

EPH EASTERN PROPERTY
HOLDINGS

INTERIM UNAUDITED RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

17 September 2013

AGENDA AND SPEAKERS

Introduction

Highlights for 2013

2013HY Financial Results

Q & A

Conclusion

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HIGHLIGHTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

Arbat I construction:

- The commercial part is scheduled for completion by the end of 2013.
- The apartments are already in the market.
- First sales are expected by the year- end.



Arbat II construction:

- Underground works proceeding full speed.
- The start of aboveground works is scheduled for late autumn 2013.



HIGHLIGHTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

Petrovsky Fort:

- The vacancy rate is stabilized at the level of 6-7% with slight variances during the period
-

Turgenevskaya Parking:

- Not fast but steady growth of income.
 - Proceeds from hourly parking increased by more than 80% starting from January.
-

Geneva House:

- Fully leased
-

Berlin House:

- Fully leased: the new lease agreement for re-arranged retail space became effective in March 2013, resulted in significant uplift of the appraised value.

2013 HY FINANCIAL RESULTS

- NAV of \$67.76 per share is stable (\$67.77 at YE2012)
- Net Profit of \$1.06 million (\$0.25 per share)
- RUB weakened against US\$ in 2013:
 - YE2012: 30.47 RUB/\$
 - HY2013: 32.77 RUB/\$
 - Today: 32.2907 RUB/\$
- NAV-positive factors....
 - Good performance of the rental properties resulted in higher valuations
 - Interest income earned on bond portfolio and development loans are almost eliminated by
- NAV-negative factors....
 - Negative effect of exchange rate fluctuations: net FX loss of \$8.1 mln (vs net loss of \$1.4mln for 6 months of 2012 and net gain of \$4.4 million for the whole year 2012)

INVESTMENT PROPERTIES

| in US\$ | 30.06.2013 | 31.12.2012 |
|---|--------------------|--------------------|
| Assets | | |
| Non-current assets | | |
| Investment properties | 128,805,210 | 126,257,951 |
| Investment in associates | 18,194,096 | 16,708,524 |
| Loans and receivables | 85,055,520 | 75,696,950 |
| Advance for land lease | - | 1,831,812 |
| Deferred tax assets | 3,655,050 | 2,014,943 |
| Furniture and equipment | 2,031 | 2,405 |
| Total non-current assets | 235,711,907 | 222,512,585 |
| Current assets | | |
| Cash & cash equivalents | 7,535,781 | 9,882,146 |
| Financial assets at fair value through profit or loss | - | 19,642,622 |
| Assets under development | 95,767,732 | 95,179,891 |
| Accounts receivable | 321,168 | 402,063 |
| Loans and receivables | 1,378,373 | 1,093,346 |
| Advance payment | 794,098 | 389,511 |
| Prepaid taxes | 525,311 | 488,720 |
| Total current assets | 106,322,463 | 127,078,299 |
| Total assets | 342,034,370 | 349,590,884 |

| in US\$ | 30.06.2013 | 31.12.2012 |
|---|--------------------|--------------------|
| Investment Properties | | |
| A. Petrovsky Fort | 64,785,377 | 64,615,409 |
| B. Magistral'naya | 8,179,833 | 8,322,542 |
| C. Arbat Multi-use Complexes | 16,740,000 | 14,220,000 |
| D. "Scandinavia" Land plots in St. Petersburg | 39,100,000 | 39,100,000 |
| End of period | 128,805,210 | 126,257,951 |

WHAT CHANGED?

- Petrovsky Fort: almost unchanged
- Magistralnaya: almost unchanged
- Arbat: construction progress
- Scandinavia: unchanged

INVESTMENTS IN ASSOCIATES

| in US\$ | 30.06.2013 | 31.12.2012 |
|---|--------------------|--------------------|
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| Investment properties | 128,805,210 | 126,257,951 |
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| Total assets | 342,034,370 | 349,590,884 |

| in US\$ | 30.06.2013 | 31.12.2012 |
|--|-------------------|-------------------|
| EPH Real Estate (closing balance for 10% stake) | 7,573,689 | 7,106,698 |
| Connecta KG (closing balance for 10% stake) | 10,620,407 | 9,601,826 |
| Vestive (closing balance for 50% stake) | - | - |
| Hypercenter Investment SA (closing balance for 25.9% stake) | - | - |
| | 18,194,096 | 16,708,524 |

WHAT CHANGED?

- Berlin House:
 - valuation increased as the new lease agreement for re-arranged retail space became effective in March 2013
- Geneva House:
 - moderate valuation increase

LOANS AND RECEIVABLES

| in US\$ | 30.06.2013 | 31.12.2012 |
|---|--------------------|--------------------|
| Assets | | |
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| Investment properties | 128,805,210 | 126,257,951 |
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| Prepaid taxes | 525,311 | 488,720 |
| Total current assets | 106,322,463 | 127,078,299 |
| Total assets | 342,034,370 | 349,590,884 |

Loans and receivables

| in US\$ | 30.06.2013 | 31.12.2012 |
|---------------------------|-------------------|-------------------|
| Loans (long term) | | |
| Vakhtangov Place Limited | 55,056,765 | 46,341,226 |
| Bluestone Investments | 463,554 | 430,048 |
| Vestive | 16,845,015 | 16,199,393 |
| EPH Real Estate | 8,591,114 | 8,591,114 |
| Connecta KG | 4,099,072 | 4,135,169 |
| Total | 85,055,520 | 75,696,950 |
| Loans (short term) | | |
| EPH Real Estate | 1,122,015 | 833,728 |
| Connecta KG | 256,358 | 259,618 |
| Total | 1,378,373 | 1,093,346 |

WHAT CHANGED?

- New loans to finance construction of Arbat Projects (60% is eliminated in consolidation)

ADVANCE FOR LAND LEASE

| in US\$ | 30.06.2013 | 31.12.2012 |
|---|--------------------|--------------------|
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| Non-current assets | | |
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| Investment in associates | 18,194,096 | 16,708,524 |
| Loans and receivables | 85,055,520 | 75,696,950 |
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| Total assets | 342,034,370 | 349,590,884 |

WHAT IS THIS?

- It was the prepayment for the land lease rights for additional piece of land in Magistralnaya

WHAT CHANGED?

- The prepayment was written off as the land plot was not developed as initially planned and, accordingly, the land lease agreement was terminated

DEFERRED TAX ASSETS

| in US\$ | 30.06.2013 | 31.12.2012 |
|---|--------------------|--------------------|
| Assets | | |
| Non-current assets | | |
| Investment properties | 128,805,210 | 126,257,951 |
| Investment in associates | 18,194,096 | 16,708,524 |
| Loans and receivables | 85,055,520 | 75,696,950 |
| Advance for land lease | - | 1,831,812 |
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| Advance payment | 794,098 | 389,511 |
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| Total assets | 342,034,370 | 349,590,884 |

WHAT IS THIS?

- Tax losses in the Russian subsidiaries create tax credit which is very likely to be utilized in foreseeable future

WHAT CHANGED?

- Additional tax losses due to forex losses in subsidiaries

CASH & CASH EQUIVALENTS

| in US\$ | 30.06.2013 | 31.12.2012 |
|---|--------------------|--------------------|
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| Investment properties | 128,805,210 | 126,257,951 |
| Investment in associates | 18,194,096 | 16,708,524 |
| Loans and receivables | 85,055,520 | 75,696,950 |
| Advance for land lease | - | 1,831,812 |
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| Total current assets | 106,322,463 | 127,078,299 |
| Total assets | 342,034,370 | 349,590,884 |

WHAT CHANGED?

■ MAIN INFLOWS:

- sale of all bonds
- net rental income from Rental Properties
- interest received on bonds and from cash generating associates (Connecta and EPH RE)

■ MAIN OUTFLOWS:

- construction financing of Arbat complexes
- management fee to Valartis for 2012
- interest and amortization on UniCredit bank loan
- part of Accrued Performance Fee paid to Valartis with respect to termination of previous management agreement

FINANCIAL ASSETS

| in US\$ | 30.06.2013 | 31.12.2012 |
|---|--------------------|--------------------|
| Assets | | |
| Non-current assets | | |
| Investment properties | 128,805,210 | 126,257,951 |
| Investment in associates | 18,194,096 | 16,708,524 |
| Loans and receivables | 85,055,520 | 75,696,950 |
| Advance for land lease | - | 1,831,812 |
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| Current assets | | |
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| Financial assets at fair value through profit or loss | - | 19,642,622 |
| Assets under development | 95,767,732 | 95,179,891 |
| Accounts receivable | 321,168 | 402,063 |
| Loans and receivables | 1,378,373 | 1,093,346 |
| Advance payment | 794,098 | 389,511 |
| Prepaid taxes | 525,311 | 488,720 |
| Total current assets | 106,322,463 | 127,078,299 |
| Total assets | 342,034,370 | 349,590,884 |

| in US\$ | 30.06.2013 | 31.12.2012 |
|--|------------|-------------------|
| Designated upon initial recognition | | |
| Quoted debt securities | - | 11,242,932 |
| Unquoted debt securities | - | 8,399,690 |
| Unquoted equity shares | - | - |
| Total | - | 19,642,622 |

WHAT CHANGED?

- All bonds are sold as needed to finance Arbat constructions

ASSETS UNDER DEVELOPMENT

| in US\$ | 30.06.2013 | 31.12.2012 |
|---|--------------------|--------------------|
| Assets | | |
| Non-current assets | | |
| Investment properties | 128,805,210 | 126,257,951 |
| Investment in associates | 18,194,096 | 16,708,524 |
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| Total assets | 342,034,370 | 349,590,884 |

| in US\$ | 30.06.2013 | 31.12.2012 |
|--|-------------------|-------------------|
| Assets under development | | |
| Beginning of the period | 95,179,891 | 76,615,089 |
| Cost reallocation | - | (1,290,814) |
| Addition | 7,205,504 | 19,927,168 |
| Reverse of impairment/ (impairment) | 512,622 | (4,099,779) |
| Forex effect | (7,130,286) | 4,028,227 |
| End of period | 95,767,732 | 95,179,891 |

WHAT CHANGED?

MARKET WIDE:

- No material changes

ASSET SPECIFIC:

- Apartments under construction are carried at lower of cost and appraised value.
 - Cost is denominated in RUB
 - HY 2013 the US\$ equivalent of cost is lower than the appraised value due to RUB/USD weakening as compared to end 2012, as a result - reverse of impairment
 - RUB/USD weakening resulted in negative Forex effect

LOANS FROM BANKS

| in US\$ | 30.06.2013 | 31.12.2012 |
|--|--------------------|--------------------|
| Liabilities | | |
| Non-current liabilities | | |
| Loans from banks | - | 32,650,000 |
| Provisions for long-term liabilities and charges | - | 12,858,017 |
| Other non-current liabilities | 3,791,296 | 3,793,806 |
| Total non-current liabilities | 3,791,296 | 49,301,823 |
| Current liabilities | | |
| Accounts payable and accrued expenses | 14,857,782 | 8,231,826 |
| Loans from banks and others | 33,960,561 | 2,231,846 |
| Property tax | 104,794 | 107,603 |
| Financial liabilities at fair value through profit or loss | 436,269 | 824,427 |
| Provisions for current liabilities and charges | 50,825 | 27,079 |
| Total current liabilities | 49,410,231 | 11,422,781 |
| Equity | | |
| Share capital | 414,418,955 | 414,418,955 |
| Treasury shares | (30,050,173) | (30,050,173) |
| Accumulated deficit | (90,079,863) | (91,144,441) |
| Cumulative translation adjustment | (5,456,076) | (4,358,061) |
| Shareholders' equity attributable to the holders of the Company | 288,832,843 | 288,866,280 |
| Total equity and liabilities | 342,034,370 | 349,590,884 |

| in US\$ | 30.06.2013 | 31.12.2012 |
|---|-------------------|-------------------|
| Loans from banks (long term) | | |
| UniCredit bank loan | - | 32,650,000 |
| Total | - | 32,650,000 |
| Loans from banks and others (short term) | | |
| UniCredit bank loan | 33,956,861 | 2,227,867 |
| Other | 3,700 | 3,979 |
| Total | 33,960,561 | 2,231,846 |

WHAT CHANGED?

- UniCredit bank loan matures in January 2014 so it is current liability now
- Total amount decreased due to quarterly amortization payments

LIABILITIES

| in US\$ | 30.06.2013 | 31.12.2012 |
|--|--------------------|--------------------|
| Liabilities | | |
| Non-current liabilities | | |
| Loans from banks | - | 32,650,000 |
| Provisions for long-term liabilities and charges | - | 12,858,017 |
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WHAT CHANGED?

- Performance fee liability is treated as short-term payables now as it should be paid till the end of 2013
- Part of previously accrued performance fee (\$4.2mln) was already paid

RENTAL INCOME

in US\$ **30.06.2013** **30.06.2012**

Rental income

| | | |
|--|------------------|------------------|
| Gross rental income | 4,046,769 | 3,734,908 |
| Ground rents paid | (227,610) | (199,544) |
| Service charge income on principal basis | 1,191,656 | 1,138,568 |
| Service charge expenses on principal basis | (767,587) | (715,229) |
| Property operating expenses | (49,499) | (599,938) |
| Repair and maintenance costs | (181,917) | (291,570) |
| Non-income taxes | (237,250) | (262,678) |
| Net rental income | 3,774,562 | 2,804,517 |

Administrative expenses

| | | |
|---|--------------------|--------------------|
| Reverse of accrual for performance fees | 225,603 | 627,774 |
| Management fees | (1,684,543) | (2,791,009) |
| Professional and administration fees | (513,811) | (784,728) |
| Salaries and social charges | (267,750) | (32,964) |
| Total administrative expenses | (2,240,501) | (2,980,927) |

Other income/ (expenses)

| | | |
|-------------------------------------|--------------------|----------------|
| Interest income | 3,891,548 | 3,837,379 |
| Gain on increased ownership stake | - | 912,521 |
| Other income | - | 268,705 |
| Other expenses | (1,501,590) | (2,958,893) |
| Depreciation | (217) | (57) |
| Net foreign exchange loss | (8,061,446) | (1,353,972) |
| Net other (expenses)/ income | (5,671,705) | 705,683 |

Gross rental income (in US\$)

| | | |
|----------------|-------------------|-------------------|
| | 30.06.2013 | 30.06.2012 |
| Petrovsky Fort | 3,383,734 | 3,189,826 |
| Magistral'naya | 663,035 | 545,082 |
| Total | 4,046,769 | 3,734,908 |

Net rental income (in US\$)

| | | |
|----------------|-------------------|-------------------|
| | 30.06.2013 | 30.06.2012 |
| Petrovsky Fort | 3,300,467 | 2,408,890 |
| Magistral'naya | 474,095 | 395,627 |
| Total | 3,774,562 | 2,804,517 |

WHAT CHANGED?

- Increase in both gross rents and net rents is caused by:
 - decrease in vacancy and improvement in operating efficiency in PF
 - annual indexation of rent in Magistralnaya

ADMINISTRATIVE EXPENSES

| in US\$ | 30.06.2013 | 30.06.2012 |
|--|--------------------|--------------------|
| Rental income | | |
| Gross rental income | 4,046,769 | 3,734,908 |
| Ground rents paid | (227,610) | (199,544) |
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| Depreciation | (217) | (57) |
| Net foreign exchange loss | (8,061,446) | (1,353,972) |
| Net other (expenses)/ income | (5,671,705) | 705,683 |

WHAT CHANGED?

- New Management agreement is in place in 2013
- Salary expenses have increased due to the new employees hired by Petrovsky Fort (previously the staff was employed by Valartis and the respective costs were covered by the management fee)

OTHER EXPENSES

| in US\$ | 30.06.2013 | 30.06.2012 |
|--|--------------------|--------------------|
| Rental income | | |
| Gross rental income | 4,046,769 | 3,734,908 |
| Ground rents paid | (227,610) | (199,544) |
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| Salaries and social charges | (267,750) | (32,964) |
| Total administrative expenses | (2,240,501) | (2,980,927) |
| Other income/ (expenses) | | |
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| Other income | - | 268,705 |
| Other expenses | (1,501,590) | (2,958,893) |
| Depreciation | (217) | (57) |
| Net foreign exchange loss | (8,061,446) | (1,353,972) |
| Net other (expenses)/ income | (5,671,705) | 705,683 |

WHAT IS THIS?

- \$1.5 million net expenses is mainly resulted from the write-off of the Advance for land lease in Magistralnaya, while the expenses recognized in 2012 are related to reimbursement for Geneva House fit-out works and leasing-related terms based on the sale agreement

NET FOREIGN EXCHANGE LOSS

| in US\$ | 30.06.2013 | 30.06.2012 |
|--|--------------------|--------------------|
| Rental income | | |
| Gross rental income | 4,046,769 | 3,734,908 |
| Ground rents paid | (227,610) | (199,544) |
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| Interest income | 3,891,548 | 3,837,379 |
| Gain on increased ownership stake | - | 912,521 |
| Other income | - | 268,705 |
| Other expenses | (1,501,590) | (2,958,893) |
| Depreciation | (217) | (57) |
| Net foreign exchange loss | (8,061,446) | (1,353,972) |
| Net other (expenses)/ income | (5,671,705) | 705,683 |

WHAT CHANGED?

- EPH subsidiaries have RUB as their functional currency. Accordingly, US\$-denominated assets and liabilities are converted in RUB as of the end of each reporting period.
- The loss was primarily caused by the currency impact on the loans

SHARE OF ASSOCIATES' GAIN

| in US\$ | 30.06.2013 | 30.06.2012 |
|--|--------------------|------------------|
| Valuation movements | | |
| Net gain from fair value adjustment on financial investments | 416,338 | 539,835 |
| Net gain from fair value adjustment on investment properties | 1,161,834 | 1,903,907 |
| Net valuation movements | 1,578,172 | 2,443,742 |
| Development property reverse of impairment | 512,623 | - |
| Net operating (loss)/ gain before finance cost | (2,046,849) | 2,973,015 |
| Finance costs | (1,532,750) | (1,492,648) |
| Share of associates' gain | 2,803,911 | 359,291 |
| (Loss)/ gain before taxes | (775,688) | 1,839,658 |
| Income taxes | 1,840,266 | 1,529,970 |
| Net profit for the period | 1,064,578 | 3,369,628 |
| Attributable to: | | |
| Equity holders of the Company | 1,064,578 | 3,369,628 |
| Non-controlling interest | - | - |
| Weighted average number of outstanding shares | 4,262,613 | 4,262,613 |

| in US\$ | 30.06.2013 | 30.06.2012 |
|---------------------------|------------------|----------------|
| EPH Real Estate | 1,018,564 | -9,371 |
| Connecta KG | 1,785,347 | 368,662 |
| Vestive | - | - |
| Hypercenter Investment SA | - | - |
| | 2,803,911 | 359,291 |

WHAT CHANGED?

- In 2013 NAV of Connecta KG and EPH RE increased due to growth of fair values of both investment properties (Berlin House and Geneva House, respectively)