

**PRESS RELEASE**

**22 June 2011**

**First Quarter 2011 Trading Update**

Road Town, Tortola, BVI

**With this publication, Eastern Property Holdings introduces quarterly trading updates, covering the company's income, expenses and significant events in Q1 2011**

**KEY EVENTS**

- **Construction on Arbat I project restarted with a completion target of end-2012.**
- **Rents achieved at Geneva House, and time required to lease the property both better than expected. By March 31, the property was already earning rent on 55% of premises, with an additional 30% under letters of intent. Tenants include Merrill Lynch Bank of America, Chanel, Akin Gump, Gide Loyrette Nouel, UBP, and Clariden Leu.**
- **\$40 million bank refinancing of Geneva House in February provided immediate liquidity for the advancement of development projects.**
- **Sale of majority interest in Berlin House and Geneva House agreed at very attractive terms with transaction completion expected mid-year. The sale will provide long-term liquidity to continue development.**
- **Common areas of Petrovsky Fort refurbished. Crisis level vacancy rates which reached 35% continue downward into the mid-20%s. New leases being signed at continuously higher rates.**

**Significant financial events and changes for Q1 2011 are as follows:**

**Income**

- **Gross Rental Income**

In the three months ended 31 March 2011, our rental properties generated Gross Rental Income of \$4.86 million. On an annualized basis, this represents a 48% increase over 2010, primarily due to initiation of lease payments in Geneva House and signing of a tenant for substantially all of our Magistralnaya property.

This higher level of rental income will prevail until completion of the sale of majority interests in Berlin House and Geneva House, expected by or in the beginning of Q3. The

two Petrovka Street properties contributed \$2.01 and \$1.25 million, respectively, to Q1 Gross Rental Income.

Berlin House contributed \$1.50 million to our Net Rental Income of \$2.53 million.

Geneva House was earning rent for over 55% of premises as of 31 March, however tenants are paying reduced fit-out period rents, and the company is incurring expenses in relation to tenant-specific works. Hence Geneva House was not yet profitable and generated negative Net Rental Income of \$75 thousand.

- **Interest Income**

The company generated \$1.25 million of interest income in the first three months of 2011. Of this amount, roughly \$500 thousand was amortization of long-term interest-free deposits received from Geneva House tenants, the remaining amount was primarily generated by the non-consolidated share of construction loans to the company's joint ventures.

## **Expenses**

- **Finance costs**

The company incurred finance costs of \$2.15 million in the first three months of the year. On an annualized basis, this is up 12.6% from the full year 2010 level; primarily due to drawing of a \$40 credit line from NOMOS Bank secured by Geneva House on 20 February 2011.

Berlin House secures a loan from Aareal Bank of which \$37.4 million was outstanding at 31 March. This loan accounted for \$669 thousand of the Q1 finance costs.

Geneva House secures the \$40 million NOMOS Bank loan, which, having been drawn during the period under review, accounted for \$396 thousand of the Q1 finance costs.

\$670 thousand of the finance costs are attributable to the UniCredit loan secured by Petrovsky Fort and a Valartis Bank loan which was secured by Geneva House and repaid with proceeds from the NOMOS Bank loan.

The remaining amount of finance costs are attributable to the loan from Vincennes Estates Limited, bank charges, and other finance-related costs.

*The ultimate sale of 90% stakes in Berlin House and Geneva House will reduce the company's finance costs by approximately \$5.5 million per year.*

- **Management Fees**

\$1.71 million was accrued in management fees for the first quarter, based on the average of the company's NAV during 1Q 2011.

- **Income Taxes**

\$1.38 million was accrued for income taxes in the first quarter. Of this amount, almost \$650 thousand was attributable to Geneva House. Though Geneva House did not generate net rental income, taxable income for the property was generated as a result of

foreign exchange movements. Due to a strong ruble, the company's ruble liabilities in regards to dollar-denominated loans were reduced, resulting in a profit for local tax purposes. EPH has substantial tax credits carried forward from prior periods, so no cash payment will be required, but the company's Deferred Tax Assets were reduced.

## **Changes in Financial Position**

- **Loans and Receivables**

\$5.2 million of debt financing was provided to the Arbat projects as work was resumed. The Arbat projects are owned by a joint venture in which EPH is a 50% owner. As such, a loan from EPH to the joint venture is treated 50% as a loan to EPH itself, so is treated as an investment in the project, while the other 50% is treated as a loan to the non-owned share of the joint venture and is reflected on asset side of the company's balance sheet as a loan.

\$850 thousand of debt financing was provided to the Turgenevskaya parking project in order to move the near-completed project to the commissioning stage. This project is owned by a joint venture in which EPH is the 50% owner, but because there are two other owners, the stake is treated for accounting purposes as Investment in an Associate. As such, the entire amount of a loan to this joint venture is treated as a loan receivable.

Including accrued interest from these loans during 1Q 2011 the loans from EPH to its project joint ventures would result in a \$4.2 million increase in Loans and Receivables on the company's balance sheet.

- **Borrowings**

Long-term bank debt increased by \$39.3 million to a total of \$111.9 million.

On 20 February the company drew a \$40 million loan from Nomos Bank, secured by a mortgage on Geneva House.

Short-term bank debt decreased by \$13.0 million, as the proceeds of the Nomos loan were used to repay a shorter duration loan from Valartis Bank.

- **Accounts payable and accrued expenses**

The company received a \$10.0 million advance payment on 6 March from the buyer of majority stakes in Berlin House and Geneva House. This amount will be used, in full, to settle the remaining \$10 million payment owed to the former 50% owner of Geneva House.

Repayment of other amounts outstanding as of 31 December reduced the net impact on the balance sheet line to \$6.32 million

- **Cash and Cash Equivalents**

Cash and equivalents increased by \$25.9 million in the first quarter to \$35.5 million. This was primarily due to receipt of the Nomos loan and advance payment, net of loan repayment, project financing and management fee arrears.

## Significant Q1 Income and Expense Items

Rental income	31.03.2011
<b>Gross rental income</b>	<b>\$4'860'646</b>
Ground rents paid	-\$117'045
Service charge income on principal basis	\$725'240
Service charge expenses on principal basis	-\$876'776
Property operating expenses	-\$905'806
Repair and maintenance costs	-\$391'478
Non-income taxes	-\$761'609
<b>Net rental income</b>	<b>\$2'533'172</b>
<b>Other income/expense items</b>	
<b>Interest income</b>	<b>\$1'247'749</b>
<b>Finance costs</b>	<b>-\$2'153'248</b>
<b>Management fees</b>	<b>-\$1'713'844</b>
<b>Income taxes</b>	<b>-\$1'384'336</b>

## Significant Q1 Changes in Financial Position

Assets	31.03.2011	31.12.2010	Change
<b>Loans and receivables</b>	<b>\$33'095'532</b>	<b>\$28'888'022</b>	<b>\$4'207'510</b>
<b>Deferred tax assets</b>	<b>\$4'332'920</b>	<b>\$5'348'588</b>	<b>-\$1'015'668</b>
<b>Cash &amp; cash equivalents</b>	<b>\$35'477'565</b>	<b>\$9'621'851</b>	<b>\$25'855'714</b>
<b>Liabilities</b>			
<b>Long-term borrowings</b>	<b>\$111'925'000</b>	<b>\$72'607'666</b>	<b>\$39'317'334</b>
<b>Short-term borrowings</b>	<b>\$6'899'329</b>	<b>\$19'924'732</b>	<b>-\$13'025'403</b>
<b>Accounts payable and accrued expenses</b>	<b>\$34'809'617</b>	<b>\$28'492'261</b>	<b>\$6'317'356</b>
<b>Number of shares outstanding</b>	<b>4'262'613</b>	<b>4'262'613</b>	<b>0</b>

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**Eastern Property Holdings Ltd.** is an SIX Swiss Exchange-listed real estate development and investment company focusing on Russia. The company holds interests in office, residential, retail and parking properties and developments, principally in Moscow and St. Petersburg. EPH is managed by Valartis International Ltd. a wholly-owned subsidiary of Valartis Group AG. Additional information on Eastern Property Holdings is available by contacting Terry Olin, Tel: +41 22 716 1035.

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