EASTERN PROPERTY HOLDINGS

SEMI ANNUAL REVIEW 2012

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REPORT

STATEMENT OF THE BOARD OF DIRECTORS

DEAR SHAREHOLDERS

EPH has been profitable in the first six months of 2012. Though the property markets in which we operate have been generally stable, appraised values for all of our properties have increased since the end of 2011. Higher valuations for our assets can be attributed primarily to improved efficiency and occupancy in the individual properties. In fact, passing rents for each of the Company's rental properties are higher than they were six months ago, or one year ago.

Rather than reprint a large amount of information found in our Annual Report for the Semi Annual Review, we have opted to focus on what has changed during the period under review in this report, and include static background information only as necessary. If you are looking at Eastern Property Holdings for the first time, or perhaps for the first time in some years, please be sure to also have the 2011 Annual Report on hand. You will find it on the Company's website, or a printed copy will be sent to you by request.

Sincerely,

The Board of Directors
August 2012

PROPERTY REVIEW

Our Property Holdings are reflected on our 30 June 2012 balance sheet as Investment Property, Assets under Development and Investments in Associates. The Company's significant cash and liquid bond holdings are being retained to ensure construction of its Arbat projects will not be interrupted due to lack of third party financing on acceptable terms. Until outside financing is in place for these projects, it is expected that the current cash and bond holdings will be utilised for construction, hence Cash and Financial Investments on the Company's Balance Sheet will continue to be reduced while Assets under Development, which are primarily held at cost, will continue to increase until sales are expected to commence in 2013.

Arbat Projects

The Arbat Projects currently represent EPH's largest investment, and the Company's primary source of value creation in the one to three-year medium term. Construction on the Arbat retail and residential projects was restarted in January 2011. In November 2011, rights to the projects were extended until June 2014. Over the course of December 2011 and January 2012, EPH increased its economic interest in the projects from 50% to 60%, though it continues to exercise an unchanged 50% of the votes in the joint venture, as does its partner. The first project is on schedule to complete concrete structural work in the third quarter of 2012 and be delivered in 2013. Site preparation and ground-breaking for the second project have taken place subsequent to the end of the period under review, with delivery and sale of premises expected in 2014.

Geneva House

EPH management has signed an exceptionally good mix of tenants at Geneva House, mostly while the Company was 100% owner of the property, but management remained unchanged even after sale of a 90% stake in the property in mid-2011. During the period under review occupancy was brought to the current 100% level. Over 90% of the tenants had completed the fit-out of their premises at the end of the reporting period. As the building was newly completed and tenants leased space that was in unfinished “shell and core” condition, most received favourable rent rates for the first 12 to 18 months of their long-term leases. With the majority of lease agreements having been signed in 2010 and the first half of 2011, reduced rates have expired or are expiring for the majority of tenants and the income stream from Geneva House is improving continuously. Geneva House's exceptional design, location, and quality have enabled it to outperform the rest of the market. Compared to zero vacancy at Geneva House, the vacancy rate for Class A office space in the Central Business District and the Kremlin zone is around approximately 13 %. Rental rates in this market segment have remained stable over the last 12 months and are expected to increase only gradually for the remainder of the year. (Market data source: Jones Lang LaSalle)

Berlin House

After owning 100% of Berlin House from 2004 until mid-2011, EPH sold a 90% stake in the building. EPH management remains in place as the property's manager, and EPH sees the potential for additional value creation at Berlin House. Berlin House was completed and leased in 2002. A significant amount of space which has been occupied by the original tenants will become available for releasing in mid-2012 and, based on current market conditions, will be released at materially higher rates. Most other office leases also expire in the second half of this year and will be released at higher rates. High quality assets are in strong demand. Due to the expiration of retail leases as well in the second half of 2012, an obstacle to reconfiguring and modernising the lobby and entrance area and increasing the amount of retail space will disappear. As such, the Company and the new majority owner of the property are evaluating options for the reconstruction on optimisation of the property's retail area. Higher rental rates and increased retail space would both result in a higher value for the Company's remaining stake in the property. At the end of June 2012, Berlin House was 98% occupied.

Petrovsky Fort

The Company's Petrovsky Fort business center in St. Petersburg caters primarily to local Russian tenants. The economic downturn which started in 2008 led to a significantly higher vacancy rate in the property, and the broader St. Petersburg market, than either had experienced in the past. While the owners of many competing properties sought to cut costs by reducing services and postponing property improvements, we have continuously invested in Petrovsky Fort since 2010. By improving the appearance of common areas, and the effectiveness of the climate control system, we have been able to compete successfully for the better quality tenants in the market. The vacancy rate at Petrovsky Fort was roughly 9% at 30 June 2012, which compares well with the overall vacancy rate of over 11% for the broader market, and is a significant improvement over 24% a year earlier, or 15% at year-end 2011.

Turgenevskaya Parking

The Turgenevskaya Parking property, which is 50%-owned by the Company through its Vestive joint venture, opened in January 2012. While there is no competing indoor or organised parking near the property, and there are clearly a sufficient number of potential users of the facility who work nearby, initial demand has been disappointing, However, the number of users is slowly and steadily increasing and we remain confident that the asset will in time generate a good return on its cost by way of predictable, high quality cash flows. Dramatically higher parking fines, which became effective only subsequent to the period under review, can be expected to encourage use of dedicated parking, as will more active enforcement of parking regulations in the area, better signage, and ensuring customers of a pleasant experience each time they use the facility. According to statistics there are 3.8 million cars in Moscow, with the number steadily growing. Parking exists to accommodate less than 30% of these cars. The City plans to create 1.5 million new parking spaces over the next five years, one third of it in public parking complexes. Currently 25 parking facilities are planned in Moscow, and several underground parking projects are envisaged. Investors can only be found for such significant investments if the terms of the projects and risk/reward profiles are favourable. We believe Moscow's ongoing efforts to encourage parking investment will benefit our property at Turgenevskaya. (Maket data source: Jones Lang LaSalle)

Magistral'naya

EPH's Magistral'naya property is a Class-B office building with exceptional accessibility, in a non-CBD location. Driven by a focus on cost optimisation, many tenants prefer Class-B space in affordable areas of Moscow. This is especially true of businesses in sectors which do not benefit significantly from prestigious locations or close proximity to service providers and other companies in the same sector, According to Jones Lang LaSalle, take-up in decentralized locations accounted for half of the take up of rental space in the last months. Of approximately 110,000 total square meters of new completions in the first quarter of 2012, only 20% were Class A buildings. Gazprom-subsidiary Podzemgazprom leased most space in the property under a short-term contract starting February 2011. Signing of a 10-year lease in March 2012 increased the predictability and security of cash flows from the property. Terms agreed with the tenant and negotiations with service providers to the property further improved EPH's net rental income. These two factors – reduced risk and increased net rents – led to an upward revaluation of approximately US$ 1.5 million for the period under review.

Scandinavia Land

The attractiveness of the Company's 103 hectare Scandinavia land site near St. Petersburg as a large planned community, either constructed by one developer, or with individual lots being sold to individuals or individual contractors, remains fully intact. Rather than independently pursue a large project far from our Moscow head office, the Company has been discussing various arrangements under which a local developer will lead financing, construction, and sales efforts, while EPH provides the land. Discussions are ongoing.

PROPERTY REVIEW

	Appraised Value * in US$	Carrying Value in US$	Valuation movement in the period in US$	Net initial yield in %	Reversionary yield in %	Reversionary potential in US$
Rental Properties						
Petrovsky Fort	61,600,000	61,600,000	175,000	7.55	12.26	2,901,660
Magistral'naya	7,600,000	7,600,000	1,500,000	8.29	14.38	462,523
Berlin House	92,600,000	92,600,000	1,000,000	6.93	9.42	2,305,649
Geneva House	151,200,000	151,200,000	1,650,000	8.51	10.40	2,852,707
Inkonika / Turgenevskaya	19,600,000	19,600,000	2,000,000	n/a	n/a	n/a

* Valuation based on Income Approach

	Appraised Value * in US$	Carrying Value in US$	Valuation movement in the period in US$
Development Projects			
Arbat Multi-Use I	131,100,000	114,984,000	15,300,000
Arbat Multi-Use II	35,600,000	33,280,000	3,000,000
Inkonika / Khokhlovskaya	1,780,000	1,780,000	–
Scandinavia	39,100,000	39,100,000	–

* Valuation based on Residual Value Approach

Location, Address	State of Project	Projected Completion	Purchase Date	Holding Company	Ownership Percentage
Development Properties					
Arbat Multi-Use I, Moscow	In construction since October 2005				
Mixed use development, Residential and Retail	The project, located in the old town of Moscow, will include retail, theatre, and luxury apartment space, consists of approx. 27,000 sqm Gross Build Area on a site area of 3,700 sqm.	2013	July 2007	Vakhtangov Place Ltd.	60%
Arbat Multi-Use II, Moscow	Construction to start in 2012				
Mixed use development, Residential and Retail	The second project, located near the first, consists of approx. 11,000 sqm of Gross Built Area on a site area of 2,850 sqm and will also consist of retail space for lease, and luxury apartments for sale. One structure formerly on the site has been removed, while another is yet to be demolished, making way for site preparation and start of construction.	2014	Jul 2007/ Dec 2007	Vakhtangov Place Ltd.	60%
Inkonika, Khokhlovskaya Ploshad, Moscow	Construction' on hold since December 2008				
Parking Project	Located at Khokhlovskaya Ploshad on the Boulevard Ring in the Northeastern area of the CBD. The site has an approximate area of 3,000 sqm. The building envisioned under the existing investment agreement is comprised of 5 underground floors. The planned building will have a total build area of c 12,000 sqm, comprised of approx. 11,300 sqm for c 300 parking spaces and 800 sqm for a museum which will be owned by the City.	2013	Mar 2008	Vestive Ltd.	50%
Scandinavia Land Site, St. Petersburg region	Land held for undetermined use				
Land site close to St. Petersburg zoned for residential development	103 hectares of land located 22 Kms from St. Petersburg, near the "Scandinavia" highway which connects St. Petersburg and Helsinki, Finland. The land borders the Sestra River, and is already correctly zoned for development as, for example, a large residental development.	open	Aug 2007/ Jan 2008	Idelisa Ltd.	100%

PROPERTY REVIEW

	Building Area m²	Office Area (NLA m²)	Retail Area (NLA m²)	Total Rentable Area m²
Investment Properties				
Location, Address				
Berlin House, 5 Petrovka Street, Moscow	12,988.60	5,640.60	1,788.60	7,429.20
Geneva House, 7 Petrovka Street, Moscow	16,454.80	7,161.00	2,714.00	9,875.00
Petrovsky Fort, 4 Finlandsky Prospect, St. Petersburg	47,609.60	15,302.10	5,796.70	21,098.80
Magistral'naya Buildings, 1st Magistralnaya Street 11/2, Moscow	3,552.10	2,546.40 *	n/a	3,099.40
Turgenevskaya Parking, 3/1 Turgenevskaya Ploshad, Moscow	10,132.00	n/a	n/a	n/a

Parking Spaces	Vacancy Rate % **	Year of Construction	Year of Renovation	Purchase Date	Owning Entity	Ownership Percentage
64	4%	2002	n/a	Jul 2004	Connecta GmbH & Co KG	10%
140	0%	2009	n/a	n/a	EPH Real Estate Ltd via OOO EPH One	10%
154	9%	2003	n/a	Jun 2006	Romsay Properties Ltd via OOO Petrovsky Fort	99.9%
140	0%	1966; 1994	2003–2007	Oct 2007	Housefar Ltd via OOO Inspetstroy	100%
312	n/a	2012	n/a	Mar 2008	Vestive Ltd via OOO Inkonika	50.0%

REPORT FROM THE PRINCIPAL EXTERNAL VALUER

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

- Parking on Turgenevskaya (Moscow)
- Parking development on Khokhlovkaya (Moscow)
- Magistral'naya office building (Moscow)
- Arbat 24 development (Moscow)
- Arbat 39 development (Moscow)
- Scandinavia land plot (Leningrad Oblast)
- Petrovsky Fort office building (St Petersburg)
- Geneva House office building (Moscow)
- Berlin House office building (Moscow)

We understand that the reports are required for accounting purposes. The date of valuation is 31 May 2012.

Our valuation has been carried out in compliance with the requirements of 2012 edition of the RICS Valuation – Professional Standards.

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

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

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

Yours faithfully

C.W.F. Dryden

Christopher Dryden BLE MA MRICS
Director

For and on behalf of Jones Lang LaSalle

INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors of

Eastern Property Holdings Limited, Tortola, British Virgin Islands

Zurich, 27 August 2012

Report on the review of the interim condensed consolidated financial information

Introduction

We have reviewed the accompanying interim condensed consolidated financial information (interim condensed consolidated statement of financial position, interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of cash flow, interim condensed consolidated statement of changes in equity and selected notes to the interim condensed consolidated financial information) of Eastern Property Holdings Limited for the period from 1 January 2011 to 30 June 2012. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" and article 17 of the Directive on Financial Reporting (DFR) of the SIX Swiss Exchange. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

INDEPENDENT AUDITOR'S REPORT

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 information is not prepared, in all material respects, in accordance with International Accounting

Standard 34 "Interim Financial Reporting" and article 17 of the Directive on Financial Reporting (DFR) of the SIX Swiss Exchange.

Ernst & Young Ltd

Cataldo Castagna
Swiss Certified Accountant

Philipp Bertschinger
Swiss Certified Accountant

FINANCIAL REPORT

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in US$	Note *	30.06.2012	31.12.2011
Assets			
Non-current assets			
Investment properties	6	122,031,463	117,803,658
Investment in associates	9	10,688,600	10,472,709
Loans and receivables	10	59,977,807	50,464,039
Advance for land lease		1,713,114	1,719,171
Deferred tax assets		2,555,481	1,200,282
Furniture and equipment		1,554	1,356
Total non-current assets		196,968,019	181,661,215
Current assets			
Cash & cash equivalents	11	11,741,952	20,798,029
Financial assets at fair value through profit or loss	8	46,517,557	56,011,682
Assets under development	7	81,484,887	76,615,089
Accounts receivable		348,892	1,249,884
Loans and receivables	10	1,342,132	812,807
Advance payment		454,318	582,516
Prepaid taxes		372,498	368,537
Total current assets		142,262,236	156,438,544
Total assets		339,230,255	338,099,759
Liabilities			
Non-current liabilities			
Loans from banks	12	33,550,000	34,450,000
Provisions for long-term liabilities and charges		12,004,640	12,632,414
Other non-current liabilities		3,569,197	3,535,770
Total non-current liabilities		49,123,837	50,618,184
Current liabilities			
Accounts payable and accrued expenses		7,349,970	6,387,805
Loans from banks and others	12	1,803,726	3,053,282
Property tax		106,274	112,157
Financial liabilities at fair value through profit or loss	8	1,144,059	1,381,414
Provisions for current liabilities and charges		27,798	25,660
Total current liabilities		10,431,827	10,960,318
Equity			
Share capital		414,418,955	414,418,955
Treasury shares		−30,050,173	−30,050,173
Share premium	14	–	74,761,596
Accumulated deficit	14	−99,701,767	−177,832,991
Cumulative translation adjustment		−4,992,424	−4,776,130
Shareholders' equity attributable to the holders of the Company		279,674,591	276,521,257
Total equity and liabilities		339,230,255	338,099,759
Net asset value per share		65.61	64.87

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

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

in US$	Note *	30.06.2012	Restated 30.06.2011
Rental income			
Gross rental income		3,734,908	10,223,477
Ground rents paid		–199,544	–226,019
Service charge income on principal basis		1,138,568	2,392,472
Service charge expenses on principal basis		–715,229	–1,746,899
Property operating expenses		–599,938	–1,834,593
Repair and maintenance costs		–291,570	–474,773
Non-income taxes		–262,678	–1,524,150
Net rental income		**2,804,517**	**6,809,515**
Administrative expenses			
Reverse of accrual for performance fees		627,774	729,640
Management fees		–2,791,009	–3,152,946
Professional and administration fees		–784,728	–1,200,067
Salaries and social charges		–32,964	–174,124
Total administrative expenses		**–2,980,927**	**–3,797,497**
Other income / (expenses)			
Interest income		3,837,379	1,637,770
Gain on increased ownership stake	13	912,521	–
Other income		268,705	10,644
Other expenses		–2,958,893	–3,173,186
Depreciation		–57	–7,714
Net foreign exchange loss **		–1,353,972	–13,794,148
Net other income / (expenses)		**705,683**	**–15,326,634**
Valuation movements			
Net gain from fair value adjustment on financial investments	8	539,835	737,427
Net gain / (loss) from fair value adjustment on investment properties	6	1,903,907	–13,342,316
Net valuation movements		**2,443,742**	**–12,604,889**
Development property impairment	7	**–**	**–749,989**
Net operating gain / (loss) before finance cost		**2,973,015**	**–25,669,494**
Finance costs		–1,492,648	–5,231,148
Share of associates' gain / (loss)	9	**359,291**	**–24,660,546**
Net gain from sale of subsidiaries		**–**	**741,168**
Gain / (loss) before taxes		**1,839,658**	**–54,820,020**
Income taxes		1,529,970	–6,608,229
Net Profit / (loss) for the period		**3,369,628**	**–61,428,249**
Attributable to:			
Equity holders of the Company		3,369,628	–61,428,249
Earnings per share for profit attributable to equity holders of the Company during the period			
Basic and diluted **		0.79	–14.41

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

** Restatement (Note 3)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in US$	Note *	30.06.2012	Restated 30.06.2011
Net profit for the period			
Net profit / (loss) for the period **		3,369,628	−61,428,249
Other comprehensive gain for the year			
(Loss) / gain on currency translation differences **		−216,294	12,362,092
Total comprehensive gain / (loss) for the period		**3,153,334**	**−49,066,157**
Attributable to:			
Equity holders of the Company		3,153,334	−49,066,157

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

** Restatement (Note 3)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

in US$	Note *	30.06.2012	Restated 30.06.2011
Cash flows from operating activities			
Net gain / (loss) for the period **		3,369,628	–61,428,249
Net loss from foreign currency translation **		1,353,972	13,794,148
Net unrealised (gain) / loss on investment properties	6	–1,903,907	13,342,316
Net unrealised loss on development properties	7	–	749,989
Net unrealised gain on financial investments	8	–539,835	–737,427
Depreciation		57	7,714
Interest income		–3,837,379	–1,637,769
Share of associates' (gain) / loss	9	–359,291	24,660,546
Finance costs		1,492,648	5,231,150
Net gain from sale of subsidiaries		–	–741,168
Gain on increased ownership stake	13	–912,521	–
Income taxes		–1,529,970	6,608,229
Cash used in operations before movements in working capital		–2,866,598	–150,521
Increase / decrease in receivables and payables			
Increase / (decrease) in payables and other current liabilities		416,720	–19,098,531
(Decrease) / increase in other non-current liabilities		–599,637	1,357,645
Decrease in receivables and other current assets		1,164,080	2,278,484
Additions in assets under development	7	–5,721,500	–2,946,096
Cash used in operations		–7,606,935	–18,559,019
Interest income received		1,231,719	55,224
Income tax paid		–	–
Net cash used in operating activities		–6,375,216	–18,503,795
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed		0.00	42,148,566
Net sale of financial instruments		9,224,798	–
Investments in investment properties	6	–1,466,907	–3,042,830
Loans granted to joint ventures		–7,458,572	–5,079,656
Loans granted to associates		–86,052	–850,000
Proceeds from loans		–	38,232,636
Net cash generated from investing activities		213,267	71,408,717
Cash flows from financing activities			
Finance costs paid		–1,337,983	–4,618,076
Proceeds from borrowings		–	40,000,000
Repayment of borrowings		–850,000	–14,282,666
Dividends		–	–
Net cash (used in) / generated from financing activities		–2,187,983	21,099,258
Net change in cash & cash equivalents		–8,349,932	74,004,180
Cash & cash equivalents at beginning of the period		20,798,029	9,621,767
Net loss from foreign currency translation		–706,146	–309,098
Cash & cash equivalents at the end of the period	11	11,741,952	83,316,849

* The notes are an integral part of these interim financial statements
** Restatement (Note 3)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in US$	Ordinary share capital	Treasury shares	Share premium	Accumulated deficit	Currency translation adjustment	Shareholders' equity attributable to the holders of the Company
Balance as at 01.01.2011	414,418,955	−30,050,173	74,761,596	−100,553,509	−15,269,686	343,307,183
Loss for the period	–	–	–	−59,125,917	–	−59,125,917
Other comprehensive gain	–	–	–	–	10,059,760	10,059,760
Restatement (Note 3)	–	–	–	−2,302,332	2,302,332	–
Total comprehensive (loss) / gain for the period	–	–	–	−61,428,249	12,362,092	−49,066,157
Balance as at 30.06.2011	414,418,955	−30,050,173	74,761,596	−161,981,758	−2,907,594	294,241,026
Gain for the period	–	–	–	5,461,732	–	5,461,732
Other comprehensive loss	–	–	–	–	−1,868,536	−1,868,536
Total comprehensive gain / (loss) for the period	–	–	–	5,461,732	−1,868,536	3,593,196
Acquisition during the period	–	–	–	–	–	–
Dividend	–	–	–	−21,312,965	–	−21,312,965
Balance as at 31.12.2011	414,418,955	−30,050,173	74,761,596	−177,832,991	−4,776,130	276,521,257
Gain for the period	–	–		3,369,628	–	3,369,628
Other comprehensive loss	–	–	–	–	−216,294	−216,294
Total comprehensive gain / (loss) for the period	–	–	–	3,369,628	−216,294	3,153,334
Reclassification	–	–	−74,761,596	74,761,596	–	–
Balance as at 30.06.2012	414,418,955	−30,050,173	–	−99,701,767	−4,992,424	279,674,591

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Interim Condensed Consolidated Financial Statements of Eastern Property Holdings Limited and its subsidiaries (together the "Group") for the half year ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors on 27 August 2012. 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 R.G. Hodge Plaza, Wickhams Cay 1, P.O. Box 3483, Road Town, Tortola, British Virgin Islands VG1110.

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

2. BASIS OF PREPARATION

The Interim Condensed Consolidated Financial Statements of the Group have been prepared in accordance with IAS 34 "Interim financial reporting". The Interim Condensed Financial Statements do not include all the information and disclosure 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 2011.

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

3. CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF ERROR

Cumulative Translation Adjustment ("CTA") is a component of equity on the Group's annual and interim Statement of Financial Position. For the Group, CTA is the result of losses and gains created by exchange rate fluctuation between the Group's presentation currency, the US dollar ("US$"), and the Russian ruble ("RUB"), which is the functional currency used for accounting at a number of its subsidiaries. Assets and liabilities which are valued in US$, for example cash, debts, or real estate, regularly generate foreign currency profits or losses for the Group via translation to RUB at each balance sheet date, independent of any change in the US$ value of the asset or liability. When a subsidiary using the RUB as its functional currency is disposed of, either in full, or to the extent that it is no longer controlled by the Group, the amount of CTA generated by the subsidiary, either positive or negative, should be removed from equity by way of an offsetting entry on the Group's Income Statement.

In the Interim Condensed Consolidated Financial Statements for the period ended 30 June 2011, the CTA historically generated by EPH Real Estate and Connecta KG, which were partially sold on 29 June 2011, was erroneously not offset, as the reclassification was recognised and recorded only in the second half of 2011. The Interim Condensed Consolidated Income Statement for the period ended 30 June 2011 and interim Comprehensive Income Statement for the period ended 30 June 2011 have been corrected. Net Loss for the interim six-month period has been increased by US$ 2.3 million. The restatement is reflected below. The error had no impact on Total Assets, Shareholders' Equity or Comprehensive income for 30 June 2011 or any reporting period. Since the reclassification was originally included in the Company's accounts in the second half of 2011, results for the full year 2011 are also not impacted by the correction.

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following amended IFRS standards and IFRIC interpretations as of 1 January 2012:

- IAS 12 – Income Taxes (Amendment) effective 1 January 2012
- IFRS 7 – Transfers of Financial Assets (Amendment) effective 1 July 2011
- IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment) effective 1 July 2011

Early adoption of standards

In 2012, 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.

	Reported	Reclassification	Restated
Balance sheet at 30 June 2011			
Total shareholders' equity	**294,241,026**	**–**	**294,241,026**
Accumulated deficit	–159,679,426	–2,302,332	–161,981,758
Cumulative translation adjustment	–5,209,926	2,302,332	–2,907,594
Income statement for the period ended 30 June 2011			
Net loss for the period	**–59,125,917**	**–2,302,332**	**–61,428,249**
Net foreign exchange loss	–11,491,816	–2,302,332	–13,794,148
Basic and diluted earnings per share for the period ended 30 June 2011	**–13.87**	**–0.54**	**–14.41**
Comrehensive income statement for the period ended 30 June 2011			
Net loss for the period	–59,125,917	–2,302,332	–61,428,249
Exchange gain on translation of financial statements of foreign operation	10,059,760	2,302,332	12,362,092
Total	**–49,066,157**	**–**	**–49,066,157**

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, and operating the Group on a day to day basis under the Real Estate Management Agreement.

The Management Committee has access to detailed financial reports for all the Group's assets and evaluates the performance of each on an individual basis. Based on the shared natures of products and services, production processes, type of customer, distribution methods, and regulatory environment, the Group's assets have been aggregated into four operating segments: Rental Properties, Development Properties, Passive Investments, and Development Financing.

1. Rental Properties which consist of:
- 99.9% of one commercial property: Petrovsky Fort in St. Petersburg
- 100% of one commercial property: Magistal'naya in Moscow
- 10% of two commercial properties: Berlin House and Geneva House in Moscow
- 50% of a newly opened underground parking garage: Turgenevskaya Square in Moscow

Rental Properties generate rental income and incur expenses primarily for maintenance and building operations. The Group's Rental Properties are in Russia's two largest cities; Moscow and St. Petersburg, and are comprised predominantly of office space, though all, except Magistral'naya, have space dedicated to retail. The assets are kept at fair value, which is generally based on the leases in place and market-wide valuation criteria (yields, reversion rents).

The Rental Properties segment generates product or service-based recurring revenues by providing commercial premises, or in the case of Turgenevskaya, car parking space, for which rental income is received. Generally, gross and net rents for the Segment are reflected as such in both the Interim Condensed Consolidated Income Statement and accounts presented by segment.

Prior to 30 June 2011, the Group owned 100% of Berlin House and Geneva House and their rental income was included in this segment. Now the Group holds 10% interests in these investment properties. Therefore both interests are classified as Investments in Associates and rental income is a component of the Group's return on the investments, but is not reflected in rental income.

2. Development Properties which consist of:
- 100% of a raw land plot: 103 hectare "Scandinavia" site near St. Petersburg
- 50% of a joint venture to develop parking facilities in Moscow: Inkonika
- 60% of a joint venture to develop two mixed-use properties in Moscow: Arbat Multi-use Complexes

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

Development Properties generate revaluation gains and losses, also based on certain dynamics (cost and availability of financing to developers, risk appetite, stage of completion) which are shared by all projects, yet different from those impacting Rental Properties. The Group's development assets are in or near Russia's two largest cities; Moscow and St. Petersburg. Development Properties reflect a mixture of properties which, when completed, will either be retained and held as Rental Properties, or will be, in the course of business held for sale.

3. Passive Investments which consist of:
– 25.9% of a joint venture which developed and held rights to commercial real estate in Russia: Hypercenter Investment SA
– 10% of a company which owned a retail chain and real estate in Russia: Sarnatus Trading Ltd.

Passive Investments represent investments in companies in which the Group does not have a controlling interest and does not actively participate in management. Both of the Group's investments are fully impaired. No impairment reversal was booked in the first six months of 2012.

4. Development Financing which consists of:
– Loans to Vakhtangov Place Ltd. the 60%-owned joint venture company which is developing the Arbat Multi-use Complexes
– Loans to Vestive the 50%-owned joint venture company owning parking lot developer Inkonika
– Loans to EPH Real Estate and Connecta the 10% investment in associates companies owning Berlin House and Geneva House buildings

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

Development Financing generates interest income for the Group.

All of the Group's Rental Properties, Development Properties, and Passive Investments are in Russia, as are the assets securing the Group's Development Financing.

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

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

	30.06.2012				
in US$	Rental Property	Development Properties	Passive Investments	Development Financing	Total
Gross rental income	3,734,908	–	–	–	3,734,908
Rental expenses	−930,391	–	–	–	−930,391
Net rental income (subtotal)	2,804,517	–	–	–	2,804,517
Interest income	–	–	–	3,837,379	3,837,379
Valuation movements	1,627,623	276,283	302,480	237,355	2,443,742
Development property impairment	–	–	–	–	–
Finance costs	–	–	–	−1,492,648	−1,492,648
Share of associates' loss	359,291	–	–	–	359,291
Income taxes	179,817	1,350,152	–	–	1,529,970
Other income / (expenses)	−460,346	−24,061	–	−5,628,216	−6,112,623
Net (loss) / profit for the period	4,510,902	1,602,375	302,480	−3,046,130	3,369,628

	30.06.2011				
US$	Rental Property	Development Properties	Passive Investments	Development Financing	Total
Gross rental income	10,223,477	–	–	–	10,223,477
Rental expenses	−3,413,962	–	–	–	−3,413,962
Net rental income (subtotal)	6,809,515	–	–	–	6,809,515
Interest income	–	–	–	1,637,770	1,637,770
Valuation movements	−1,584,511	−11,757,805	–	737,427	−12,604,889
Development property impairment	–	−749,989	–	–	−749,989
Finance costs	–	–	–	−5,231,148	−5,231,148
Share of associates' loss	−362,739	−24,297,807	–	−1	−24,660,547
Net gain from sale of subsidiaries	741,168	–	–	–	741,168
Income taxes	−6,287,292	−320,937	–	–	−6,608,229
Other income / (expenses)	−19,097,162	−6,236,841	−417,593	4,989,695	−20,761,900
Net (loss) / profit for the period	**−19,781,020**	**−43,363,379**	**−417,593**	**2,133,744**	**−61,428,249**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

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 30.06.2012				
	Rental Properties	Development Properties	Passive Investments	Development Financing	Total
Investment properties	71,951,463	50,080,000	–	–	122,031,463
Financial assets at fair value through profit or loss	–	–	46,517,557	–	46,517,557
Assets under development	–	81,484,887	–	–	81,484,887
Investment in associates	10,688,600	–	–	–	10,688,600
Loans and receivables	10,415,715	–	–	50,904,224	61,319,939
Cash & cash equivalents	746,462	4,123,591	6,871,899	–	11,741,952
Other Assets	4,563,534	882,323	–	–	5,445,857
Total Assets	98,365,774	136,570,800	53,389,456	50,904,224	339,230,255
Total Liabilities	16,906,309	5,708,190	–	36,941,165	59,555,664

	Assets and liabilities valuation as of 31.12.2011				
	Rental Properties	Development Properties	Passive Investments	Development Financing	Total
Investment properties	70,303,658	47,500,000	–	–	117,803,658
Financial assets at fair value through profit or loss	–	–	56,011,682	–	56,011,682
Assets under development	–	76,615,089	–	–	76,615,089
Investment in associates	10,472,709	–	–	–	10,472,709
Loans and receivables	9,892,097	–	–	41,384,749	51,276,846
Cash & cash equivalents	790,265	1,311,974	18,695,789	–	20,798,029
Other Assets	5,059,861	61,886	–	–	5,121,746
Total Assets	**96,518,590**	**125,488,949**	**74,707,471**	**41,384,749**	**338,099,759**
Total Liabilities	**17,060,224**	**5,194,534**	**–**	**39,323,744**	**61,578,502**

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 2011.

Valuation of real estate assets, especially in the case of development projects, involves a significant number of assumptions and judgement calls by the valuers. These variables include, but are not limited to: future rent and sale price levels, amount of time needed to rent or sell space, time needed to deliver new construction, construction costs, best and highest use of an asset or space in an asset, and exchange rates. Varying any of these factors can have a material impact on valuations, and variations in a number of these factors at once can have a significant effect.

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

6. INVESTMENT PROPERTIES

in US$	30.06.2012	31.12.2011
Investment Properties		
Beginning of the period	117,803,658	370,228,101
Addition due to increased ownership stake	–	1,400,000
Additions	1,466,907	3,416,793
Disposals	–	–231,101,742
Reclassification from / (to) Development properties	851,702	–14,156,024
Revaluations	1,903,907	–11,990,393
Finance lease liabilities	5,289	6,924
End of period	122,031,463	117,803,658

Investment Properties comprise the following:

in US$	30.06.2012	31.12.2011
Investment Properties		
A. Petrovsky Fort	64,236,699	64,092,889
B. Magistral'naya	7,714,764	6,210,769
C. Arbat Multi-use Complexes	10,980,000	8,400,000
D. "Scandinavia" Land plots in St. Petersburg	39,100,000	39,100,000
End of period	122,031,463	117,803,658

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

in US$	30.06.2012	30.06.2011
Net gain / (loss) from fair value adjustment on investment properties		
A. Petrovsky Fort	128,918	1,534,455
B. Magistral'naya	1,498,705	–409,646
C. Arbat Multi-use Complexes	276,284	–1,069,805
D. "Scandinavia" Land plots in St. Petersburg	–	–10,688,000
E. Geneva House	–	–2,709,320
Total	1,903,907	–13,342,316

RENTAL PROPERTIES

A. Petrovsky Fort

in US$	30.06.2012	31.12.2011
Petrovsky Fort		
Beginning of the period	64,092,889	61,719,423
Addition	14,892	68,204
Revaluation	128,918	2,305,261
Land lease obligations	–	–
End of period	64,236,699	64,092,889

Petrovsky Fort is a 49,000 square meter Class B office and retail building located at Finlyandsky Prospect 4 in central St. Petersburg. The building has nine office and two retail levels and a large central atrium. Of the net rentable space, 15,000 square meters are designated for office use and about 6,000 square meters as retail space. The building has an underground parking facility with 118 parking spaces and an above-ground car park with 36 parking spaces.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

As of 30 June 2012, the vacancy rate as a percentage of total rentable area of the building was 9% (31 December 2011: 15%) and by use was, for office space, 10% (31 December 2011: 18%), and for retail space, 8% (31 December 2011: 8%). Gross rental income for the property for the period under review was US$ 3.2 million (30 June 2011: US$ 2.8 million). The following table indicates the exposure to non-renewals of existing operating leases over the periods indicated:

in US$	30.06.2012	31.12.2011
Petrovsky Fort		
Next 12 months	3,531,080	3,147,270
12–60 months	2,492,821	2,335,883
60 months and later	–	–

As of 30 June 2012, the top five tenants in the building, by net rent paid are DSK Slavyansky, RKS-energo, SET, Glavstroy-SPb and Russian Consulting SPb. The top five tenants account for approximately 23% of the net rent (30 June 2011: 24%).

B. Magistral'naya

in US$	30.06.2012	31.12.2011
Magistralnaya		
Beginning of the period	6,210,769	7,130,399
Addition	–	–
Revaluation	1,498,705	−926,553
Land lease obligations	5,290	6,924
End of period	**7,714,764**	**6,210,769**

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

Remaining lease term	Percentage of space		Net rent as a percentage of total	
	Office	Retail	Office	Retail
Petrovsky Fort				
Less than one year	87%	38%	52%	14%
One to five years	13%	62%	48%	86%
More than five years	0%	0%	0%	0%

The fair value of Petrovsky Fort was determined to be US$ 61.60 million as at 30 June 2012 (31 December 2011: US$ 61.43 million), based on an independent valuation prepared by Jones Lang LaSalle, and adjusted for outstanding land lease obligations with respect to the long-term leasehold land under the property. The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases. The current valuation reflects an equivalent yield of 11.5% (31 December 2011: 11.5%).

As of 30 June 2012, Petrovsky Fort LLC had registered one mortgage on the building which served as collateral for a credit facility in the amount of US$ 40.00 million from Unicredit Bank Austria AG.

As of 30 June 2012, the entire office complex, with the exception of 135 square meters, used by the Group, is let to "Podzemgazprom" for under a 10-year lease agreement signed on 3 March 2012.

The fair value of Magistral'naya was determined to be US$ 7.6 million as of 30 June 2012 (31 December 2011: US$ 6.1 million) based on an independent valuation prepared by Jones Lang LaSalle, which was adjusted for outstanding land lease obligations with respect to the long-term leasehold land under the property. The valuer has adopted the income approach in which they have capitalised the current income stream, as well as any reversionary income in the future that will be received upon the leasing of any vacant space or expiry and renewal of leases. The current valuation reflects an equivalent yield of 12% (31 December 2011: 12.5%).

PROPERTIES UNDER DEVELOPMENT

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

in US$	30.06.2012	31.12.2011
Arbat Multi-use complexes		
Beginning of the period	8,400,000	20,321,537
Addition due to increased ownership stake	–	1,400,000
Reclassification	851,702	–14,156,024
Addition	1,452,014	806,268
Revaluation	276,284	28,219
End of period	**10,980,000**	**8,400,000**

The Company owns 60% of Vakhtangov Place Limited (VPL), which has the rights to two construction and development projects at Arbat Street 24-26 and Arbat Street 39-41 in Moscow. The projects represent the construction of two multi-use buildings of approximately 27,000 and 11,000 square meters. The Group consolidates VPL by integration of 60% of its balance sheet in accordance with the requirements of IAS 31 “Interests in Joint Ventures”.

The two Arbat Multi-use Complexes each contain retail/office premises and residential apartments with underground parking. Though within the same buildings, areas which will be retail/office premises are treated differently for reporting purposes than areas which will be apartments. Retail/office premises are recognised as Investment Property and carried at appraised value. Apartments, which are intended for sale, are recognised as Assets under Development and carried at cost but tested against an appraisal for impairment at each balance sheet date (Note 7).

The fair value of the retail premises was determined to be US$ 10.98 million as of 30 June 2012 (31 December 2011: US$ 8.4 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.

D. “Scandinavia” Land plots in St. Petersburg

in US$	30.06.2012	31.12.2011
"Scandinavia" Land		
Beginning of the period	39,100,000	49,788,000
Addition	–	–
Revaluation	–	–10,688,000
Land lease obligations	–	–
End of period	**39,100,000**	**39,100,000**

The Company owns 100% of Idelisa Limited (Idelisa), which owns three conjoined land plots located at Leninskoye Settlement, “Pervomaiskoye Selskoye Poseleniye”, Vyborgsky District, in the Leningrad Region near St. Petersburg, Russia, with a total area of 103 hectares.

The fair value of the land plots was determined to be US$ 39.1 million as of 30 June 2012 based on an independent valuation prepared by Jones Lang LaSalle (31 December 2011: US$ 39.1 million). As the land is currently held for undetermined use, the valuation is based on the highest and best use approach where the valuer assumes that the land will be sold as individual plots with utilities for owners to develop. In calculating the market value the appraiser has adopted the income approach based on discounted cash flows and the appropriate allowance for “entrepreneur’s profit” (investor’s reward for assuming the risks that accompany the project).

Valuation of Investment Properties

The fair values of investment properties are based on their market value determined by the independent appraisers, Jones Lang LaSalle, who hold recognised and relevant professional qualifications and who have recent experience in valuation of properties of similar location and category.

The appraisals used for valuation purposes at 30 June 2012 were performed using information available as of 31 May 2012, and dated accordingly. Management does not believe the fair value of the Group’s real estate asset changed materially between 31 May 2012 and the balance sheet date of 30 June 2012.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

In valuing Petrovsky Fort and Magistral'naya, Jones Lang LaSalle has utilised the income approach based on certain assumptions with respect to the rental rates which would be used upon the expiration of the current leases and the yield ("capitalisation rate"). For other investment property valuations, Jones Lang LaSalle has adopted the income approach based on discounted cash flows and using certain assumptions as to future rents and various costs of acquiring, completing, and putting the asset into operation. In this methodology, assumptions are made as to the amount of credit and cost at which it would be available to a theoretical buyer in the current market, and the return which the buyer would demand in order to assume the risks involved in the asset in the current market. When valuing development projects, the valuer has additionally assumed that various permits and permissions which may not yet exist will be secured as and when needed.

7. ASSETS UNDER DEVELOPMENT

in US$	30.06.2012	31.12.2011
Assets under development		
Beginning of the period	76,615,089	40,247,869
Addition due to increased ownership stake	–	12,171,287
Reclassification	–851,702	14,156,024
Addition	5,721,500	7,208,319
(Impairment)/ reverse of impairment	–	2,831,590
End of period	81,484,887	76,615,089

ARBAT MULTI-USE COMPLEXES UNDER DEVELOPMENT (APARTMENT PREMISES)

The Group's 60% joint venture company, Vakhtangov Place Limited (VPL), is developing two multi-use complexes on Moscow's Arbat Street. The complexes will be composed of both retail/office space and residential apartments. As residential space in Moscow is generally sold, rather than held for rental income, the areas in the projects which are being developed as apartments are recognised as Assets under Development. Space in the same projects which will be developed as retail space, and presumably held for rental income, is being recognised as Investment Property (Note 6).

Assets under Development are kept at cost and tested against appraised values for impairment at each balance sheet date. The carrying value is thus the lower of cost or fair value. The cost of the space allocated for apartments in the Arbat Multi-use Complexes was determined to be US$ 81.48 million as of 30 June 2012 (31 December 2011: US$ 76.62 million).

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The contribution of this category to the financial results of the Group is presented below:

in US$	30.06.2012	30.06.2011
Designated upon initial recognition		
Quoted debt securities	302,480	–
Unquoted debt securities	–	–
Unquoted equity shares	–	–
Interest rate swaps	237,355	737,427
Total	539,836	737,427

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

in US$	30.06.2012	31.12.2011
Designated upon initial recognition		
Quoted debt securities	36,744,894	46,112,682
Unquoted debt securities	9,772,663	9,899,000
Unquoted equity shares	–	–
Total	46,517,557	56,011,682

The debt securities, quoted and unquoted, as of 30 June 2012 and 31 December 2011 comprise the following:

Issuer	S&P ratings	Maturity date	Currency	Face value	Fair value in US$ as of 30.06.2012
Alrosa Finance SA	n.a.	21.12.2012	US$	1,500,000	1,467,300
GPB Finance PLC	BB+	27.06.2013	US$	7,500,000	7,226,014
LUKOIL Oil Company	BBB-	06.08.2012	RUB	10,000,000	292,973
BNP PARISBAS	AA-	21.12.2012	US$	2,000,000	2,008,163
ING Bank	A+	14.01.2013	US$	3,500,000	3,562,718
Deutsche Bank AG, LD	A+	20.05.2013	US$	1,000,000	1,034,967
WELTBANK	AAA	16.09.2013	RUB	16,750,000	522,727
CITIGROUP INC	A-	17.10.2012	US$	2,000,000	2,043,494
DEUTSCHE BANK AG	A+	12.10.2012	US$	2,000,000	2,048,192
CITIGROUP INC	A-	27.08.2012	US$	2,000,000	2,048,538
Weltbank	n.a.	29.10.2012	RUB	34,000,000	1,079,349
Merrill Lynch	A	15.08.2012	US$	2,000,000	2,056,375
MERRILL LYNCH & CO INC	A-	25.04.2013	US$	2,000,000	2,083,968
EIB	AAA	11.03.2013	RUB	25,000,000	778,420
Citigroup Inc	A-	19.08.2012	US$	3,500,000	3,748,230
VTB Capital SA	BBB	31.10.2012	US$	2,000,000	2,053,430
RSHB Capital SA	BBB	14.01.2014	US$	2,000,000	2,185,448
Russian Federation	BBB+	23.01.2013	RUB	35,000,000	1,114,040
RSHB Capital SA	BBB	16.05.2013	US$	2,000,000	2,101,439
Gaz Capital SA	BBB	11.04.2013	US$	2,000,000	2,110,528
Eurobonds of RSHB Capital	BBB	25.03.2013	RUB	15,700,000	492,955
TNK-BP Finance SA	BBB-	13.03.2013	US$	300,000	318,073
HSBC FINANCE CORP	A	14.09.2012	US$	2,000,000	1,999,482
ING BANK NV	A+	15.03.2013	US$	1,000,000	1,001,832
Russian Federation	BBB+	06.02.2013	RUB	36,000,000	1,138,905
Total					**46,517,557**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

Issuer	S&P ratings	Maturity date	Currency	Face value	Fair value in US$ as of 31.12.2011
BNP Paribas	AA-	21.12.2012	US$	2,000,000	1,965,081
ING Bank	A+	14.01.2013	US$	5,500,000	5,516,057
EIB	AAA	11.03.2013	RUB	25,000,000	808,885
Weltbank	AAA	16.09.2013	RUB	15,750,000	514,704
Commerzbank	A	25.10.2013	EUR	5,000,000	6,489,548
Gazprombank	n.a.	09.12.2013	CHF	5,000,000	5,485,692
Gaz Capital	n.a.	23.05.2016	US$	4,000,000	4,026,150
Citigroup	A-	27.08.2012	US$	2,000,000	2,047,450
Mobile Telesystems Finance	BB	28.01.2012	US$	2,000,000	2,073,856
HSBC Finance Corporation	A	14.09.2012	US$	2,000,000	1,979,597
EBRD	AAA	14.02.2012	RUB	25,000,000	819,580
KFW	AAA	14.02.2012	RUB	7,740,000	253,742
Citigroup	A-	27.02.2012	US$	2,043,000	2,088,729
KFW	AAA	25.05.2012	RUB	22,000,000	711,361
EIB	AAA	14.06.2012	RUB	30,000,000	963,312
Merrill Lynch	A	15.08.2012	US$	2,000,000	2,078,311
Deutsche Bank	A+	12.10.2012	US$	2,000,000	2,067,090
Citigroup	A-	17.10.2012	US$	2,000,000	2,062,589
Merrill Lynch	A-	25.04.2013	US$	2,000,000	2,048,350
Gazprombank Eurobond Finance	BB+	28.06.2013	US$	2,000,000	2,112,600
Gazprom ECP	unsecured	23.04.2012	US$	10,000,000	9,899,000
Total					**56,011,682**

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

in US$	30.06.2012	31.12.2011
Designated upon initial recognition		
Interest rate swap UniCredit bank	1,144,059	1,381,414
Total	1,144,059	1,381,414

9. INVESTMENTS IN ASSOCIATES

in US$	30.06.2012	31.12.2011
EPH Real Estate (closing balance for 10% stake)	5,499,081	5,572,401
Connecta KG (closing balance for 10% stake)	5,189,519	4,900,308
Vestive (closing balance for 50% stake)	–	–
Hypercenter Investment SA (closing balance for 25.9% stake)	–	–
	10,688,600	10,472,709

The contribution of Share of Associates' Gain / (Loss) in the financial results of the Group is presented below:

in US$	30.06.2012	30.06.2011
EPH Real Estate	−9,371	−101,851
Connecta KG	368,662	−260,888
Vestive	–	−24,297,807
Hypercenter Investment SA	–	–
	359,291	−24,660,546

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

10. LOANS AND RECEIVABLES

in US$	30.06.2012	31.12.2011
Loans (long term)		
Vakhtangov Place Limited	35,217,079	26,396,049
Bluestone Investments	407,247	457,521
Vestive	15,279,898	14,531,179
EPH Real Estate	8,591,114	8,591,114
Connecta KG	482,469	488,176
Total	59,977,807	50,464,039
Loans (short term)		
EPH Real Estate	1,296,347	787,114
Connecta KG	45,785	25,693
Total	1,342,132	812,807

11. CASH AND CASH EQUIVALENTS

	30.06.2012		31.12.2011	
in US$	Valartis Bank	Others	Valartis Bank	Others
Cash at bank and in hand	6,053,872	976,528	4,082,871	2,641,550
Fiduciary deposits	–	4,711,552	–	13,621,531
Short term forwards	–	–	452,077	–
Bank overdraft	–	–	–	–
Cash and cash equivalents	6,053,872	5,688,080	4,534,948	16,263,081
Total	11,741,952		20,798,029	

12. LOANS FROM BANKS AND OTHER

in US$	30.06.2012	31.12.2011
Loans from banks (long term)		
UniCredit bank loan	33,550,000	34,450,000
Total	33,550,000	34,450,000
Loans from banks and others (short term)		
UniCredit bank loan	1,800,000	1,750,000
Other	3,726	1,303,282
Total	1,803,726	3,053,282

During the period under review US$ 0.95 million were repaid to Unicredit.

13. GAIN ON INCREASED OWNERSHIP STAKE

On 25 January 2012, the Company obtained non-voting preferred shares in the joint-venture company Bluestone Investments Limited, resulting in an additional 10% equity stake and an increase of its ownership from 50% to 60% of the company. With the shares being non-voting, no change of joint control occurred. The increased ownership results in a gain of US$ 0.9 million for the Group.

14. 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 and 7 March 2005, and the General Meeting of Members of 16 May 2006, 3 May 2007 and 24 June 2008 provides for an authorised capital which entitles the Board of Directors to issue a total of 9,000,000 registered ordinary shares without par value and 1,000,000 registered Series A preferred shares without par value.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

Change of Capital

	Number of ordinary shares		Number of series A preferred shares	
	30.06.2012	31.12.2011	30.06.2012	31.12.2011
Authorised capital				
Total authorised capital	9,000,000	9,000,000	1,000,000	1,000,000
Opening balance unissued authorised capital	3,661,868	3,661,868	1,000,000	1,000,000
Increase	–	–	–	–
Utilisation for capital increase	–	–	–	–
Conversion to ordinary shares	–	–	–	–
Closing balance unissued authorised capital	3,661,868	3,661,868	1,000,000	1,000,000

	Number of ordinary shares		Number of series A preferred shares	
	30.06.2012	31.12.2011	30.06.2012	31.12.2011
Issued share capital				
Opening balance	5,338,132	5,338,132	–	–
Capital increase	–	–	–	–
Closing balance	5,338,132	5,338,132	–	–

	Number of shares	
	30.06.2012	31.12.2011
Treasury shares		
Opening balance	1,075,519	1,075,519
Issued to treasury	–	–
Purchase	–	–
Sales	–	–
Closing balance	1,075,519	1,075,519

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

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

In May 2012, the Company's Board of Directors decided to eliminate the "Share Premium" line on the Company's balance sheet and present the Equity position showing the offset of Share Premium against Accumulated Deficit starting 30 June 2012. The reason for this change is that the concept of "capital" does not exist in the BVI since 2004 and it is thus a clearer way to show the equity.

No dividend was paid in the period under review.

15. RELATED PARTY TRANSACTIONS

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

		% Holding	
Name of subsidiary	Incorporated in	30.06.2012	31.12.2011
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%
GH Immobiliare B.V.	Rotterdam, Netherlands	100%	100%
Stainfield Limited	Limassol, Cyprus	100%	100%
Redhill Investment Limited	Limassol, Cyprus	100%	100%
Romsay Properties Limited	Limassol, Cyprus	99.90%	99.90%
Jointly controlled entity			
Vakhtangov Place Limited	Limassol, Cyprus	60%	60%
Bluestone Investments Limited	Limassol, Cyprus	60%	50%

The Company owns 50% of Vestive Limited through Eastern Property Partners II LP and 10% interests in EPH Real Estate Limited, Connecta GmbH & Co. KG and Connecta GmbH.

The Company also owns 25.9% of Hypercenter Investment SA and 10% of Sarnatus Trading Limited.

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

The following 100%-owned subsidiaries of Valartis Group have contractual agreements in place with the Group under which management fee / advisory fees / performance fees are charged:

- Valartis International Ltd has a management agreement with EPH
- Valartis Asset Management S.A. has an advisory agreement with EPH
- Valartis International Ltd has property management agreements in place with Petrovsky Fort LLC (Petrovsky Fort)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED ACCOUNTS

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.

Managers, employees and shareholders of Valartis Group companies are members of the Management Committee and Board of Directors of the Company.

The total amount of management and advisory fees earned by all Valartis Group subsidiaries under all contracts described above is limited to 2% of the net assets of the Group per annum as defined by the Real Estate Management Agreement between Valartis International Ltd and EPH.

Any fees paid under the property management agreements in excess of the actual cost of providing the services are deducted from amounts payable under the Real Estate Management Agreement.

On 30 June 2012, Valartis International Ltd held 339,703 shares of EPH, Valartis Bank AG held 10,556 shares. Both of the Valartis companies are subsidiaries of Valartis Group AG which also directly held 773,798 EPH shares. ENR Private Equity Ltd and ENR Investment Ltd, both of which are majority owned by Valartis Group, owned 272,000 and 221,000 shares, respectively. MCT Global Opportunities Fund, which is managed by Valartis International Limited, held 100,000 shares of EPH.

The Group's related party balances as of 30 June 2012 and 31 December 2011 consisted of the following:

in US$	30.06.2012	31.12.2011
Loans and receivables	61,319,939	51,276,846
Cash & cash equivalents	6,053,872	4,534,948
Provisions for long-term liabilities and charges	12,004,640	12,632,414
Debt	–	1,087,130
Accounts payable and accrued expenses	1,708,930	2,434,788

The Group's transactions with related parties for the period ended of 30 June 2012 and 30 June 2011 consisted of the following:

in US$	30.06.2012	30.06.2011
Gross rental income	30,642	267,305
Property operating expenses	–562,723	–1,674,771
Performance fees	627,774	729,640
Management fees	–2,791,009	–3,152,946
Professional and administration fees	–60,000	–60,000
Interest income	2,605,660	1,582,545
Finance costs	–29,415	–178,354

16. TAXES

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

17. 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 patters in rent and interest rate, Management of the Group does not believe interim operations are subject to seasonality.

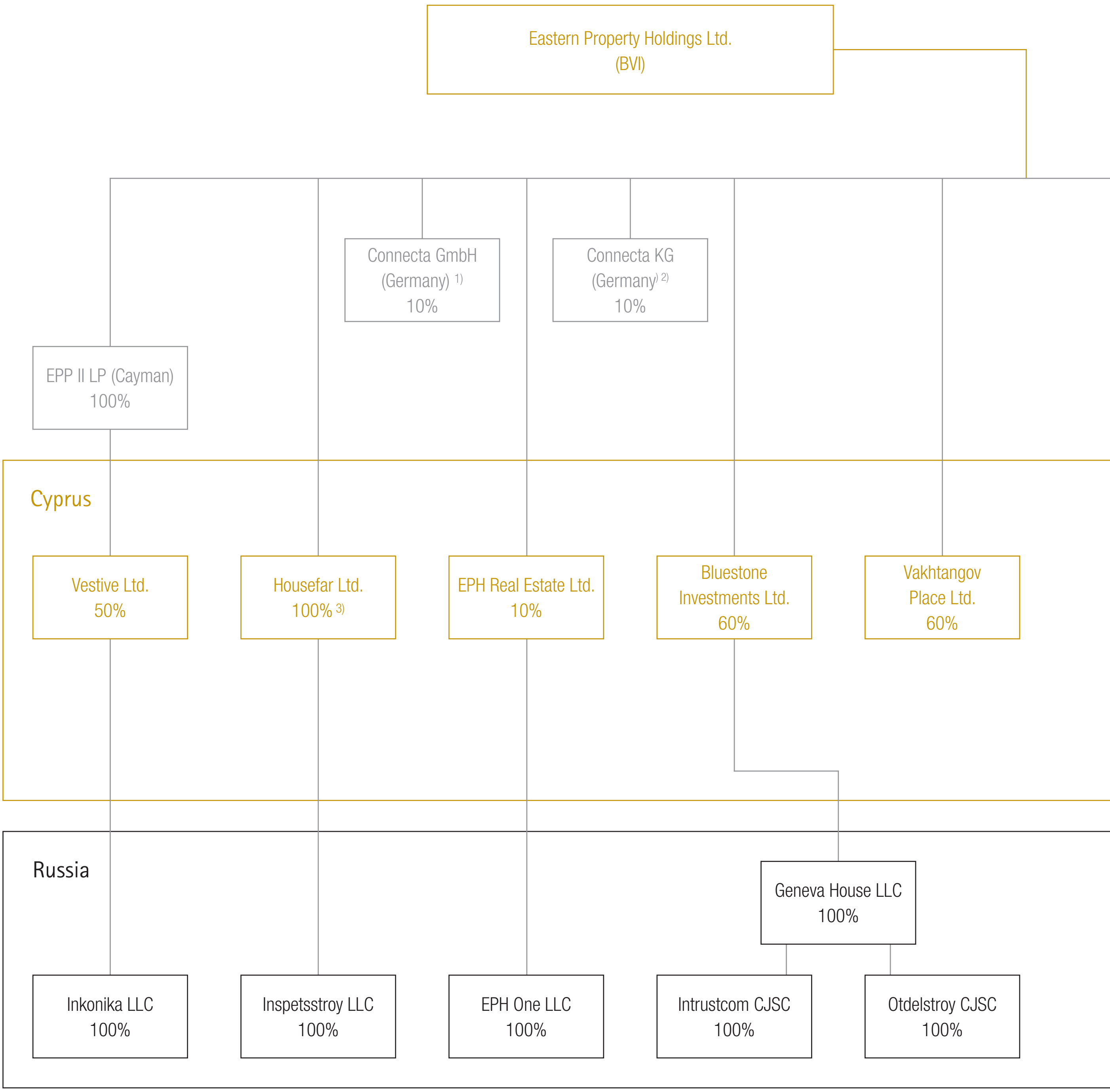
18. COMMITMENTS

The Group has entered into a loan agreement with Inkonika LLC, which is 50% owned by the Group. US$ 0.62 million of the total loan amount remained undrawn at balance sheet date.

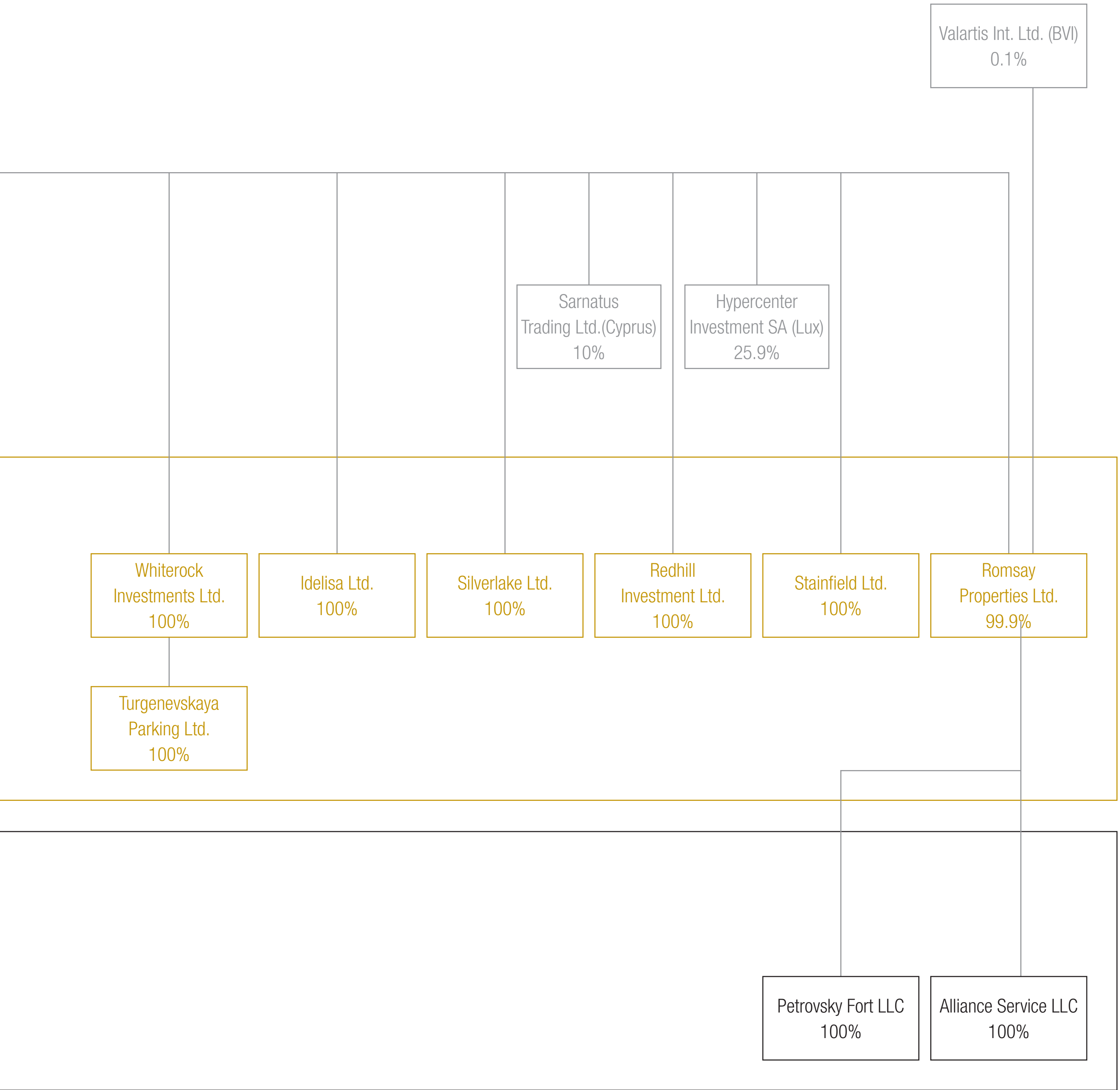
19. SUBSEQUENT EVENTS

On 26 July 2012 the Group provided a loan of US$ 3.62 million to its 10%-owned associated company Connecta GmbH & Co. KG, owner of Berlin House, as its pro-rata share of the total required to repay a loan from Aareal Bank upon maturity.

ORGANISATIONAL CHART



[1] Connecta Beratungsgesellschaft im Ost-West Wirtschaftsverkehr mbH
[2] Connecta Beratungsgesellschaft im Ost-West Wirtschaftsverkehr mbH & Co Erste Grundstücks KG
[3] Ordinary Shares


Valartis Int. Ltd. (BVI)
0.1%
Sarnatus Trading Ltd.(Cyprus) 10%
Hypercenter Investment SA (Lux) 25.9%
Whiterock Investments Ltd. 100%
Idelisa Ltd. 100%
Silverlake Ltd. 100%
Redhill Investment Ltd. 100%
Stainfield Ltd. 100%
Romsay Properties Ltd. 99.9%
Turgenevskaya Parking Ltd. 100%
Petrovsky Fort LLC 100%
Alliance Service LLC 100%

SHAREHOLDER INFORMATION AND CORPORATE DETAILS

BOARD OF DIRECTORS

Gustav Stenbolt
Kay Reddy
Philipp LeibundGut
Bernard Sucher
Kirill Rubinski

DOMICILE

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Road Town, Tortola
British Virgin Islands

AUDITORS

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Switzerland
(since June 2010)

REAL ESTATE MANAGER

Valartis International Limited
Vanterpool Plaza, 2nd Floor
Wickhams Cay 1
Road Town, Tortola
British Virgin Islands (since January 2010)

SECURITY NUMBER

1673866

ISIN NUMBER

VGG290991014

TICKER SYMBOL

EPH

COMPANY WEBSITE

www.easternpropertyholdings.com

IMPRINT

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Eastern Property Holdings, Road Town, Tortola

CONCEPT AND DESIGN
Schrägstrich Kommunikationsdesign, Zurich, Switzerland

REALISATION
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