

# SEMI-ANNUAL REPORT 2017

EASTERN PROPERTY  
HOLDINGS



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**MANAGEMENT**

REPORT





Dear Shareholders,

In the first half-year of 2017, Eastern Property Holdings Group has focused on the integration of its first Western European property, City Gate, a newly constructed Class A office and retail complex in Stuttgart, Germany. We have successfully established a service organization in Germany which will be able to serve our upcoming acquisition in Hamburg as well as a potential additional expansion of our portfolio towards Western Europe.

Germany is one of the most attractive, safe and liquid real estate markets in Europe which benefits from its strong demand due to diversified economy, growing reputation of the technology center, its young generation and increasing population, diverse investment environment and attractive risk-adjusted returns. Thus, based on the acquisition of City Gate our goal to reduce the dependency on the Russian real estate market development shows its first success as the real estate market in Stuttgart compared to the Russian has increased in the first half year 2017. We expect that with the acquisition of our second German property by the end of the year / beginning of 2018, Work Life Center in Hamburg, we will further stabilize the development of our portfolio as well as increase returns.

The Russian real estate market has so far remained stable, thus, has not recovered. Our properties – being Prime Class A office/retail properties located in the heart of Moscow only show a slight decrease in value owed to the general market development. It should be noted, however, that valuation of real estate assets involves a significant number of assumptions and judgment calls by the valuers. These variables include, but are not limited to: future rent and sales price levels, amount of time needed to rent or sell space, exchange rates. Varying any of these factors can have a material impact on valuations. When possible, valuers make their assumptions based on available evidence. When such evidence is lacking, which is the case in the current Russian market, it is necessary to make more judgments than is usually required. The current values of the Group's properties are based on the assumptions that reflect market conditions, existing and contracted rental agreements as at the reporting date. If the actual facts differ from the assumptions used in the valuation techniques or assumptions change in future, this could affect reported fair values.

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 the first time, or perhaps for the first time in some years, please be sure to also have the 2016 Annual Report on hand. You will find it on the Company's website, or a printed copy will be sent to you at request.

Sincerely,  
The Board of Directors  
September 2017

Our property holdings consist of 100% shareholdings in four mixed-use office and retail buildings, a 99.98% shareholding in a mixed-use office and retail building, all in Moscow as well as 60% stakes in two mixed-use properties under development in Moscow and a 100% stake in a land plot near St. Petersburg. In addition, we own 94% of a mixed-use office and retail building in Stuttgart, Germany, acquired in 2016.

The Group considers its current portfolio as optimal for the time being – the most of our assets are prime-class properties which are less exposed to sharp movements in the macro economy or the industry and which demonstrate high profitability regardless of the uncertainty in the Russian real estate market.

Our portfolio will continue to be predominantly focused on income-generating investment properties in Russia, CIS and Europe, producing ongoing long-term cash flows.

#### Berlin House

Berlin House is a prime class A office/retail property which is exclusively located in the heart of Moscow - approximately 500 meters from the Kremlin, on one of the most prominent shopping streets - and was completed and leased in 2002. In August 2014, EPH re-acquired the 90% stake in Berlin House, becoming its 100% owner.

The vacancy rate as of 30 June 2017 is 5%. The major tenants are Richemont Group, Apple and Thomson Reuters.

### 01 BERLIN HOUSE

13,381	141,560,000
BUILDING AREA	APPRAISED VALUE

7,352	5%
RENTABLE AREA	VACANCY RATE

100%	2002
OWNERSHIP	YEAR OF CONSTRUCTION

#### Geneva House

Geneva House is a Prime Class A office/retail property located next to Berlin House. It was completed by EPH in 2010 and the majority of the lease agreements have been signed in 2010 and 2011. In August 2014, EPH re-acquired the 90% stake in Geneva House, becoming its 100% owner.

The vacancy rate as of 30 June 2017 is 11%. The major tenants are Chanel, Akin Gump, S7 Airlines and Merrill Lynch.

### 02 GENEVA HOUSE

16,455	144,130,000
BUILDING AREA	APPRAISED VALUE

9,847	11%
RENTABLE AREA	VACANCY RATE

100%	2010
OWNERSHIP	YEAR OF CONSTRUCTION

#### Polar Lights

Polar Lights, a B+ class business center, has a beneficial location in one of the most developed business districts in the North of Moscow, inside the Third Transport Ring Road, and an efficient tenant mix of international and Russian companies: Setelem bank, Moet Hennessy, Rosagroleasing and Monex Trading. The building has been constructed in 2006 with 14 above ground levels and was fully renovated in 2012.

The vacancy rate as of 30 June 2017 is 13%. EPH acquired 100% of Polar Lights in September 2014.

### 03 POLAR LIGHTS

37,815	106,040,000
BUILDING AREA	APPRAISED VALUE

28,115	13%
RENTABLE AREA	VACANCY RATE

100%	2006
OWNERSHIP	YEAR OF CONSTRUCTION



### Hermitage Plaza

Hermitage Plaza is an A-class office building constructed / renovated in 2006. The property is beneficially located in proximity to the Kremlin area and is fronting the Moscow Garden Ring. EPH acquired 99.98% of Hermitage Plaza in December 2014. The anchor tenant is Vypelcom, one of the leading Russian telecommunication companies. The lease contract with Vypelcom is valid till October 2019.

## 04 HERMITAGE PLAZA

40,216	223,450,000
BUILDING AREA	APPRAISED VALUE

32,749	0%
RENTABLE AREA	VACANCY RATE

100%	1937 / 2006
OWNERSHIP	YEAR OF CONSTRUCTION

### City Gate

CityGate is a newly constructed Class A office and retail complex perfectly located in the center of Stuttgart, in close proximity to the main railway station. EPH acquired 94% of CityGate in November 2016. The major tenants are Land Baden-Württemberg, Rödl & Partner GmbH, DREISS Patentanwälte and Borgward Group AG. As of end of June 2017, CityGate is fully rented.

## 05 CITY GATE

17,300	127,130,000
BUILDING AREA	APPRAISED VALUE

15,000	0%
RENTABLE AREA	VACANCY RATE

94%	2016
OWNERSHIP	YEAR OF CONSTRUCTION

### 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.

### Arbat Projects

The Company owns 60% of two mixed-use developments in the historic Arbat district of Moscow, the principal pedestrian street in the historical centre of the city. The first property located at Arbat Street 24, includes office and luxury apartment space. The second property, located near the first at Arbat Street 39 consists of retail space and luxury apartments.

The main construction works with respect to both buildings have been finalized. Currently fit-out works with respect to the common areas are in progress for Arbat Street 24 property. For the second property the tender process to choose a contractor for the same type of works is now being performed.

Due to the high profile location, and the design of the projects, which does feature large well-lit living areas and sizeable terraces, the apartment premises in the buildings will be of elite standing.

## 06 ARBAT PROJECTS

36,000	156,000,000
BUILDING AREA	APPRAISED VALUE

14,000	60%
RENTABLE / SELLABLE AREA	OWNERSHIP

160	2016
PARKING LOTS	YEAR OF CONSTRUCTION

### Scandinavia Land

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



**EXTERNAL**

REPORTS



Jones Lang LaSalle LLC

2 Letnikovskaya St., Bldg. 1, Moscow 115114

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11 September 2017

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

Magistral'naya office building (Moscow)

Arbat 24 development (Moscow)

Arbat 39 development (Moscow)

Geneva House office building (Moscow)

Berlin House office building (Moscow)

Polar Lights office building (Moscow)

Hermitage Plaza office building (Moscow)

Scandinavia land plot (Leningrad Oblast)

We understand that the reports are required for accounting purposes. The date of valuation: 30 June 2017.

Our valuation has been carried out in compliance with the requirements of RICS Valuation - Global Standards 2017.

Market Value is defined by the RICS Valuation - Global Standards 2017 as *'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'*

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

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

**Yours faithfully**

A handwritten signature in black ink, appearing to read 'Tim Millard', is written over a light blue horizontal line.

**Tim Millard MRICS**

**Regional Director**

**For and on behalf of JLL**



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25 September 2017  
DHe/JSa

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### ***Assessment of Fair Value of the property CityGate Stuttgart***

Dear Mr. Friedrichs,

You have mandated PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Berlin ascertain the Fair Value of the Property “CityGate Stuttgart” at Friedrichstraße/Kriegsbergstraße/Arnulf-Klett-Platz crossing as at 31 December 2016.

You engaged us to update the Fair Value assessment of the subject property. The valuation is as of 30. June 2017.

The valuation was to serve IFRS accounting purposes in compliance with the International Financial Reporting Standard IFRS 13 issued by International Accounting Standards Board (IASB).

IFRS 13 defines Fair Value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.

We have summarized the assumptions, estimations and conclusions made in our valuation, and our opinion of Fair Value of the Property in our Report dated 14 September 2017.

According to the engagement letter signed by you, the Report is confidential and shall therefore not be passed in whole or in part to any third party and shall not in whole or in part be published or referred to in a public document, the Internet or any other public media.

Yours faithfully

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

A handwritten signature in blue ink that reads 'Dirk Hennig'.

Dirk Hennig

A handwritten signature in blue ink that reads 'ppa. sacchi'.

Julia Sacchi



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To the Board of Directors of  
**Eastern Property Holdings Limited, Tortola, British Virgin Islands**

Zurich, 26. September 2017

## Report on the review of interim condensed consolidated financial statements

### Introduction

We have reviewed the accompanying interim condensed consolidated financial report of Eastern Property Holdings Limited (interim condensed consolidated statement of financial position, interim condensed consolidated income statement, interim condensed consolidated of comprehensive income, interim condensed consolidated statement of cash flow, interim condensed consolidated statement of changes in equity and notes) for the period from 1 January 2017 to 30 June 2017. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 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 are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" and article 17 of the Directive on Financial Reporting (DFR) of the SIX Swiss Exchange.

Ernst & Young Ltd

Stefan Schmid  
Licensed audit expert  
(Auditor in charge)

Yana Toengi  
Chartered certified accountant

# FINANCIAL REPORT



in US\$	Note *	30.06.2017	31.12.2016
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	6	763,175,560	761,615,921
Goodwill		59,412,748	58,366,480
Loans and receivables	9	70,145,772	71,303,980
Deferred tax assets	12	4,789,857	8,274,979
Furniture and equipment		166,163	148,207
<b>Total non-current assets</b>		<b>897,690,100</b>	<b>899,709,567</b>
<b>Current assets</b>			
Cash & cash equivalents	10	38,504,062	41,378,278
Financial assets at fair value through profit or loss		–	552,596
Assets under development	8	77,922,362	72,855,882
Accounts receivable		972,604	1,248,216
Loans and receivables	9	3,725,614	3,723,555
Advance payment		19,632,861	17,997,585
Prepaid taxes		2,873,876	3,671,061
<b>Total current assets</b>		<b>143,631,379</b>	<b>141,427,173</b>
Investment property held for sale	6	3,930,000	3,800,000
<b>Total assets</b>		<b>1,045,251,479</b>	<b>1,044,936,740</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	11	454,984,819	454,759,092
Deferred tax liabilities	12	124,044,390	124,241,992
Other non-current liabilities		15,196,895	14,863,499
<b>Total non-current liabilities</b>		<b>594,226,104</b>	<b>593,864,583</b>
<b>Current liabilities</b>			
Accounts payable and accrued expenses	13	46,634,273	60,122,219
Borrowings	11	26,907,888	26,175,646
Property tax		1,220,469	170,937
Financial liabilities at fair value through profit or loss		147,134	104,067
Provisions for current liabilities and charges		1,486,731	1,464,797
<b>Total current liabilities</b>		<b>76,396,495</b>	<b>88,037,666</b>
<b>Equity</b>			
Share capital		590,539,374	590,539,374
Share premium		19,176,805	19,176,805
Treasury shares		–1,218,363	–1,016,269
Accumulated deficit		–131,523,595	–130,591,607
Cumulative translation adjustment		–104,200,901	–116,836,088
<b>Shareholders' equity attributable to the holders of the Company</b>		<b>372,773,320</b>	<b>361,272,215</b>
Non-controlling interest		1,855,560	1,762,276
<b>Total equity</b>		<b>374,628,880</b>	<b>363,034,491</b>
<b>Total equity and liabilities</b>		<b>1,045,251,479</b>	<b>1,044,936,740</b>
Number of shares outstanding		9,931,422	9,938,489
Net asset value per share		37.53	36.35

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



in US\$	Note *	30.06.2017	30.06.2016
<b>Rental income</b>			
Gross rental income	14	35,724,239	34,723,831
Ground rents paid	14	-267,299	-136,260
Service charge income on principal basis	14	6,020,429	5,361,389
Service charge expenses on principal basis	14	-2,080,496	-1,836,445
Property operating expenses	14	-1,156,644	-1,064,086
Repair and maintenance costs	14	-382,349	-254,392
Non-income taxes	14	-3,080,753	-711,096
<b>Net rental income</b>	<b>14</b>	<b>34,777,127</b>	<b>36,082,941</b>
<b>Administrative expenses</b>			
Management fees	17	-1,572,079	-1,512,861
Professional and administration fees		-1,625,836	-1,322,818
Salaries and social charges		-131,053	-90,302
<b>Total administrative expenses</b>		<b>-3,328,968</b>	<b>-2,925,981</b>
<b>Other income/ (expenses)</b>			
Interest income		288,661	2,689,842
Other income		1,173,309	57,334
Loan impairment charge	9	-2,374,789	-3,418,132
Other expenses		-330,736	-222,255
Depreciation		-2,304	-2,988
Net foreign exchange loss		-1,152,714	-53,480,937
<b>Net other expenses</b>		<b>-2,398,573</b>	<b>-54,377,136</b>
<b>Valuation movements</b>			
Net loss from fair value adjustment on financial instruments		-95,007	-143,051
Net loss from fair value adjustment on investment properties	6	-10,743,319	-1,693,389
<b>Net valuation movements</b>		<b>-10,838,326</b>	<b>-1,836,440</b>
<b>Net operating gain/ (loss) before finance cost</b>		<b>18,211,260</b>	<b>-23,056,616</b>
Finance costs	15	-14,987,478	-17,215,022
<b>Gain/ (loss) before taxes</b>		<b>3,223,782</b>	<b>-40,271,638</b>
Income taxes		-4,204,915	6,697,769
<b>Net loss for the period</b>		<b>-981,133</b>	<b>-33,573,869</b>
Attributable to:			
Equity holders of the Company		-931,988	-33,573,869
Non-controlling interest		-49,145	-
Weighted average number of outstanding shares		9,934,360	5,313,973
<b>Earnings per share for profit attributable to equity holders of the Company during the period</b>			
Basic and diluted		-0.09	-6.32

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

in US\$	Note *	30.06.2017	30.06.2016
<b>Net loss for the period</b>		-981,133	-33,573,869
<b>Other comprehensive gain/ (loss)</b>			
Other comprehensive gain to be reclassified to profit in subsequent periods:			
Gain on currency translation differences		12,777,616	47,538,355
Net other comprehensive gain to be reclassified to profit in subsequent periods		12,777,616	47,538,355
<b>Total comprehensive gain for the period</b>		<b>11,796,483</b>	<b>13,964,486</b>
<b>Attributable to:</b>			
Equity holders of the Company		11,703,199	13,964,486
Non-controlling interest		93,284	-

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

in US\$	Note *	30.06.2017	30.06.2016
<b>Cash flows from operating activities</b>			
Net loss for the period		-981,133	-33,573,869
Net foreign exchange loss		1,152,714	53,480,937
Net unrealised loss on investment properties	6	10,743,319	1,693,389
Loan impairment charge	9	2,374,789	3,418,132
Net unrealised loss/ (gain) on financial investments		45,525	-527,469
Depreciation		2,304	2,988
Interest income		-288,661	-2,689,842
Finance costs	15	14,987,478	17,215,022
Income tax expense/ (benefit)		4,204,915	-6,697,769
<b>Cash generated from operations before movements in working capital</b>		<b>32,241,250</b>	<b>32,321,519</b>
<b>Increase / decrease in receivables and payables</b>			
Decrease in payables and other liabilities		-7,926,089	-11,153,007
(Increase)/ decrease in receivables and other assets		-562,479	2,257,834
Increase in assets under development	8	-1,924,140	-1,245,851
<b>Cash generated from operations</b>		<b>21,828,541</b>	<b>22,180,496</b>
Interest income received		308,902	177,085
Income tax paid		-7,061,684	-5,318,481
<b>Net cash generated from operating activities</b>		<b>15,075,759</b>	<b>17,039,100</b>
<b>Cash flows from investing activities</b>			
Deferred acquisition purchase price paid		-2,564,576	-100,867,588
Net (purchase)/sale of financial instruments		545,250	-584,184
Investments in investment properties	6	-2,727,130	-740,174
Loans granted to joint operation entities		-1,212,410	-813,308
Loans granted to associates		-1,889	-7,005
<b>Net cash used in investing activities</b>		<b>-5,960,754</b>	<b>-103,012,258</b>
<b>Cash flows from financing activities</b>			
Finance costs paid		-14,058,970	-14,190,943
Acquisition of treasury shares		-202,094	-271,108
<b>Net cash used in financing activities</b>		<b>-14,261,064</b>	<b>-14,462,051</b>
<b>Net change in cash &amp; cash equivalents</b>		<b>-5,146,059</b>	<b>-100,435,210</b>
Cash & cash equivalents at the beginning of the period		41,378,278	127,772,076
Net gain/ (loss) from foreign currency translation		2,271,842	768,920
<b>Cash &amp; cash equivalents at the end of the period</b>	<b>10</b>	<b>38,504,062</b>	<b>28,105,786</b>

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

in US\$	Share capital	Share pre- mium	Treasury shares	Accumulated deficit	Currency translation adjustment	Shareholders' equity	Non-controlling interest	Total equity
<b>Balance as at 01.01.2016</b>	<b>414,418,955</b>	<b>19,176,805</b>	<b>-554,361</b>	<b>-60,108,705</b>	<b>-183,925,381</b>	<b>189,007,313</b>	<b>-</b>	<b>189,007,313</b>
Loss for the period	-	-	-	-33,573,869	-	-33,573,869	-	-33,573,869
Other comprehensive gain	-	-	-	-	47,538,355	47,538,355	-	47,538,355
Total comprehensive (loss)/ gain for the period	-	-	-	-33,573,869	47,538,355	13,964,486	-	13,964,486
Acquisition of treasury shares	-	-	-271,108	-	-	-271,108	-	-271,108
<b>Balance as at 30.06.2016</b>	<b>414,418,955</b>	<b>19,176,805</b>	<b>-825,469</b>	<b>-93,682,574</b>	<b>-136,387,026</b>	<b>202,700,691</b>	<b>-</b>	<b>202,700,691</b>
Net profit for the period	-	-	-	-36,909,033	-	-36,909,033	5,610	-36,903,423
Other comprehensive loss	-	-	-	-	19,550,938	19,550,938	-93,592	19,457,346
Total comprehensive gain/ (loss) for the period	-	-	-	-36,909,033	19,550,938	-17,358,095	-87,982	-17,446,077
Issue of shares	176,120,419	-	-	-	-	176,120,419	-	176,120,419
Acquisition of treasury shares	-	-	-190,800	-	-	-190,800	-	-190,800
Acquisition during the period	-	-	-	-	-	-	1,850,258	1,850,258
<b>Balance as at 31.12.2016</b>	<b>590,539,374</b>	<b>19,176,805</b>	<b>-1,016,269</b>	<b>-130,591,607</b>	<b>-116,836,088</b>	<b>361,272,215</b>	<b>1,762,276</b>	<b>363,034,491</b>
Loss for the period	-	-	-	-931,988	-	-931,988	-49,145	-981,133
Other comprehensive gain	-	-	-	-	12,635,187	12,635,187	142,429	12,777,616
Total comprehensive (loss)/ gain for the period	-	-	-	-931,988	12,635,187	11,703,199	93,284	11,796,483
Acquisition of treasury shares	-	-	-202,094	-	-	-202,094	-	-202,094
<b>Balance as at 30.06.2017</b>	<b>590,539,374</b>	<b>19,176,805</b>	<b>-1,218,363</b>	<b>-131,523,595</b>	<b>-104,200,901</b>	<b>372,773,320</b>	<b>1,855,560</b>	<b>374,628,880</b>

### 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 2017 were authorised for issue in accordance with a resolution of the directors on 26 September 2017. 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, 3rd floor, Road Town, Tortola, British Virgin Islands.

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

### 2. BASIS OF PREPARATION

The Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2017 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 2016.

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

### 3. CHANGES IN ACCOUNTING POLICIES

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

None of the amendments and interpretations effective as of 1 January 2017 is relevant to the Group.

#### Early adoption of standards

In 2017, 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, as in the year end 2016 the Group's assets have been aggregated into three operating segments: rental properties, development properties, and development financing and administration.

1. Rental Properties which consist of:
  - 100% of five commercial properties: Berlin House, Geneva House, Polar Lights, Hermitage Plaza and Magistal'naya in Moscow
  - 94% of commercial property City Gate in Stuttgart
  - 50% of an underground parking garage: Turgenevskaya Square in Moscow

Rental Properties generate rental income and incur expenses primarily for maintenance and building operations. Except for Turgenevskaya parking, they are predominantly comprised 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 Consolidated Income Statement and accounts presented by segment.

In prior years the Company issued bonds to finance acquisitions of rental properties therefore these bonds are presented in Rental Properties segment on liability side.

Loans to Vestive, the 50%-owned joint venture company which owns parking garage on Turgenevskaya Square are also presented in this segment.

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

Development Properties generate revaluation gains and losses, also based on certain dynamics (cost and availability of financing to developers, risk appetite, stage of completion, market sales prices) which are shared by all

projects, yet different from those impacting Rental Properties. The Group's Development assets are in or near Russia's two largest cities: Moscow and St. Petersburg. Development Properties reflect a mixture of properties which, when completed, will either be retained and held as Rental Properties or will be, in the course of business, held for sale.

3. Development Financing and Administration which consists of:
  - Loans to Vakhtangov Place Ltd., the 60%-owned joint operation company which is developing the Arbat Multi-use Complexes
  - Administration expenses

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

Information provided to the Management Committee is measured in a manner consistent with that in the financial statements.

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

in US\$	30.06.2017				Total
	Rental Property	Development Properties	Development	Financing and Administration	
Gross rental income	35,724,239	–	–	–	35,724,239
Other rental income/ (expenses)	–947,112	–	–	–	–947,112
Net rental income	34,777,127	–	–	–	34,777,127
Interest income	288,661	–	–	–	288,661
Loan impairment charge	–	–	–	–2,374,789	–2,374,789
Net foreign exchange gain/ (loss)	–14,032,186	531,566	12,347,907	–	–1,152,714
Valuation movements	–9,948,326	–890,000	–	–	–10,838,326
Finance costs	–14,086,399	–870,839	–30,240	–	–14,987,478
Income taxes	–1,308,473	–2,894,268	–2,174	–	–4,204,915
Other income/ (expenses)	–447,917	–335,984	–1,704,798	–	–2,488,699
<b>Net (loss) / profit for the period</b>	<b>–4,757,513</b>	<b>–4,459,525</b>	<b>8,235,905</b>	<b>–</b>	<b>–981,134</b>

in US\$	30.06.2016				Total
	Rental Property	Development Properties	Development	Financing and Administration	
Gross rental income	37,392,425	–	–	–	37,392,425
Other rental income/ (expenses)	776,209	–	–	–	776,209
Net rental income	38,168,634	–	–	–	38,168,634
Interest income	–	–	–	3,019,032	3,019,032
Loan impairment charge	–239,110	–	–	–	–239,110
Net foreign exchange gain/ (loss)	–41,111,343	4,173,887	2,722,436	–	–34,215,020
Valuation movements	–23,768,020	–808,823	–	–	–24,576,843
Finance costs	–16,875,723	–2,078	–13,247	–	–16,891,047
Income taxes	7,614,625	–281,595	–1,607	–	7,331,423
Other income/ (expenses)	–811,213	–1,222,537	–1,413,426	–	–3,447,176
<b>Net (loss) / profit for the period</b>	<b>–37,022,149</b>	<b>1,858,854</b>	<b>4,313,189</b>	<b>–</b>	<b>–30,850,106</b>

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 30.06.2017

	Rental Properties	Development Properties	Development Financing and Administration	Total
Investment properties	750,455,560	12,720,000	–	763,175,560
Investment property held for sale	–	3,930,000	–	3,930,000
Goodwill	59,412,748	–	–	59,412,748
Assets under development	–	77,922,362	–	77,922,362
Loans and receivables	3,725,614	–	70,145,772	73,871,386
Cash & cash equivalents	32,531,790	2,104,177	3,868,095	38,504,061
Other Assets	23,884,600	4,405,114	145,647	28,435,361
<b>Total Assets</b>	<b>870,010,312</b>	<b>101,081,653</b>	<b>74,159,514</b>	<b>1,045,251,478</b>
<b>Total Liabilities</b>	<b>646,921,065</b>	<b>23,464,386</b>	<b>237,149</b>	<b>670,622,600</b>

Assets and liabilities valuation as of 31.12.2016

	Rental Properties	Development Properties	Development Financing and Administration	Total
Investment properties	747,875,921	13,740,000	–	761,615,921
Investment property held for sale	–	3,800,000	–	3,800,000
Goodwill	58,366,480	–	–	58,366,480
Financial assets at fair value through profit or loss	552,596	–	–	552,596
Assets under development	–	72,855,882	–	72,855,882
Loans and receivables	3,723,555	–	71,303,980	75,027,535
Cash & cash equivalents	26,126,990	1,948,460	13,302,828	41,378,278
Other Assets	23,195,300	7,956,642	188,106	31,340,048
<b>Total Assets</b>	<b>859,840,842</b>	<b>100,300,984</b>	<b>84,794,914</b>	<b>1,044,936,740</b>
<b>Total Liabilities</b>	<b>659,248,494</b>	<b>22,245,630</b>	<b>408,125</b>	<b>681,902,249</b>



## 5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In preparing these Interim Condensed Consolidated Financial Statements, the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Consolidated Financial Statements as at and for the year ended 31 December 2016.

Valuation of real estate assets 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, best and highest use of an asset or space in an asset, and exchange rates. Varying any of these factors can have a material impact on valuations, and variations in a number of these factors at once can have a significant effect.

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

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

## 6. INVESTMENT PROPERTIES

in US\$	30.06.2017	31.12.2016
<b>Investment Properties</b>		
<b>Beginning of the period</b>	<b>765,415,921</b>	<b>661,775,910</b>
Acquisitions arising from business combinations	–	121,856,040
Additions from subsequent expenditure	2,727,130	1,104,304
Revaluations	–10,743,319	–14,410,059
Land lease obligations and embedded derivatives	111,595	1,253,046
Forex effect	9,594,234	–6,163,320
<b>Total Investment Properties</b>	<b>767,105,560</b>	<b>765,415,921</b>
Less: classified as held for sale	–3,930,000	–3,800,000
<b>End of period</b>	<b>763,175,560</b>	<b>761,615,921</b>
in US\$	30.06.2017	31.12.2016
<b>Market value as estimated by the external valuer</b>		
<b>external valuer</b>	<b>763,576,300</b>	<b>762,039,370</b>
Add: finance lease obligation recognised separately	3,382,126	3,272,484
Add: embedded derivatives recognised separately	147,134	104,067
<b>Fair value for financial reporting purposes</b>	<b>767,105,560</b>	<b>765,415,921</b>

Investment Properties comprise the following:

in US\$	30.06.2017	31.12.2016
<b>Investment Properties</b>		
A. Berlin House	141,914,222	136,377,351
B. Geneva House	144,620,313	146,116,910
C. Polar Lights	106,962,428	111,128,167
D. Hermitage	225,114,735	233,719,228
E. Magistral'naya	4,711,562	4,521,895
F. City Gate	127,132,300	116,012,370
G. Arbat Multi-use Complexes	12,720,000	13,740,000
H. "Scandinavia" Land plots in St. Petersburg	3,930,000	3,800,000
<b>Total Investment Properties</b>	<b>767,105,560</b>	<b>765,415,921</b>
Less: classified as held for sale	-3,930,000	-3,800,000
<b>End of period</b>	<b>763,175,560</b>	<b>761,615,921</b>

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

in US\$	30.06.2017	30.06.2016
<b>Net gain/ (loss) from fair value adjustment on investment properties</b>		
A. Berlin House	5,510,000	-2,460,000
B. Geneva House	-1,510,000	-1,743,465
C. Polar Lights	-4,193,157	324,938
D. Hermitage	-8,650,000	-281,862
E. Magistral'naya	187,000	277,000
F. City Gate	-1,197,162	-
G. Arbat Multi-use Complexes	-1,020,000	1,920,000
H. "Scandinavia" Land plots in St. Petersburg	130,000	270,000
<b>Total</b>	<b>-10,743,319</b>	<b>-1,693,389</b>

**RENTAL PROPERTIES**

**A. Berlin House**

in US\$	30.06.2017	31.12.2016
<b>Berlin House</b>		
Beginning of the period	136,377,351	140,168,810
Revaluation	5,510,000	-3,780,000
Land lease obligations	26,871	-11,459
<b>End of period</b>	<b>141,914,222</b>	<b>136,377,351</b>

Berlin House is a 13,381 square meter commercial property located at 5, Petrovka Street in Moscow. The building's 7,352 square meters of net rentable space is divided between 5,016 square meters of office space and 2,336 square meters of retail space. The building has 62 underground parking spaces.

As of 30 June 2017, the vacancy rate as a percentage of the total rentable area of the building was 5% (31 December 2016: 7%).

The fair value of Berlin House was determined to be US\$ 141.56 million as of 30 June 2017 (31 December 2016: US\$ 136.05 million), based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Berlin House represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (30 June 2017: US\$ 0.35 million and 31 December 2016: US\$ 0.33 million). The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases.

**B. Geneva House**

in US\$	30.06.2017	31.12.2016
<b>Geneva House</b>		
Beginning of the period	146,116,910	148,282,062
Additions from subsequent expenditure	–	10,746
Revaluation	–1,510,000	–2,260,746
Land lease obligations	13,403	84,848
<b>End of period</b>	<b>144,620,313</b>	<b>146,116,910</b>

Geneva House is a 16,455 square meter commercial property at 7, Petrovka Street in Moscow. The building has about 9,847 square meters of net rentable space, divided between 7,930 square meters of office space and 1,917 square meters of retail space. The building also has 127 underground parking spaces.

As of 30 June 2017, the vacancy rate as a percentage of the total rentable area of the building was 11% (31 December 2016: 13%).

The fair value of Geneva House was determined to be US\$ 144.13 million as of 30 June 2017 (31 December 2016: US\$ 145.64 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Geneva House represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (30 June 2017: US\$ 0.49 million and 31 December 2016: US\$ 0.48 million). The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases.

**C. Polar Lights**

in US\$	30.06.2017	31.12.2016
<b>Polar Lights</b>		
Beginning of the period	111,128,167	115,960,877
Additions from subsequent expenditure	4,271	1,065,549
Revaluation	–4,193,157	–6,772,954
Land lease obligations	21,193	754,101
Embedded derivatives	1,953	120,595
<b>End of period</b>	<b>106,962,428</b>	<b>111,128,167</b>

Polar Lights is a B+ class business center with a total area of 37,815 square meter located at 26, Pravdy Street in Moscow. The building's 28,115 square meters of net rentable space is divided between 26,473 square meters of office space and 1,642 square meters of retail space. The building has an underground parking facility with 161 parking spaces and an above ground car park.

As of 30 June 2017, the vacancy rate as a percentage of total rentable area of the building was 13% (31 December 2016: 2%).

The fair value of Polar Lights was determined to be US\$ 106.04 million as of 30 June 2017 (31 December 2016: US\$ 110.27 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Polar Lights represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (30 June 2017: US\$ 0.78 million and 31 December 2016: US\$ 0.75 million) and the adjustment for embedded derivatives (30 June 2017: US\$ 0.1 million and 31 December 2016: US\$ 0.1 million). The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases.

D. Hermitage Plaza

in US\$	30.06.2017	31.12.2016
<b>Hermitage Plaza</b>		
Beginning of the period	233,719,228	238,571,149
Additions from subsequent expenditure	–	20,571
Revaluation	–8,650,000	–5,160,571
Land lease obligations	45,507	288,079
<b>End of period</b>	<b>225,114,735</b>	<b>233,719,228</b>

Hermitage Plaza is an A class business center including three buildings with a total area of 40,216 square meter located at Krasnoproletarskaya Street in Moscow. Of the net rentable space, 32,363 square meters are designated for office use and about 386 square meters for retail space. The buildings have an underground parking facility with 284 parking spaces and an above-ground car park.

As of 30 June 2017, the vacancy rate as a percentage of the total rentable area of the building was 0% (31 December 2016: 0%).

The fair value of Hermitage Plaza was determined to be US\$ 223.45 million as of 30 June 2017 (31 December 2016: US\$ 232.10 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Hermitage Plaza represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (30 June 2017: US\$ 1.67 million and 31 December 2016: US\$ 1.62 million). The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases.

E. Magistral'naya

in US\$	30.06.2017	31.12.2016
<b>Magistral'naya</b>		
Beginning of the period	4,521,895	4,513,012
Additions from subsequent expenditure	–	7,438
Revaluation	187,000	–15,438
Land lease obligations	2,667	16,883
<b>End of period</b>	<b>4,711,562</b>	<b>4,521,895</b>

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

As of 30 June 2016, the entire office complex, with the exception of 135 sq m, used by the Group, is let to one tenant for a 10 year lease agreement signed in March 2012.

The fair value of Magistral'naya was determined to be US\$ 4.61 million as of 30 June 2017 (31 December 2016: US\$ 4.43 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Magistral'naya represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (30 June 2017: US\$ 0.1 million and 31 December 2016: US\$ 0.09 million). The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases.

**F. City Gate**

in US\$	30.06.2017	31.12.2016
<b>City Gate</b>		
Beginning of the period	116,012,370	–
Acquisition of City Gate	–	121,856,040
Additions from subsequent expenditure	2,722,858	–
Revaluation	–1,197,162	319,650
Forex effect	9,594,234	–6,163,320
<b>End of period</b>	<b>127,132,300</b>	<b>116,012,370</b>

In the beginning of November 2016 the Group acquired 94% of CityGate Stuttgart GmbH, which owns a newly constructed Class A office and retail complex with an underground parking located in the centre of Stuttgart, in close proximity to the main railway station. Of the net rentable space, 15,342 square meters are designated for office use and 1,954 square meters for retail space. The building has an underground parking facility with 150 parking spaces

As of 30 June 2017, the vacancy rate as a percentage of total rentable area of the building was 0% (31 December 2016: 22%).

The fair value of CityGate was determined to be EUR 111.50 million (US\$ 127.13 million) as of 30 June 2017 (31 December 2016: EUR 110.10 million (US\$ 116.01 million)) based on an independent valuation prepared by PWC. The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases.

**PROPERTIES UNDER DEVELOPMENT****G. Arbat Multi-use Complexes (retail and office premises)**

in US\$	30.06.2017	31.12.2016
<b>Arbat Multi-use complexes</b>		
Beginning of the period	13,740,000	10,980,000
Revaluation	–1,020,000	2,760,000
<b>End of period</b>	<b>12,720,000</b>	<b>13,740,000</b>

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

The two Arbat Multi-use Complexes each contain retail/office premises, residential apartments and 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\$ 12.72 million as of 30 June 2017 (31 December 2016: US\$ 13.74 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 HELD FOR SALE

H. "Scandinavia" Land plots in St. Petersburg

in US\$	30.06.2017	31.12.2016
<b>"Scandinavia" Land</b>		
Beginning of the period	3,800,000	3,300,000
Revaluation	130,000	500,000
<b>End of period</b>	<b>3,930,000</b>	<b>3,800,000</b>

The Company owns four land plots located at Leninskoye Settlement, "Pervomaiskoye Selskoye Poseleniye", Vyborgsky District, in the Leningrad Region near St. Petersburg, Russia, with a total area of 55 hectares.

At the end of 2016 the Company signed four sale-purchase agreements for each land plot therefore it is classified as investment property held for sale. It is expected the deal will be closed by the end of 2017.

The fair value of these 55 hectares land plots was determined to be US\$ 3.93 million as of 30 June 2017 (31 December 2016: US\$ 3.80 million) based on an independent valuation prepared by Jones Lang LaSalle. In calculating the market value the appraiser used sales comparable method.

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 Royal Institution of Chartered Surveyors (RICS) valuation standards. These techniques comprise the Yield Method, the Discounted Cash Flow Method within the income approach and Sales Comparable Method.

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

For all investment properties that are measured at fair value, the current use of the property is considered the highest and best use. The Group did not change the valuation techniques for its investment properties during 2017.

#### 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.

Under Sales Comparable Method, estimations of the property's market value are based on analysis of recent sales/offers of comparable real estate assets, provided that key parameters of the comparable assets are similar to the ones of the valued property. The method assumes that the market will estimate the value of the valued property the same way as it was done for comparable properties.

*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 2017, the Group held the investment properties carried at fair value in the statement of financial position:

In US\$	Level 1	Level 2	Level 3	30.06.2017
<b>Investment properties measured at fair value</b>				
A. Berlin House	–	–	141,914,222	141,914,222
B. Geneva House	–	–	144,620,313	144,620,313
C. Polar Lights	–	–	106,962,428	106,962,428
D. Hermitage	–	–	225,114,735	225,114,735
E. Magistral'naya	–	–	4,711,562	4,711,562
F. City Gate	–	–	127,132,300	127,132,300
G. Arbat Multi-use Complexes	–	–	12,720,000	12,720,000
H. "Scandinavia" Land plots in St. Petersburg	–	–	3,930,000	3,930,000
<b>Total</b>	–	–	<b>767,105,560</b>	<b>767,105,560</b>

During the period ending 30 June 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

As at 31 December 2016, the Group held the investment properties carried at fair value in the statement of financial position:

In US\$	Level 1	Level 2	Level 3	31.12.2016
<b>Investment properties measured at fair value</b>				
A. Berlin House	–	–	136,377,351	136,377,351
B. Geneva House	–	–	146,116,910	146,116,910
C. Polar Lights	–	–	111,128,167	111,128,167
D. Hermitage	–	–	233,719,228	233,719,228
E. Magistral'naya	–	–	4,521,895	4,521,895
F. City Gate	–	–	116,012,370	116,012,370
G. Arbat Multi-use Complexes	–	–	13,740,000	13,740,000
H. "Scandinavia" Land plots in St. Petersburg	–	–	3,800,000	3,800,000
<b>Total</b>	–	–	<b>765,415,921</b>	<b>765,415,921</b>

During the period ending 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements.

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



## Valuation techniques used to derive Level 3 fair values

The table below presents the following for each investment property:

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

Property	Fair value as of 30.06.2017	Valuation technique	Key unobservable inputs	Range (Weighted average) 30.06.2017
				US\$ 850 - US\$ 2,250 (US\$ 1,290)
Berlin House	\$141,560,000	Income capitalisation	ERV Equivalent yield	9.25%
				US\$ 900 - US\$ 3,175 (US\$ 1,069)
Geneva House	\$144,130,000	Income capitalisation	ERV Equivalent yield	9.25%
				US\$ 162 - US\$ 1,063 (US\$ 367)
Polar Lights	\$106,040,000	Income capitalisation	ERV Equivalent yield	10.25%
				US\$ 366 - US\$ 664 (US\$ 570)
Hermitage Plaza	\$223,450,000	Income capitalisation	ERV Equivalent yield	9.25%
				US\$ 180 (US\$ 180)
Magistral'naya	\$4,614,000	Income capitalisation	ERV Equivalent yield	12.25%
				€ 258 - € 300 (€ 278)
		DCF, Income capitalisation	ERV Discount rate Capitalisation rate	4.50% 4.00%
City Gate	€ 111,500,000			US\$ 401 - US\$ 1,307 (US\$ 732)
		DCF, Income capitalisation	ERV Discount rate Capitalisation rate	13.0% 10.0% - 10.5%
Arbats IP	\$12,720,000			
Scandinavia	\$3,930,000	Comparable approach	n.a	n.a

Property	Fair value as of 31.12.2016	Valuation technique	Key unobservable inputs	Range (Weighted average) 31.12.2016
				US\$ 850 - US\$ 2,250 (US\$ 1,290)
Berlin House	\$136,050,000	Income capitalisation	ERV Equivalent yield	9.50%
				US\$ 900 - US\$ 3,350 (US\$ 1,115)
Geneva House	\$145,640,000	Income capitalisation	ERV Equivalent yield	9.50%
				US\$ 158 - US\$ 1,433 (US\$ 399)
Polar Lights	\$110,270,000	Income capitalisation	ERV Equivalent yield	10.50%
				US\$ 330 - US\$ 640 (US\$ 638)
Hermitage Plaza	\$232,100,000	Income capitalisation	ERV Equivalent yield	9.50%
				US\$ 180 (US\$ 180)
Magistral'naya	\$4,427,000	Income capitalisation	ERV Equivalent yield	12.25%
				€ 258 - € 300 (€ 276)
		DCF, Income capitalisation	ERV Discount rate Capitalisation rate	4.55% 4.00%
City Gate	€ 110,100,000			US\$ 410 - US\$ 1,484 (US\$ 803)
				13.0% - 13.5%
Arbats IP	\$13,740,000	DCF, Income capitalisation	ERV Discount rate Capitalisation rate	10.0% - 10.5%
Scandinavia	\$3,800,000	Comparable approach	n.a	n.a

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

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

- ERV
- Equivalent yield
- Discount rate
- Capitalisation rate

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

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

30.06.2017		Effect on fair value	
in US\$	Sensitivity used	Completed investment property	Investment property under construction
Decrease in ERV	5%	-21,466,564	-660,000
Increase in equivalent yield	0.25 bps	-15,973,000	-
Increase in discount rate	0.25 bps	-2,573,303	-120,000
Increase in capitalisation rate	0.25 bps	-5,219,748	-300,000

31.12.2016		Effect on fair value	
in US\$	Sensitivity used	Completed investment property	Investment property under construction
Decrease in ERV	5%	-21,517,004	-720,000
Increase in equivalent yield	0.25 bps	-16,102,000	-
Increase in discount rate	0.25 bps	-2,365,669	-60,000
Increase in capitalisation rate	0.25 bps	-4,776,342	-300,000

#### 8. ASSETS UNDER DEVELOPMENT

in US\$	30.06.2017	31.12.2016
<b>Assets under development</b>		
Beginning of the period	72,855,882	57,656,429
Additions from construction expenditure	1,924,140	2,995,295
Interest capitalization	–	1,749,000
Forex effect	3,142,340	10,455,158
<b>End of period</b>	<b>77,922,362</b>	<b>72,855,882</b>

#### ARBAT MULTI-USE COMPLEXES UNDER DEVELOPMENT (APARTMENT PREMISES)

The Group's 60% joint operation company, Vakhtangov Place Limited (VPL), is developing two multi-use complexes on Moscow's Arbat Street. The complexes will be composed of both retail/office space and residential apartments. As residential space in Moscow is generally sold, rather than held for rental income, the areas in the projects which are being developed as apartments are recognised as Assets under Development. Space in the same projects which will be developed as retail space, and presumably held for rental income, is 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 and net realizable value. The cost of the space allocated for apartments in the Arbat Multi-use Complexes was determined to be US\$ 77.92 million as of 30 June 2017 (31 December 2016: US\$ 72.86 million).

#### 9. LOANS AND RECEIVABLES

in US\$	30.06.2017	31.12.2016
<b>Loans (long term)</b>		
Vakhtangov Place Limited	70,088,895	71,247,103
Bluestone Investments	56,877	56,877
<b>Total</b>	<b>70,145,772</b>	<b>71,303,980</b>
<b>Loans (short term)</b>		
Vestive	3,650,000	3,650,000
Other	75,614	73,555
<b>Total</b>	<b>3,725,614</b>	<b>3,723,555</b>

#### Vakhtangov Place Limited (VPL) and Bluestone Investments

The Group has financed the construction of the Arbat Multi-use Complexes by granting interest-bearing loans to the joint operations. The loans are generally granted for a one year period, and then, if appropriate, renewed.

The Group recognizes 60% of VPL's and Bluestone's assets, liabilities, incomes and expenses. As such, 60% of the Group's loans to the joint operations are eliminated in consolidation, while the remaining 40% of the loans are carried on the Group's balance sheet as Loans and Receivables.

Although no security for the above loans is legally established, in fact the recoverability of the loan amount depends on if the future proceeds from Arbat projects are sufficient for the repayment of these loans. Despite the total value of both Arbat projects did not change significantly during first six months 2017 the Group has recognized additional impairment charge for the loans to VPL mostly due to the additional financing provided to Arbat projects during this period. The amount of impairment charge is US\$ 2.38 million (30 June 2016: US\$ 4.64 million).

### Vestive

The Group has granted 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 were treated as Loans and Receivables. In July 2017 the Company sold its 50% share in Vestive being a non-core asset. The amount of US\$ 3.65 million received in July 2017 represents the consideration for the assignment of rights under the loans provided to Vestive (Note 19).

in US\$	30.06.2017	30.06.2016
Vakhtangov Place Limited loan impairment charge	-2,374,789	-3,987,568
Bluestone Investments loan impairment charge	-	-655,032
Vestive loan impairment charge reversal	-	1,224,468
<b>Total</b>	<b>-2,374,789</b>	<b>-3,418,132</b>

### 10. CASH AND CASH EQUIVALENTS

in US\$	30.06.2017	31.12.2016
Cash at bank	33,815,463	31,695,032
Fiduciary deposits	4,688,599	9,683,246
<b>Cash and cash equivalents</b>	<b>38,504,062</b>	<b>41,378,278</b>

### 11. BORROWINGS

in US\$	30.06.2017	31.12.2016
<b>Borrowings (long term)</b>		
Bonds issued	453,501,655	453,393,666
Meglier Holdings Limited	1,483,164	1,365,426
Jilford Investments Limited	-	-
<b>Total</b>	<b>454,984,819</b>	<b>454,759,092</b>
<b>Borrowings (short term)</b>		
Jilford Investments Limited	23,068,932	22,201,619
Bonds interest accrued	3,712,500	3,795,000
Meglier Holdings Limited	41,958	9,853
Other	84,498	169,174
<b>Total</b>	<b>26,907,888</b>	<b>26,175,646</b>

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

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

	Nominal value, US\$	Nominal interest rate	Maturity date
Bonds issued in Aug 2014	140,000,000	5.5%	Sep 2023
Bonds issued in Sep 2014	130,000,000	5.5%	Sep 2023
Bonds issued in Jun 2015	135,000,000	7.25%	May 2024
Bonds issued in Dec 2015	50,000,000	6.75%	Dec 2024

## 12. DEFERRED TAX ASSETS AND LIABILITIES

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

in US\$	Consolidated statement of financial position	
	30.06.2017	31.12.2016
<b>Deferred tax assets gross</b>		
Due to losses available for offset against future taxable income	7,652,500	12,378,217
<b>Deferred tax liability gross</b>		
Due to revaluation of investment property to fair value	-127,005,033	-128,345,230
<b>Deferred tax liabilities net</b>	<b>-119,352,533</b>	<b>-115,967,013</b>
Reflected on the statement of financial position as follows		
Deferred tax assets net	4,789,857	8,274,979
Deferred tax liability net	-124,044,390	-124,241,992
<b>Deferred tax liabilities net</b>	<b>-119,254,533</b>	<b>-115,967,013</b>

Tax losses have been recognised as a Deferred Income Tax Asset as it is probable that taxable profit will be available against which the unused tax losses can be utilised. As of 30 June 2017, the available tax losses capable of being carried forward can be offset against taxable profits.

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

## 13. ACCOUNTS PAYABLE

in US\$	30.06.2017	31.12.2016
<b>Accounts Payable (short term)</b>		
Remaining consideration of the purchase price of Hermitage Plaza	30,000,000	30,000,000
Deferred part of the purchase price of City Gate	-	2,564,576
Due to other 3rd parties	16,475,607	27,463,285
Due to Valartis	158,666	94,358
<b>Total</b>	<b>46,634,273</b>	<b>60,122,219</b>

The deferred part of the purchase price of City Gate was fully paid in February 2017.

The remaining consideration of the purchase price of Hermitage Plaza is pledged by 47,000 shares (50% of shares) of Capital Estate Group Limited.

**14. GROSS AND NET RENTAL INCOME**

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

30.06.2017							
in US\$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	Magistral'naya	City Gate	Total
Gross rental income	6,643,932	6,751,205	7,016,629	12,796,277	322,708	2,193,488	35,724,239
Ground rents paid	-14,940	-41,817	-71,077	-127,170	-12,295	-	-267,299
Service charge income on principal basis	1,104,247	1,002,574	1,207,663	2,097,571	145,027	463,348	6,020,429
Service charge expenses on principal basis	-380,083	-426,356	-524,027	-298,929	-84,227	-366,873	-2,080,496
Property operating expenses	-12,866	-15,786	-388,743	-677,833	-1,739	-59,677	-1,156,644
Repair and maintenance costs	-81,667	-	-215,696	-53,290	-13,488	-18,208	-382,349
Non-income taxes	-482,097	-566,182	-821,873	-867,471	-39,345	-303,785	-3,080,753
<b>Net rental income</b>	<b>6,776,525</b>	<b>6,703,638</b>	<b>6,202,875</b>	<b>12,869,155</b>	<b>316,641</b>	<b>1,908,293</b>	<b>34,777,127</b>

  

30.06.2016							
in US\$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	Magistral'naya	City Gate	Total
Gross rental income	7,609,202	7,226,577	7,069,127	12,564,627	254,298	-	34,723,831
Ground rents paid	-16,692	-19,179	-32,764	-64,529	-3,095	-	-136,260
Service charge income on principal basis	1,154,414	814,660	1,207,889	2,072,710	111,716	-	5,361,389
Service charge expenses on principal basis	-285,434	-764,725	-435,135	-273,235	-77,916	-	-1,836,445
Property operating expenses	-15,535	-12,729	-391,558	-643,059	-1,206	-	-1,064,086
Repair and maintenance costs	-137,366	-	-40,299	-44,680	-32,047	-	-254,392
Non-income taxes	-169,076	-176,462	-288,973	-66,020	-10,566	-	-711,097
<b>Net rental income</b>	<b>8,139,513</b>	<b>7,068,142</b>	<b>7,088,287</b>	<b>13,545,815</b>	<b>241,184</b>	<b>-</b>	<b>36,082,941</b>

Significant increase of Non-income taxes in Russian assets is caused by the reassessment of cadastral value of these properties based on which the property tax is calculated.

As of 30 June 2017, the top five tenants in the Group are Vimpelcom (35% of the annual rental income), Richemont Group (10%), S7 Airlines (4%), Akin Gump (4%), and Chanel (4%). As of 31 December 2016, the top five tenants in the Group are Vimpelcom (36% of the annual rental income), Richemont Group (10%), Reuters (6%), Merrill Lynch (5%) and Chanel (4%).

The following table represents the rental income to be received by the Group in future periods under leases currently in effect:

in US\$	30.06.2017	30.06.2016
Less than 1 year	72,159,006	66,831,424
From 1 year to 5 years	183,117,689	185,893,418
More than 5 years	39,856,260	31,514,209
<b>Total</b>	<b>295,132,955</b>	<b>284,239,051</b>

**15. FINANCE COSTS**

in US\$	30.06.2017	30.06.2016
Interests on bonds issued	14,032,623	14,078,753
Interest on deferred part of the purchase price and contingent consideration of the purchase price	-	3,026,565
Interest on loans payable	897,244	-
Bank charges	42,361	43,612
Other finance cost	15,250	66,092
<b>Total</b>	<b>14,987,478</b>	<b>17,215,022</b>

16. 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.

	Number of ordinary shares		Number of series A preferred shares	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
<b>Authorised capital</b>				
<b>Total authorised capital</b>	<b>11,000,000</b>	<b>11,000,000</b>	<b>1,000,000</b>	<b>1,000,000</b>
Opening balance unissued authorised capital	1,025,978	5,661,868	1,000,000	1,000,000
Increase	–	–	–	–
Utilisation for capital increase	–	–4,635,890	–	–
Conversion to ordinary shares	–	–	–	–
<b>Closing balance unissued authorised capital</b>	<b>1,025,978</b>	<b>1,025,978</b>	<b>1,000,000</b>	<b>1,000,000</b>

	Number of ordinary shares		Number of series A preferred shares	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
<b>Issued share capital</b>				
Opening balance	9,974,022	5,338,132	–	–
Capital increase	–	4,635,890	–	–
<b>Closing balance</b>	<b>9,974,022</b>	<b>9,974,022</b>	<b>–</b>	<b>–</b>

	Number of shares	
	30.06.2017	31.12.2016
<b>Treasury shares</b>		
Opening balance	35,533	19,635
Issued to treasury	–	–
Purchase	7,067	16,863
Sales	–	965
<b>Closing balance</b>	<b>42,600</b>	<b>35,533</b>

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.



#### 17. RELATED PARTIES

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

Name of subsidiary	Incorporated in	% Holding	
		30.06.2017	31.12.2016
Eastern Property Partners II LP	Grand Cayman, Cayman Islands	100%	100%
Housefar Limited	Limassol, Cyprus	100%	100%
Idelisa Limited	Limassol, Cyprus	100%	100%
Silverlake Limited	Limassol, Cyprus	100%	100%
Whiterock Investments Limited	Limassol, Cyprus	100%	100%
Redhill Investment Limited	Limassol, Cyprus	100%	100%
Connecta GmbH & Co. KG	Frankfurt am Main, Germany	100%	100%
EPH Real Estate Limited	Limassol, Cyprus	100%	100%
PNL Media Limited	Limassol, Cyprus	100%	100%
Capital Estate Group Limited	Limassol, Cyprus	100%	100%
T&A Services Limited	Tortola, BVI	100%	100%
Lexworth Finance Limited	Limassol, Cyprus	100%	100%
Ferran Limited	Limassol, Cyprus	100%	100%
Setford Limited	Limassol, Cyprus	100%	100%
<b>Joint operations</b>			
Vakhtangov Place Limited	Limassol, Cyprus	60%	60%
Bluestone Investments Limited	Limassol, Cyprus	60%	60%

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

Valartis International Ltd. is General Partner of EPP II LP; and in this capacity owns a nominal interest in the partnership, though its value is not material.

As such, each of the companies named above is to be considered as related party. The Group's transactions with these companies in the period under review, subsequent to the period's close, and planned in the future are described in corresponding notes.

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

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

- Valartis International Ltd has a real estate management agreement with EPH
- Valartis International Ltd has property management agreements in place with Inkonika LLC (Turgenevskaya parking), Connecta KG (Berlin House) and EPH One LLC (Geneva House)
- VLR Property Management LLC, a subsidiary of Valartis International Ltd, has property management agreements in place with Tengri LLC (Polar Lights) and Tizprobor JSC (Hermitage Plaza)

The Group's related party balances as of 30 June 2017 and 31 December 2016 consisted of the following:

in US\$	30.06.2017	31.12.2016
Loans and receivables (joint operation and joint venture)	73,795,772	74,953,980
Accounts payable (other related party) and accrued expenses	158,666	94,358

The Group's transactions with related parties for the period ended of 30 June 2017 and 2016 consisted of the following:

in US\$	30.06.2017	30.06.2016
Gross rental income (other related party)	310,252	274,574
Management fees (other related party)	–1,572,079	–1,512,861
Interest income (joint operation and joint venture)	–	2,505,058
Finance costs (other related party)	–	–61,819

#### 18. 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.

#### 19. SUBSEQUENT EVENTS

- On 6 July 2017, through the sale of 100% of Eastern Property Partners II LP, the Company sold its 50% share in Vestive Limited which was treated as investments in associates and carried at zero value as of 30 June 2017. US\$ 3.65 million received in July 2017 under this deal represents the consideration for the assignment of rights under the loans provided to Vestive Limited and to Inkonika LLC, Vestive's 100% Russian subsidiary.

**GENERAL**

INFORMATION



**BOARD OF DIRECTORS**

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

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(since June 2010)

**SECURITY NUMBER**

1673866

**ISIN NUMBER**

VGG290991014

**REAL ESTATE MANAGER**

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

**TICKER SYMBOL**

EPH

**COMPANY WEBSITE**

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

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PICTURES

Tres Camenzind, Zurich, Switzerland

CONCEPT AND DESIGN

Schrägstrich Kommunikationsdesign, Zurich, Switzerland

REALISATION

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PRINT

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