUAL REVIEW 2014

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DEAR SHAREHOLDERS

In the first half year 2014, Eastern Property Holdings' focus was further set on the development of its most promising projects, ARBAT I and ARBAT II. The completion of ARBAT I, the more advanced of the two projects, is expected by the end of 2014 whereas the sale of apartments already started in the fourth quarter 2013 (www.turandot-residence.com). In respect to the second project, under-ground works are finished and the above-ground works are developing well. The finalization of the second project is expected in 2015.

Based on the decision of the Company to focus EPH's investments on incoming producing properties, primarily in Moscow but also in Europe's capitals, the investment policy of the Company has been adapted in August – now also including Europe as investment geography.

In-line with the new strategy, we decided to identify promising income producing properties for a potential acquisition while disposing off non-core assets. In the beginning of August and September, EPH sold two parts of its undeveloped property Scandinavia Land. In addition, the Company reacquired the 90% stakes in Berlin House and Geneva House, both located on one of the most prominent shopping streets in Moscow. In order to be able to acquire Berlin House and Geneva House, we are proud to announce that EPH has successfully placed fixed rate senior bonds in the amount of USD 140 million by the end of August 2014.

Also in the second half year 2014, EPH will focus on the identification of promising assets in Moscow and Europe's capitals for a potential acquisition.

Unfortunately, also in the first half year 2014, the Company recognized a net loss, again mainly due to FX impact on loans that resulted from a weakening Russian Ruble against US Dollar as well as the impairment of Petrovsky Fort and the impairment of loans in respect to Inkonika. On the other hand, the development properties ARBAT I & ARBAT II developed favorably. Based on the construction progress the fair value of both properties increased.

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 2013 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 2014

PROPERTY REVIEW

Our Property Holdings are reflected on our 30 June 2014 balance sheet as Investment Property, Investment Property held for sale, Assets under Development and Investments in Associates.

Arbat Projects

The Company's focus in 2014 remains on the construction of the Arbat mixed-use residential, office and retail projects. The full completion of the first, more advanced of the two projects, including the theatre part, is expected by the end of 2014. The sale of apartments started in the fourth quarter 2013. In respect to the second project, under-ground works are finished and the above-ground works are developing well. Finalization of the second project is expected in 2015.

Berlin House

Berlin House is located in the city centre 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, Thomson Reuters. At the end of June 2014, EPH continued to own a 10% stake in Berlin House.

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 today. The major tenants are Merrill Lynch, Chanel, Akin Gump, S7 Airlines. At the end of June 2014, EPH continued to own a 10% stake in Geneva House.

Turgenevskaya Parking

The Turgenevskaya Parking property in Moscow, which is 50%-owned by the Company through its Vestive joint venture, opened in January 2012. Although initial demand has been disappointing, internal actions (including optimization of expenses) together with the measures taken by the City (significantly higher parking fines, introduction of payments for outside parking in the City center) lead to gradual increase of occupancy rates and improvement of the project cash position.

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 Geotechnologii". The lease agreement is subject to annual indexation and compensation of operating expenses.

Petrovsky Fort

Petrovsky Fort business center in St. Petersburg is rented to local Russian and international tenants. Occupier demand is strong due to the combination of an excellent location with the flexibility to rent small offices which are required in the market. As a result, the vacancy rate was at a low level of 3% with slight variances during the period.

Scandinavia Land

Scandinavia land site is located near St. Petersburg, Russia, with a total area of 103 hectares. On 23 May 2014, the Company's Board of Directors approved the decision to sell Scandinavia land plots. On 15 August 2014, the Group sold one part of the site with an area of 24.27 ha. On 11 September 2014, EPH signed an agreement in respect to the sale of the second part of Scandinavia land plots.

PROPERTY REVIEW

The following table provides a breakdown of appraised values of the investment and development properties at the end of June 2014 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$	Net initial yield in %	Reversionary yield in %	Reversionary potential in US$
Rental Properties						
Petrovsky Fort *	53,870,000	–6,120,000	53,870,000	11,82	12,75	502,204
Magistral'naya *	7,959,000	–190,000	7,959,000	11,29	13,25	156,503
Berlin House *	149,660,000	2,250,000	14,966,000	10,15	10,14	–10,964
Geneva House *	164,160,000	–1,240,000	16,416,000	9,73	10,15	689,519
Inkonika / Turgenevskaya *	12,200,000	–3,500,000	6,100,000	n/a	n/a	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$
Development Projects			
Arbat Multi-Use I *	159,000,000	7,700,000	87,657,422
Arbat Multi-Use II *	82,400,000	9,200,000	38,012,411
Scandinavia *	9,600,000	–1,500,000	9,600,000

* Valuation based on Residual Value Approach

Location, Address	State of Project	Projected Completion	Purchase Date	Holding Company	Ownership Percentage
Development Properties					
Arbat Multi-Use I, Moscow	In construction since October 2005				
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.	2014	July 2007	Vakhtangov Place Ltd.	60%
Arbat Multi-Use II, Moscow	In construction since 2012				
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%
Scandinavia Land Site, St. Petersburg region	Land held for sale				
Land site close to St. Petersburg zoned for residential development	103 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%

PROPERTY REVIEW

	Building Area m²	Office Area (NLA m²)	Retail Area (NLA m²)	Total Rentable Area m²
Investment Properties				
Location, Address				
Berlin House, 5 Petrovka Street, Moscow	12,989	5,641	1,789	7,429
Geneva House, 7 Petrovka Street, Moscow	16,455	7,161	2,714	9,875
Petrovsky Fort, 4 Finlandsky Prospect, St. Petersburg	47,610	15,302	5,797	21,099
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

* mixed-use office

** 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	Jul 2004	Connecta GmbH & Co KG	10%
127	0%	2009	n/a	n/a	EPH Real Estate Ltd via OOO EPH One	10%
154	4%	2003	n/a	Jun 2006	Romsay Properties Ltd via OOO Petrovsky Fort	100%
39	0%	1966; 1994	2003-2007	Oct 2007	Housefar Ltd via OOO Inspetstroy	100%
300	n/a	2012	n/a	Mar 2008	Vestive Ltd via OOO Inkonika	50%

REPORT FROM THE PRINCIPAL EXTERNAL VALUER

Jones Lang LaSalle LLC

2 Letnikovskaya St., Bldg. 1, Moscow 115114

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16 September 2014

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)

Scandinavia land plot (Leningrad Oblast)

Petrovsky Fort office building (St Petersburg)

Geneva House office building (Moscow)

Berlin House office building (Moscow)

We understand that the reports are required for accounting purposes. The date of valuation: 30 June 2014.

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

C.W.F. Dryden

Christopher Dryden BLE MA MRICS

National Director

INDEPENDENT AUDITOR'S REPORT

Building a better working world

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To the Board of Directors of

Eastern Property Holdings Limited, Tortola, British Virgin Islands

Zurich, 22. September 2014

Report on the review of the condensed consolidated interim financial information

Introduction
We have reviewed the accompanying interim condensed consolidated financial information (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 15 to 37) of Eastern Property Holdings Limited for the period from 1 January 2014 to 30 June 2014. 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 Schmid	Philipp Bertschinger
Licenced audit expert	Licenced audit expert
(Auditor in charge)	

FINANCIAL

REPORT

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in US$	Note *	30.06.2014	31.12.2013
Assets			
Non-current assets			
Investment properties	6	84,388,657	100,140,472
Investment in associates	9	19,490,073	18,633,659
Loans and receivables	10	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	11	4,512,386	6,648,367
Assets under development	8	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	6	9,600,000	–
Total assets		**311,740,761**	**316,454,312**
Liabilities			
Non-current liabilities			
Loans from banks and others	12	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	12	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**
Net asset value per share		57.96	59.64

* The notes are an integral part of these financial statements

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

in US$	Note *	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	10	−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
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	6	−7,326,361	1,161,834
Net valuation movements		−7,089,159	1,578,172
Development property reverse of impairment	8	–	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	9	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
Attributable to:			
Equity holders of the Company		−7,645,387	1,064,578
Earnings per share for profit attributable to equity holders of the Company during the period			
Basic and diluted		−1.79	0.25

* The notes are an integral part of these financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in US$	Note *	30.06.2014	30.06.2013
Net (loss)/ profit for the period		−7,645,387	1,064,578
Other comprehensive gain/ (loss)			
Other comprehensive gain/ (loss) to be reclassified to profit or loss in subsequent periods:			
(Loss)/ gain on currency translation differences		506,875	−1,098,015
Net other comprehensive gain/ (loss) to be reclassified to profit or loss in subsequent periods		506,875	−1,098,015
Total comprehensive loss for the period		−7,138,512	−33,437
Attributable to:			
Equity holders of the Company		−7,138,512	−33,437

* The notes are an integral part of these financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

in US$	Note *	30.06.2014	30.06.2013
Cash flows from operating activities			
Net (loss)/ gain for the period		–7,645,387	1,064,578
Net foreign exchange loss		3,773,757	8,061,446
Net unrealised loss/ (gain) on investment properties	6	7,326,361	–1,161,834
Development property reverse of impairment	8	–	–512,623
Loan impairment charge	10	2,140,639	–
Net unrealised gain on financial investments		–237,202	–416,338
Depreciation		193	217
Interest income		–3,863,717	–3,891,548
Share of associates' profits	9	–1,451,268	–2,803,911
Finance costs		1,099,062	1,532,750
Income taxes		–14,896	–1,840,266
Cash generated from operations before movements in working capital		1,127,542	32,471
Increase / decrease in receivables and payables			
Increase / (decrease) in payables and other current liabilities		38,897	–1,774,717
Increase / (decrease) in other non-current liabilities		4,057	–4,516,176
Decrease in receivables and other current assets		2,588,141	1,671,688
Increase in assets under development	8	–6,773,894	–7,205,504
Cash used in operations		–3,015,256	–11,792,238
Interest income received		47,244	501,953
Income tax paid		–182,725	–
Net cash used in operating activities		–3,150,737	–11,290,285
Cash flows from investing activities			
Sale of financial instruments		–	19,388,485
Purchase of financial instruments		–	–
Investments in investment properties	6	–1,175,085	–1,308,166
Loans granted to joint operation entities		–2,933	–6,494,865
Loans granted to associates		–6,329	–6,562
Proceeds from loans		626,006	367,362
Net cash (used in)/ generated from investing activities		–558,341	11,946,254
Cash flows from financing activities			
Finance costs paid		–1,186,605	–1,553,756
Proceeds from borrowings		3,180,000	–
Repayment of borrowings		–900,000	–900,000
Dividends		–	–
Net cash generated from/ (used in) financing activities		1,093,395	–2,453,756
Net change in cash & cash equivalents		–2,615,683	–1,797,787
Cash & cash equivalents at beginning of the period		6,648,367	9,882,146
Net loss from foreign currency translation		479,702	–548,578
Cash & cash equivalents at the end of the period	11	4,512,386	7,535,781

* The notes are an integral part of these financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in US$	Ordinary share capital	Treasury shares	Accumulated deficit	Currency translation adjustment	Shareholders' equity attributable to the holders of the Company
Balance as at 01.01.2013	414,418,955	−30,050,173	−91,144,441	−4,358,061	288,866,280
Gain for the period	–	–	1,064,578	–	1,064,578
Other comprehensive loss	–	–	–	−1,098,015	−1,098,015
Total comprehensive gain/ (loss) for the period	–	–	1,064,578	−1,098,015	−33,437
Balance as at 30.06.2013	414,418,955	−30,050,173	−90,079,863	−5,456,076	288,832,843
Loss for the period	–	–	−35,626,448	–	−35,626,448
Other comprehensive gain	–	–	–	1,012,238	1,012,238
Total comprehensive (loss)/ gain for the period	–	–	−35,626,448	1,012,238	−34,614,210
Balance as at 31.12.2013	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
Balance as at 30.06.2014	414,418,955	−30,050,173	−133,351,698	−3,936,963	247,080,121

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 2014 were authorised for issue in accordance with a resolution of the directors on 22 September 2014. 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 VG1110.

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 2014 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 2013, which have been prepared in accordance with IFRS.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES WHICH WAS NOT DISCLOSED IN ANNUAL FINANCIAL STATEMENT

Non-current assets held for sale

Investment property is transferred to non-current assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property and its sale must be highly probable.

For the sale to be highly probable:

- The Board must be committed to a plan to sell the property and an active programme to locate a buyer and complete the plan must have been initiated
- The property must be actively marketed for sale at a price that is reasonable in relation to its current fair value
- The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position. On re-classification, investment property that is measured at fair value continues to be so measured.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

3. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following amended IFRS standard and IFRIC interpretations as of 1 January 2014:

– IAS 36 – Impairment of Assets (Amendement) effective 1 January 2014
– IFRIC 21 – Levies effective 1 January 2014

These new standards and amendments do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

Early adoption of standards

In 2014, 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.

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. In prior periods the Group also had a fourth segment – Passive Investments, which represented investments in bonds and investments in companies in which the Group did not have a controlling interest and did not actively participate in management. As the Company has sold the bond portfolio entirely and there is no activity with respect to these investments the management considers that this segment does not operate anymore. The small amount of this segment which was presented in line "Valuation movement" in the prior interim period was reallocated to the Development Financing segment.

1. Rental Properties which consist of:
– 99.9% of one commercial property: Petrovsky Fort in St. Petersburg
– 100% of one commercial property: Magistal'naya in Moscow
– 10% of two commercial properties: Berlin House and Geneva House in Moscow
– 50% of a 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 two largest cities: Moscow and St. Petersburg, and, except Turgenevskaya parking, are comprised predominantly of office space, though all, except Magistral'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 Interim Condensed 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: 103 hectare "Scandinavia" site near St. Petersburg
– 50% of a joint venture to develop parking facilities in Moscow: Inkonika

Development Properties generate revaluation gains and losses, also based on certain dynamics (cost and availability of financing to developers, risk appetite, stage of completion) 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.

3. Development Financing 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
– Loans to EPH Real Estate and Connecta, the 10% investment in associates companies owning Berlin House and Geneva House buildings

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. Development financing generates interest income for the Group.

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 do not consolidate or do 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

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

	30.06.2014			
in US$	Rental Property	Development Properties	Development Financing	Total
Gross rental income	3,963,981	–	–	3,963,981
Rental 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
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)	457,293	−2,781,272	−4,445,864	−6,769,843
Net (loss) / profit for the period	−1,152,719	−3,498,073	−2,994,596	−7,645,387

	30.06.2013			
in US$	Rental Property	Development Properties	Development Financing	Total
Gross rental income	4,046,769	–	–	4,046,769
Rental expenses	−272,207	–	–	−272,207
Net rental income	3,774,562	–	–	3,774,562
Interest income	–	–	3,891,548	3,891,548
Valuation movements	−50,000	1,211,834	416,338	1,578,172
Development property impairment	–	512,623	–	512,623
Finance costs	–	–	−1,532,750	−1,532,750
Share of associates' profits	2,803,911	–	–	2,803,911
Income taxes	755,874	1,084,392	–	1,840,266
Other income/ (expenses)	342,031	−4,051,620	−8,094,165	−11,803,755
Net (loss) / profit for the period	**7,626,378**	**−1,242,771**	**−5,319,029**	**1,064,577**

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 30.06.2014			
	Rental Properties	Development Properties	Development Financing	Total
Investment properties	64,633,657	19,755,000	–	84,388,657
Investment property held for sale	–	9,600,000	–	9,600,000
Assets under development	–	105,914,833	–	105,914,833
Investment in associates	19,490,073	–	–	19,490,073
Loans and receivables	20,929,146	–	61,091,506	82,020,652
Cash & cash equivalents	1,986,018	1,622,584	903,784	4,512,386
Other Assets	4,211,529	1,390,205	212,426	5,814,160
Total Assets	111,250,423	138,282,621	62,207,716	311,740,761
Total Liabilities	**9,417,299**	**14,508,091**	**40,735,250**	**64,660,640**

	Assets and liabilities valuation as of 31.12.2013			
	Rental Properties	Development Properties	Development Financing	Total
Investment properties	71,041,672	29,098,800	–	100,140,472
Assets under development	–	101,833,883	–	101,833,883
Investment in associates	18,633,659	–	–	18,633,659
Loans and receivables	22,381,472	–	58,614,253	80,995,725
Cash & cash equivalents	1,497,058	3,455,968	1,695,340	6,648,367
Other Assets	3,590,493	4,445,784	165,929	8,202,206
Total Assets	**117,144,354**	**138,834,436**	**60,475,522**	**316,454,312**
Total Liabilities	**9,088,091**	**11,160,163**	**41,987,425**	**62,235,679**

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 2013.

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 solely 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 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

6. INVESTMENT PROPERTIES

in US$	30.06.2014	31.12.2013
Investment Properties		
Beginning of the period	100,140,472	126,257,951
Additions from subsequent expenditure	1,175,085	3,186,991
Revaluations	−7,326,361	−29,296,984
Finance lease liabilities	−98,015	−35,280
Interest capitalization	97,476	27,793
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

Investment Properties comprise the following:

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

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

in US$	30.06.2014	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

RENTAL PROPERTIES

A. Petrovsky Fort

in US$	30.06.2014	31.12.2013
Petrovsky Fort		
Beginning of the period	62,743,229	64,615,409
Additions from subsequent expenditure	–	–
Revaluation	−6,120,000	−1,810,000
Land lease obligations	−93,643	−62,180
End of period	56,529,587	62,743,229

Petrovsky Fort is a 47,600 square meter Class B office and retail building located at Finlyandsky Prospect 4 in central St. Petersburg. The building has nine office and two retail levels and a large central atrium. Of the net rentable space, 15,300 square meters are designated for office use and about 5,800 square meters as retail space. The building has an underground parking facility with 118 parking spaces and an above-ground car park with 36 parking spaces.

As of 30 June 2014, the vacancy rate as a percentage of total rentable area of the building was 4% (31 December 2013: 3%) and by use was, for office space, 5% (31 December 2013: 4%), and for retail space, 1% (31 December 2013: 0%). Gross rental income for the property for the period under review was US$ 3.50 million (30 June 2013: US$ 3.38 million). The following table indicates the exposure to non-renewals of existing operating leases over the periods indicated:

in US$	30.06.2014	31.12.2013
Petrovsky Fort		
Next 12 months	3,721,524	4,167,915
12–60 months	1,956,623	2,998,952
60 months and later	–	–

As of 30 June 2014, the top five tenants in the building, by net rent paid are Perspectiva, Glavstroy-SPb, RKS Group, SET, Russian Consulting SPb.

The fair value of Petrovsky Fort was determined to be US$ 53.87 million as at 30 June 2014 (31 December 2013: US$ 59.99 million), based on an independent valuation prepared by Jones Lang LaSalle, and adjusted for outstanding land lease obligations with respect to the long-term leasehold land under the property. 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. To reflect the current market situation in St. Peterburg the appraisers applied more conservative assumptions than in previous valuations with respect to rates and yields which led to a decrease in the fair value of Petrovsky Fort.

As of 30 June 2014, Petrovsky Fort LLC had registered one mortgage on the building which served as collateral for a credit facility in the amount of US$ 40.00 million from Unicredit Bank Austria AG.

B. Magistral'naya

in US$	30.06.2014	31.12.2013
Magistralnaya		
Beginning of the period	8,298,443	8,322,542
Additions from subsequent expenditure	–	–
Revaluation	–190,000	–51,000
Land lease obligations	–4,373	26,900
End of period	**8,104,070**	**8,298,443**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

Magistral'naya is a 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 2014, the entire office complex, with the exception of 135 sq m, used by the Group, is let to "Gazprom Geotechnologii" (former "Podzemgazprom") under a 10 year lease agreement signed in March 2012.

The fair value of Magistral'naya was determined to be US$ 7.96 million as of 30 June 2014 (31 December 2013: US$ 8.15 million) based on an independent valuation prepared by Jones Lang LaSalle, which was adjusted only for outstanding land lease obligations with respect to the long-term leasehold land under the property. 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

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

in US$	30.06.2014	31.12.2013
Arbat Multi-use complexes		
Beginning of the period	17,998,800	14,220,000
Additions from construction expenditure	1,175,085	3,186,991
Revaluation	483,639	564,016
Interest capitalization	97,476	27,793
End of period	**19,755,000**	**17,998,800**

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 accounts for its own share of 60% of the properties and of the correlated liabilities.

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$ 19.76 million as of 30 June 2014 (31 December 2013: US$ 18.00 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

D. “Scandinavia” Land plots in St. Petersburg

in US$	30.06.2014	31.12.2013
"Scandinavia" Land		
Beginning of the period	11,100,000	39,100,000
Additions from subsequent expenditure	–	–
Revaluation	–1,500,000	–28,000,000
End of period	9,600,000	11,100,000

The Company owns 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 assets, on 23 May 2014, the Company’s Board of Directors approved the decision to sell Scandinavia land plots. Therefore these land plots are classified as held for sale. As a preparation for the sale the land plots were divided into six parts. Management believes that these land plots will be sold till the end of the current year.

The fair value of the land plots was determined to be US$ 9.6 million as of 30 June 2014 based on an independent valuation prepared by Jones Lang LaSalle (31 December 2013: US$ 11.1 million). In calculating the market value the appraiser used the discounted cash flow method and the appropriate allowance for “entrepreneur’s profit (investor’s reward for assuming the risks that accompany the project). Therefore the Group keeps these land plots at the fair value less costs to sell which is considered by the appraisers in the valuation.

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, comprise 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 property that is measured at fair value, the current use of the property is considered the highest and best use. During the first six months 2014 the Group did not change the valuation techniques for all investment property.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

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 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	30.06.2014
Investment properties measured at fair value				
Investment properties (including those classified as held for sale)	–	–	93,988,657	93,988,657

During the period ending 30 June 2014, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

As at 31 December 2013, the Group held the investment properties carried at fair value in the statement of financial position:

In US$	Level 1	Level 2	Level 3	31.12.2013
Investment properties measured at fair value				
Investment properties	–	–	100,140,472	100,140,472

During the period ending 31 December 2013, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

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
- Quantitive information about significant unobservable inputs used in the fair value measurement

Property	Fair value as of 30.06.14	Valuation technique	Key unobservable inputs	Range
Petrovsky Fort	$53,870,000	Income capitalisation	ERV	US$ 100 - US$ 320
			Equivalent yield	12.5%
Magistral'naya	$7,959,000	Income capitalisation	ERV	US$ 350
			Equivalent yield	12%
Arbats IP	$19,755,000	DCF, Income capitalisation	ERV	US$ 500 - US$ 2,000
			Discount rate	11.3% - 15.9%
			Construction cost per sq.m	US$ 3,000
			Capitalisation rate	9%
Scandinavia	$9,600,000	DCF	Price per sq.m	US$ 60
			Discount rate	25%
			Construction cost per sq.m	US$ 13
			Land strips selling period	7 years

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$	30.06.2014	31.12.2013
Increase in yield of 0.25%	−1,856,574	−2,154,129
Decrease in rental rates of 5%	−4,252,857	−4,565,509
Increase in construction costs of 5%	−676,750	−757,500

8. ASSETS UNDER DEVELOPMENT

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)	−0	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**

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$ 107.36 million as of 30 June 2014 (31 December 2013: US$ 101.83 million).

9. INVESTMENTS IN ASSOCIATES

Investments in Associates comprise the following:

in US$	30.06.2014	31.12.2013
EPH Real Estate (closing balance for 10% stake)	7,863,302	7,710,320
Connecta KG (closing balance for 10% stake)	11,626,771	10,923,339
Vestive (closing balance for 50% stake)	–	–
Hypercenter Investment SA (closing balance for 25.9% stake)	–	–
	19,490,073	18,633,659

The contribution of Share of Associates' Profit in the financial results of the Group is presented below:

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

10. LOANS AND RECEIVABLES

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

The Group has made a number of loans to the subsidiary of its 50% owned joint venture Vestive to finance the construction of parking garages in the center of Moscow, which are treated as Loans and Receiveables. Turgenevskaya parking valuation, Vestive's main asset, decreased from US$ 15.7 million as of 31 December 2013 to US$ 12.2 million as of 30 June 2014, due to more conservative assumptions applied by the appraisers than in previous valuations with respect to the selling price for parking lots and the occupancy rate growth. As a result, the Group has impaired these loans to Vestive by US$ 2.14 million down to the recoverable amount.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

11. CASH AND CASH EQUIVALENTS

	30.06.2014		31.12.2013	
in US$	Valartis Bank	Others	Valartis Bank	Others
Cash at bank and in hand	86,116	1,613,024	584,191	2,590,137
Fiduciary deposits	–	2,813,246	–	3,474,039
Cash and cash equivalents	86,116	4,426,270	584,191	6,064,176
Total		4,512,386		6,648,367

12. LOANS FROM BANKS AND OTHER

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

During the period under review the loan from UniCredit bank was prolonged for one year as expected. Therefore and because the loan from UniCredit bank matures in March 2015, it is now reclassed to short-term.

13. 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.

Change of Capital

	Number of ordinary shares		Number of series A preferred shares	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Authorised capital				
Total authorised capital	11,000,000	11,000,000	1,000,000	1,000,000
Opening balance unissued authorised capital	5,661,868	3,661,868	1,000,000	1,000,000
Increase	–	2,000,000	–	–
Utilisation for capital increase	–	–	–	–
Conversion to ordinary shares	–	–	–	–
Closing balance unissued authorised capital	5,661,868	5,661,868	1,000,000	1,000,000

	Number of ordinary shares		Number of series A preferred shares	
	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Issued share capital				
Opening balance	5,338,132	5,338,132	–	–
Capital increase	–	–	–	–
Closing balance	5,338,132	5,338,132	–	–

	Number of shares	
	30.06.2014	31.12.2013
Treasury shares		
Opening balance	1,075,519	1,075,519
Issued to treasury	–	–
Purchase	–	–
Sales	–	–
Closing balance	1,075,519	1,075,519

Treasury shares do not participate in profits of the Group and do not carry any voting rights.

All outstanding shares rank equally as to dividends and all other pecuniary rights associated with share ownership. Common shares are entitled to one vote each. Preferred A shares are not entitled to vote. No Preferred A shares are outstanding or in issue.

No dividend was paid during the period under review.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

14. 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:

		% Holding	
Name of subsidiary	Incorporated in	30.06.2014	31.12.2013
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%
Stainfield Limited	Limassol, Cyprus	100%	100%
Redhill Investment Limited	Limassol, Cyprus	100%	100%
Romsay Properties Limited	Limassol, Cyprus	99.90%	99.90%
Joint operations			
Vakhtangov Place Limited	Limassol, Cyprus	60%	60%
Bluestone Investments Limited	Limassol, Cyprus	60%	60%

The Company owns 50% of Vestive and 10% interests in EPH Real Estate Limited, Connecta GmbH & Co. KG and Connecta GmbH.

The Company also owns 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 a 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 Petrovsky Fort LLC (Petrovsky Fort), Inkonika LLC (Turgenevskaya parking), Connecta KG (Berlin House) and EPH One LLC (Geneva House)

The Group's related party balances as of 30 June 2014 and 31 December 2013 consisted of the following:

in US$	30.06.2014	31.12.2013
Loans and receivables	82,020,652	80,995,725
Cash & cash equivalents	86,116	584,191
Debt	8,554,814	8,525,341
Accounts payable and accrued expenses	608,746	1,049,025

The Group's income and expenses from/ to related parties for the period ended of 30 June 2014 and 2013 consisted of the following:

in US$	30.06.2014	30.06.2013
Performance fees	–	225,603
Management fees	–1,715,497	–1,684,543
Interest income	3,816,473	3,676,698
Finance costs	–113,300	–774

15. TAXES

Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, it is possible that a particular treatment based on Management's judgement of the Group's business activities could be challenged by the tax authorities and the Group may be deemed liable for additional taxes, penalties and interest. While the Group believes it has complied with all applicable regulations and requirements, it is impossible to predict future interpretations by regulatory authorities, and outcomes of such interpretations.

16. 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.

At the same time current geopolitical issues in the Eastern Ukraine and sanctions imposed on certain Russian industries, when further extended, can potentially have an impact on Group's performance and the value of its assets.

17. SUBSEQUENT EVENTS

– On 22 July 2014, Mark Eberle has decreased its shareholding in the Company from above 5% to below 5%. On 6 August 2014, Mark Eberle has decreased its shareholding in the Company to below 3%.

– On 15 August 2014, the Group sold a part of Scandinavia land plots, namely 24.27 ha, for US$1.99 million, and received this amount in full.

– On 22 August 2014, the Company issued US$ 140 million bonds with 5.5% annual interest rate maturing in 2023, with an issue price of 100% of the principal amount.

– On 25 August 2014, the Company acquired 90% of EPH Real Estate Ltd, which ultimately owns Geneva House building, becoming a 100% owner of the entity. The purchase price for 90% interest is US$ 57.22 million and is based on the market value of the Geneva House property as of 30 June 2014 and adjusted for the net debts of the acquired holding company. The acquisition was financed by the funds received from bonds issuance. On 3 September 2014 the Company has paid 80% of purchase price and the remaining is secured by the shares of EPH Real Estate Ltd and is payable in 3rd quarter 2015. As the accounting for the acquisition is not completed by the time of issuance of these financial statements, full disclosure, including purchase price allocation, cannot be made now and will be presented in annual 2014 financial statement.

– On 25 August 2014, the Company acquired 90% of Connecta GmbH and 90% of Connecta KG, which ultimately owns Berlin House building, becoming a 100% owner of the entity. The purchase price for 90% interests is US$ 91.34 million and is based on the market value of the Berlin House property as of 30 June 2014 and adjusted for the net debts of the acquired holding company. The acquisition was financed by the funds received from bonds issuance. On 3 September 2014 the Company has paid 80% of purchase price and the remaining is secured by the shares of EPH Real Estate Ltd and is payable in 3rd quarter 2015. As the accounting for the acquisition is not completed by the time of issueance of these financial statements, full disclosure, including purchase price allocation, cannot be made now and will be presented in annual 2014 financial statement.

– On 11 September 2014, the Group signed an agreement in respect to the sale of a part of Scandinavia land plots, namely 24.00 ha, for US$1.97 million.

CORPORATE DETAILS

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

DOMICILE
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(since June 2010)

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Vanterpool Plaza, 2nd Floor
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SECURITY NUMBER
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ISIN NUMBER
VGG290991014

TICKER SYMBOL
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CONCEPT AND DESIGN
Schrägstrich Kommunikationsdesign, Zurich, Switzerland