

3 August 2010

## **DRAGON - Ukrainian Properties & Development PLC**

("DUPD" or the "Company" and together with its subsidiaries, the "Group")

### **Interim results for the six month period ended 30 June 2010**

Dragon - Ukrainian Properties & Development plc, a leading real estate investor and developer in Ukraine is glad to provide an update on its operations and results of its portfolio appraisal together with the financial statements for the period ending 30 June 2010.

#### **Political and Macroeconomic outlook:**

- \* Ukraine's political risk has gone down considerably since a new president was elected in February 2010. The new Cabinet is better suited to implement unpopular measures demanded by International Financial Institutions. The ruling coalition enjoys a sufficient majority in Verkhovna Rada (Ukrainian parliament) to pass legislation backing the government's reform program. With next regular parliamentary elections not due until late 2012 and political negotiations going on to schedule local elections for end-October 2010, the new administration is close to securing for itself the rare prospect of more than two years without major elections — and thus a window of opportunity for many necessary but unpopular reforms which previous Ukrainian governments were hesitant about.
- \* Ukraine is expected to maintain its status as one of the fastest growing economies in the region with real GDP to advance by 5.5% this year and 4.5% in 2011. The IMF's new lending program (\$15bn) will substantially ease Ukraine's budget deficit financing pressures for the rest of the year. Cooperation with the Fund will remain a key factor for Ukraine to ensure that external financing remains cheap and relatively easily accessible in 2011. S&P have upgraded Ukraine's sovereign rating by one notch to B+ on the back of IMF deal and other rating agencies are expected to follow suit.

#### **Real Estate outlook:**

- \* While the economy of Ukraine was hard hit by the global financial turmoil, combined with political instability in the run-up to the presidential elections, early signs of stabilisation were witnessed already in the first quarter of 2010. Despite the first signs of increase in occupier demand, the office property market in Kyiv was still determined as a "tenant's market" as opposed to the "landlord's market" that prevailed during 2004-Q3 2008. In the first quarter of 2010, a noticeable improvement in general dynamics on the demand side of the retail market across Ukraine was witnessed, with retailers increasingly seeking opportunities to expand, whilst the lack of critical mass of high-quality retail properties in the country remains a major obstacle.
- \* The residential sector has also shown first signs of revival during the first half of 2010, primarily in elite segment, evidenced by increased number of transactions and marginal increase in prices. Such trend is expected to sustain for the remaining of the year end, while price growth will be still limited to not more than 3-5%. Suburban real estate has also witnessed revival of development, mainly organized community projects which were frozen during the crisis. Further development of the market will heavily depend on availability of mortgage financing, which currently remain largely unavailable.

#### **Valuation and Financial Highlights:**

- \* NAV as at 30 June 2010 stood at USD 292.6 million, compared to USD 293.9 million as at 31 December 2009;
- \* The value of the Company's portfolio was appraised by CB Richard Ellis and amounted to USD 86.8 million as at 30 June 2010, compared to USD 85.0 million as at 31 December 2009. This excludes investment in land banking in the amount of USD 122 million, which was not subject to valuation.
- \* Cash on deposits, held in several leading European banks with top ratings, stood at USD 80.7

million as at 30 June 2010.

- \* No bank debt at Company or Group level.

#### **Operational Highlights:**

- \* The Company was able to demonstrate solid performance, having officially opened to the public two of its gated residential communities under development, Green Hills and Riviera Villas on May 27 and June 5, respectively. Both communities were very well perceived by the market, thus enhancing DUPD's profile and reputation among the public, despite the fact that the overall Ukrainian residential market remains depressed. By end of July, the first turn-key home was sold in Riviera Villas for approx. USD 0.9 million, and 4 shell-and-core cottages in Green Hills, bringing the total number of sold homes in both communities to 16. This result, coupled with the fact that several more sales in both communities are currently in closing stages, makes us confident in further successful development of these projects and allows anticipating strong sales in 2H 2010.
- \* As envisioned by the annual budget of Henryland Group Limited, construction of the big-box retail center in Odesa commenced in 2Q 2010. The subject property is 100% pre-let and scheduled for opening in 4Q 2010. Development is funded with equity and internal cash flow from two existing retail centers of Henryland Group Limited in Lutsk and Kremenchug with no additional equity disbursements from DUPD and other shareholders.
- \* Despite the change of local authorities in Kyiv during 1H 2010, the Company managed to receive the final approval of the project documentation for the Obolon Residential Towers project by the State Detailed Expertise, coming as a post interim event on July 27, 2010, and is now in negotiations with a few international banks to secure debt financing for the construction phase.
- \* Within Glangate project – which after the sale of Sevastopol land plot envisions development of 2 shopping centres in regions of Ukraine – DUPD completed the project documentation for a 40,000 sqm shopping centre in Kremenchuk in two phases and advanced with the acquisition of a 5.4 hectare land plot in Rivne, allowing the Company to start concept design works.
- \* The Company maintains and reiterates its focus on exploiting attractive acquisition opportunities of income-generating, or nearly-completed, real estate assets in Kyiv and major regional cities of Ukraine, primarily within retail sector. The Company is currently considering several such opportunities which are anticipated to conclude, and be announced, in the nearest future.

"During the first half of 2010, we continued to advance our key corporate initiatives" said Chris Kamtsios, Senior Partner & Managing Director of Dragon Capital Partners Ltd (the Investment Manager). "We remain committed to increasing the value of our investments portfolio through uninterrupted development of our projects, optimization of the development scale and phasing to reflect the current market conditions, and stringent control over operating expenditures.

Currently, we are completing construction of a retail centre in Odesa and continue to develop our two gated communities near Kyiv, by reinvesting all of their sales proceeds. As debt financing is starting to become available for financially strong developers, we feel confident that we will be able to commence construction of other large portfolio projects, currently in pre-construction stage, such as Obolon Residential Towers. At the same time, we aim to take advantage of our strong balance sheet by deploying part of our uncommitted cash into acquisitions of selected, income-generating properties at distressed valuations."

Enquiries:

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