

PRESS RELEASE

29 November 2011

Third Quarter 2011 Trading Update

Road Town, Tortola, BVI

KEY EVENTS

- **Completed final stage of 90% sale of Berlin House and Geneva House**
- **Cash proceeds from sale employed as foreseen**
 - **\$21 million used to pay \$5/share dividend**
 - **Investment in development projects**
 - **Debt reduced**
- **Rights to Arbat 1 and Arbat 2 projects have been extended to June 2014, allowing ample time to complete the projects and significantly lowering their risk profile**
- **Works progressing well on Arbat 1 project. Expect to complete 50% of concrete work by end-2011 and 100% in 2Q12**
- **Turgenevskaya Parking completed and ready for opening immediately upon receipt of exploitation permit**
- **Though little changed at 30 September, leases signed at Petrovsky Fort in October reduced the vacancy rate from the mid-year level of approximately 24% to 18%, the lowest level since mid-2009**
- **Analyst day in October introduced Moscow-based real estate sector equity analysts to EPH's assets and management**
- **Ruble/dollar exchange rate continues to be volatile. Profits/losses generated by changed ruble value of dollar-valued assets likely to, again, be a factor at year-end**

Significant financial events and changes for Q3 2011 are as follows (unaudited results):

Income

- **Rental Income**

The sale of 90% stakes in Berlin House and Geneva House reduces the net rental income line of our income statement from an annualized amount of approximately \$13.6 million – based on 1H 2011 results – to approximately \$4.7 million. As 10% owner of Berlin House and Geneva House, we continue to benefit from our pro-rata share of net rents from the two properties, but as the 10% stakes are treated as Investments in Associates, and no longer consolidated, rental income from the properties will no longer be included in the Rental Income line of our financial statements.

- **Interest Income**

Interest of \$1.4 million earned in Q3 alone was not far from \$1.6 million earned in the first six months of the year. The accelerating growth of interest income in Q3 is due to increase of Arbat and Inkonika projects financing plus recognition of interest income from Connecta and EPH Real Estate, which were eliminated as internal debt in previous periods.

Our significant cash balance is currently being retained until alternate financing is secured to ensure completion of the Arbat projects without interruption. In order to generate a reasonable return on our cash holdings without risk to principal, we have bought liquid, relatively short duration individual dollar or ruble-denominated bonds from investment grade European or Russian issuers.

In future periods, interest income can be expected to be dramatically higher due to increased financing of the Arbat projects and investment of cash balances in debt instruments.

Expenses

- **Management Fees**

Management fees are based on our Net Asset Value (NAV). \$1.4 million was accrued in management fees for the third quarter based on the NAV at 30 June. The \$21 million dividend paid on 21 September had little impact on the average NAV for Q3, but will result in still lower management fees in Q4.

- **Professional and Administration Fees**

Fees of almost \$1.4 million in Q3 were higher than \$1.2 million recognized for the first 6 months of the year, with the increase primarily due to legal expenses incurred in the first nine months of the year but invoiced and settled in Q3.

- **Finance costs**

As 100% owner of Berlin House and Geneva House, we also had approximately \$77 million of bank debt secured by the properties. After the sale of 90% interests in both, the \$40 million loan collateralized by Geneva House was paid off. Our 10% share of the \$37 million Berlin House loan is no longer included in bank debt on our balance sheet, but is used in the calculation of the net carrying value of Berlin House, reflected as an Investment in Associates.

Changes in Financial Position

- **Loans and Receivables (long term)**

Increase of \$6.3 million in Q3 as cash was used to finance the Arbat and Turgenevskaya Parking projects.

- **Investment in associates held for sale**

Reduced from \$9.0 million at mid-year to zero due to sale of the additional 10% stakes in the second stage of the Berlin House/Geneva House 90% sales.

- **Accounts receivable**

Accounts receivable were reduced from \$29.2 million at mid-year to \$6.1 million on 30 September. This was primarily due to receipt of payment for the first stage of the Berlin House sale which was pending on 30 June.

- **Loans and receivables (short term)**

Short term loans and receivables, meaning those due within 12 months, decreased by \$5.7 million. This is primarily because loans to Berlin and Geneva Houses have been effectively repaid by the new owner as part of the sale of the 10% interests.

- **Cash and Cash Equivalents**

At 30 September we had \$79 million of cash. While this is just \$4.1 million less than the \$83.3 million held at mid-year, actual cash inflows and outflows were much more significant. Key movements were:

- \$37 million, net of deal expenses (primarily broker and legal fees) was received from first and second stages of the Berlin House/Geneva House transactions, in which 80% and 10% stakes were sold to a single buyer
- \$21 million was paid to shareholders in the form of a \$5/share dividend
- \$9 million was used for debt reduction
- \$7 million was used to finance construction
- Other uses included operating expenses and first debt instrument investments

Significant Q3 Income and Expense Items

Rental income	Q3 Only	30.09.2011	30.06.2011
Gross rental income	\$1'786'628	\$12'010'105	\$10'223'477
Ground rents paid	-\$96'763	-\$322'782	-\$226'019
Service charge income on principal basis	\$360'193	\$2'752'665	\$2'392'472
Service charge expenses on principal basis	-\$304'909	-\$2'051'808	-\$1'746'899
Property operating expenses	-\$358'015	-\$2'192'608	-\$1'834'593
Repair and maintenance costs	-\$84'234	-\$559'007	-\$474'773
Non-income taxes	-\$138'296	-\$1'662'446	-\$1'524'150
Net rental income	\$1'164'604	\$7'974'119	\$6'809'515
Other Income/Expense Items			
Interest income	\$1'428'391	\$3'066'161	\$1'637'770
Management fees	-\$1'404'835	-\$4'557'781	-\$3'152'946
Professional and administration fees	-\$1'382'859	-\$2'582'926	-\$1'200'067
Finance costs	-\$843'519	-\$6'074'667	-\$5'231'148

Significant Q3 Changes in Financial Position

Assets	Change Q3	30.09.2011	30.06.2011
Loans and receivables (long term)	\$6'251'204	\$42'681'001	\$36'429'797
Investment in associates held for sale	-\$8'951'727	\$0	\$8'951'727
Accounts receivable	-\$23'111'795	\$6'075'182	\$29'186'977
Loans and receivables (short term)	-\$5'666'241	\$11'711'552	\$17'377'793
Cash & cash equivalents	-\$4'143'165	\$79'173'684	\$83'316'849
Liabilities			
Long-term debt	-\$450'000	\$34'900'000	\$35'350'000
Short-term debt	-\$4'931'162	\$1'914'895	\$6'846'057
Number of shares outstanding	0	4'262'613	4'262'613

CONFERENCE CALL WITH MANAGEMENT

Please join the quarterly call with management today, Tuesday, 29 November 2011 at 17:30 (CET).

The presentation for the call is available at www.easternpropertyholdings.com

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