LIBERUM CAPITAL

BUY

6 September 2012

European Equity Research

AISI Realty Public Ltd

A Transformational Year

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AISI's prospects have been turned around over the last year by the new internalised management team. A $10.3m capital injection has strengthened the balance sheet and occupancy has improved from 20% to 83% at its largest asset. As occupancy rises further and cost cuttings feed through, we expect recurring earnings to turn positive in FY2013E. Income growth drives a 2.5 yr NAV CAGR of 3.2% and management are exploring future investment opportunities to drive further growth. Since the August 2012E restructuring, the shares have traded on a c60% discount to our FY2012E NAV. We believe this could narrow to 40% given management's successful track record and the potential for a capital raise and a larger, more liquid, income-focussed vehicle. BUY

- **$44m portfolio focussed on Ukraine** – AISI's portfolio comprises one income-producing logistics asset (Terminal Brovary, 48% of portfolio) and four development sites (remaining 52% of portfolio). 71% of the portfolio is located in Kiev with the remainder in Odessa (18%), and Zaporozhye (10%).

- **Significant progress over past year** – AISI's financial position and operating performance have strengthened considerably since the appointment of new management in August 2011. Occupancy at the sole income-producing asset has risen to 83% (from 20%). A large creditors position of $17.2m has been reduced to $4.2m and AISI is in negotiations to extend its $15.8m Terminal Brovary debt facility.

- **Terminal Brovary to drive 3.2% NAV CAGR** – Our 2.5 year NAV CAGR is driven by income growth from the improvement in occupancy and rental values at Terminal Brovary. AISI is experiencing robust demand from international tenants in a logistics market where Grade A space is supply-constrained.

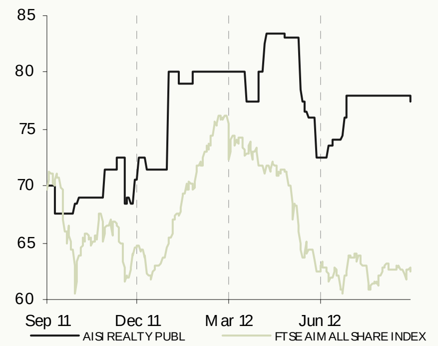
- **Operational cashflow improving** – A focus on cost control has reduced recurring admin expense by 42% y-o-y. This alongside the full impact of lettings achieved at Terminal Brovary will be seen in FY2013E when we expect the company to deliver recurring profits of $0.3m (-$3.2m in FY 2011A).

Stock Data

52-Week Range	83.5-67.5
Current price (p)	76
Shares Outstanding (m)	10.2
Free Float (%)	55%
Market Cap (£m)	7.7
Net Debt (Cash) / Market Cap	1.31x
Avg. daily volume (shares)	6,958

**E=Liberum Capital Estimates*

Stock Performance



Price Performance	1M	3M	12M
Price	78	73	70
Absolute	-3%	5%	9%
Rel. to FTSE AIM ALL SHARE	-4%	4%	21%
Rel. to FTSE ASX RE Invt Trusts	-4%	-6%	0%

Source: Bloomberg

Summary Financials & Valuation

Year end December	2011A	2012E	2013E	2014E
Prem (disc) to NAV (%)	-66%	-60%	-61%	-62%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%
P/E (x)	-1.4	-5.7	54.5	22.7
EV/EBITDA (x)	-11.7	-32.9	16.3	12.0
Net rental income (£m)	0.4	2.1	3.1	3.2
EBITDA (£m)	-1.9	-0.7	1.3	1.7
Recurring EPS (p)	-52.2	-13.3	1.4	3.4
DPS (p)	0.0	0.0	0.0	0.0
fd adj NAV per share (p)	212	189	195	198

Source: Liberum Capital Estimates

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Corporate History

AISI was incorporated in Cyprus in June 2005 originally as a private company. $67m of private investment was raised whilst the company was still private which was used to fund the acquisition of six properties in Ukraine between October 2005 and June 2007. The company subsequently floated on AIM in August 2007. Gross proceeds of $33.1m were raised (for 30.2% of the share capital of the company) implying a market cap of $109.7m on admission.

Figure 1: AISI Realty Public Ltd – Timeline

Date	Event	Detail
August 2007	IPO	$31.3m raised in IPO
November 2007	Construction commences at Terminal Brovary development	Logistics property in Kiev
July 2008	Pre-let of Terminal Brovary to UVK Logistics	Deal subsequently fell through
January 2009	$34m EBRD debt facility agreed	To fund Terminal Brovary development
August 2009	Placing of ordinary shares	$5.4m raised from existing holders
November 2009	$16m drawn down from EBRD debt facility	
June 2011	Trading of shares on AIM suspended	Funding issues
August 2011	Third party investment by Narrowpeak	$8m convertible bond
December 2011	Conversion of bond by Narrowpeak	47% ownership
April 2012 – June 2012	Further share issue for working capital purposes	$2.4m raised in share placing at 95p
July 2012	Terminal Brovary achieves 83% occupancy	

Source: Company data

At the time of the IPO AISI had a portfolio comprising five properties (one of the original assets was sold for $3m generating a profit on cost of 67%) with a total value of $40.5m. The original strategy of the fund was to acquire sites for development. The portfolio was externally managed by Aisi Realty Capital LLC, a Boston based investment management company which had established a presence in Kiev in 2005. The main principals behind Aisi Realty Capital were Beso Sikharulidze and Helen Maximov (both of whom were also directors of the fund).

Over the next 18 months the investment manager's most significant achievement was to secure a pre-let for the entire 49,180 sq m Terminal Brovary development in Kiev to UVK, a Ukrainian logistics company, on a 10-year lease. A $34m funding agreement for the scheme was agreed with EBRD but problems in fulfilling the necessary drawdown pre-conditions delayed the project and led to the eventual loss of the tenant. Thereafter AISI ran into difficulties due to a lack of development funding and the trading of the shares was suspended in June 2011 as the group did not have enough funds to continue as a going concern.

A third party investor, Narrowpeak Consultants Ltd, had been in negotiations with the board for a number of months prior to this regarding a potential injection of capital which was completed in August 2011. As part of the capital reorganisation Narrowpeak provided $8m via a convertible bond to AISI to deal with the company's burgeoning creditor position and create a strategy for growth. A new internalised management was introduced (CEO Lambros Anagnostopolous and CFO Constantinos Bitros) and the bonds were later converted giving Narrowpeak a 47% holding in the company.

Property Portfolio Overview

Figure 2: Summary of existing portfolio

Investment portfolio	Sector	Location	GLA (sqm)	Latest Val ($m)*	% of portfolio	Rental Income ($m)
Terminal Brovary	Logistics	Kiev	49,200	21.0	47.5%	$2.6m
Total investment portfolio			49,200	21.0	47.5%	$2.6m

Development portfolio	Sector	Location	Size (ha)	Latest Val ($m)*	% of portfolio	Notes
Kiyanovsky Lane	Land (residential)	Kiev	0.55	8.0	18.2%	Located in Central Kiev
Tsymlyanski Lane	Land (residential)	Kiev	0.36	2.5	5.7%	55% owned by AISI
Balabino	Land (retail)	Zaporozhye	26.4	4.5	10.2%	
Bela Logistics Centre	Land (logistics)	Odessa	22.4	8.1	18.4%	Planning to construct 103,000 sqm of space
Total development portfolio			49.71	23.1	52.5%	
Total portfolio				44.1		

Source: Company data

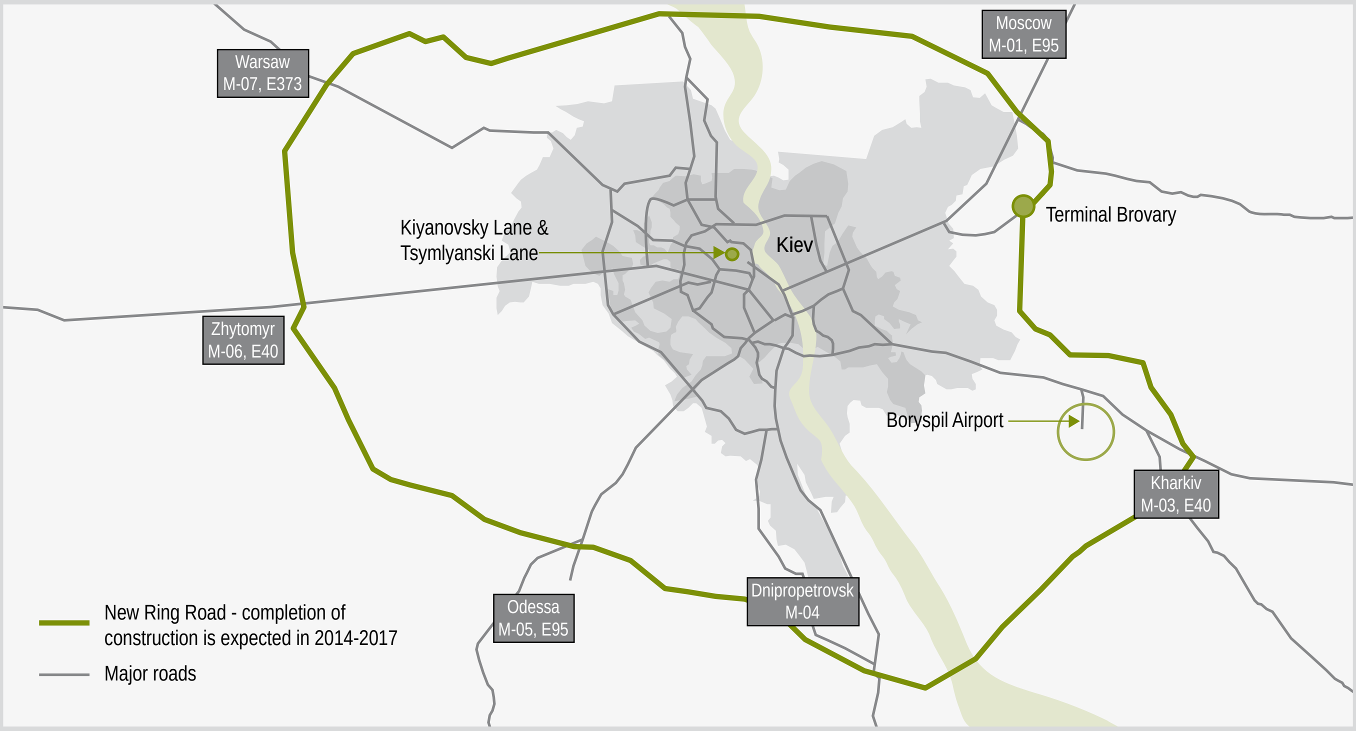
**The latest valuation was carried out at December 2011*

The property portfolio comprises the Terminal Brovary Logistics Park in Kiev ($21.0m - 48% of portfolio) and four development projects at various stages of progression with a total combined value of $44.1m. Terminal Brovary and two of the development sites are located in Kiev with the remaining assets in Odessa and Zaporozhye.

Figure 3: Location of AISI's portfolio

Source: Company data, Liberum Capital

Figure 4: AISI's assets in Kiev



Source: Company data, Liberum Capital

Investment Portfolio

Terminal Brovary, Kiev (48% of portfolio)

Terminal Brovary is AISI's sole income-producing asset. The property comprises a modern 49,180 sqm class A logistics property (with associated office and mezzanine space). The property is strategically located at the intersection of the Kiev-Moscow highway and Boryspill ring road, 30km north-east of Kiev and 5km from Boryspill international airport (see Figure 4).

Figure 5: Terminal Brovary

Source: AISI Realty Public

Tenant Profile

The existing tenant profile consists primarily of international tenants with the largest tenant accounting for 27% of the income. The weighted average lease length is just under 3 years.

Figure 6: Tenant profile at Terminal Brovary

Tenant		Sq m	Lease Expiry	Annual Rent ($)	Rent ($ psm per month)
DSV	Danish logistics company	4,323	Nov 12		
HTL	Austrian gaming group	2,578	Feb 13		
FM Logistics	French logistics company	6,496	Aug 13		
Sumatra LLC	Cosmetics retailer	9,892	Jun 15		
Rhenus	German logistics company	7,844	Oct 16		
Pernod Ricard	Global beverages producer	4,266	Dec 16		
Amway	Global (direct) retailer of consumer products	5,132	Jul 17		
Vacant		8,649			
Total		49,180		2,568,851	5.28

Source: Company data

Since taking over the management of AISI in August 2011, the new internalised management team has increased occupancy to 83% from 20% in August 2011 and raised the annual rental income to $2.6m in the process. The majority (c60%) of the remaining vacant space consists primarily of office and mezzanine space. The vacancy reduction drove a 21% revaluation in the asset to $20.9m in H2 2011 (the property was not revalued at H1 2012).

AISI derives additional cashflow benefits from the property as the company is eligible to keep the VAT received on the rental income to offset VAT previously paid on construction cost of the Terminal Brovary. This generates an additional $0.6m of cashflow and is expected to continue for another 7 years.

Future valuation uplift
The property was last valued in December 2011 at $20.97m when occupancy was 40% and the average rent per sqm was $4.75.

We believe the property offers short-term valuation upside as management are confident of increasing the average rents on let space at the property from $5.28 psm currently to $5.60 psm by the end of the year. AISI has reported strong occupier demand from new tenants and near term lease expiries (DSV, HTL, FM Logistics) provide an opportunity to capitalise on this demand.

We think the property has the potential to offer another 20% upside to the existing $20.97m valuation based on income improvements achieved to date as well as future asset management opportunities (assuming a capitalisation yield of 11.75%. – currently 12%). We have assumed an uplift of $4.2m over the next 18 months in our numbers.

Development Portfolio

Kiyanovsky Lane, Kiev (18% of portfolio)

The Kiyanovsky Lane site is located in the central Kiev and overlooks the Dnipro River and the historic Podil district.

Development plans for the site are being progressed to concept design stage and the scheme is expected to comprise 100 high-end residential units with office and retail space on the lower floors.

We believe Kiyanovsky Lane is the only site that will be held by AISI on a medium-term basis but we do not expect the scheme to progress much further at this stage given the liquidity constraints the company is operating under.

Tsymlyanski Lane, Kiev (6% of portfolio)

The 0.36ha plot is held in a JV with AISI holding 55% and a local operator owning the remaining 45%. Planning permission was granted in 2008 for a 10,000 sqm residential-led mixed-use development.

The property is held on a leasehold basis and the land lease fee to the state was not paid in 2010 (management are in negotiations to settle this). Options available for this site are being explored and these include an outright sale and contribution to a larger development.

Balabino, Zaporozhye (10% of portfolio)

AISI took over 100% ownership of the 26.4ha site in southern Zaporozhye in December 2011 as the site was provided as security for several advances the company made which were subsequently defaulted on.

The site is zoned for retail and entertainment and various development options are being evaluated as per the market's needs. AISI is evaluating a proposal to sell a corner part of the plot (c1 ha) to a restaurant developer. The plot benefits from close proximity to two major highways accessing the city centre. We expect the site to be sold in due course.

Bela Logistics Centre, Odessa (18% of portfolio)

The 22.4 ha site at Bela Logistics Centre is located on the main Kiev-Odessa highway, 20km from Odessa in a traditional logistics / warehousing area.

The site has planning permission for a 108,000 sqm logistics facility. Construction commenced in 2008 although the scheme only progressed as far as groundworks. Construction was deferred in 2009 due to a combination of a lack of funding and poor market conditions.

AISI received an offer of $9m for the property and management are exploring the sale. Given the ongoing macro economic uncertainties and capital constraints in the market we have not assumed that the sale completes in our forecasts. It should also be noted that a payment of $0.7m is owed to the contractor from any potential sale proceeds (this item is provided for in the accounts). The contractor had initially been claiming for $3m - $5m but the new management team settled for $1m with $0.3m paid in H1 2012 and $0.7m due upon sale of the asset.

Ukraine Property Market Overview

Economic Overview

The Ukrainian economy benefitted from significant capital investments in 2011 (ahead of the European football championships) which helped to generate GDP growth of 5.2%. 2012 is expected to see a deceleration in the growth rate to c2% (source: World Bank) as a result of reduced exports due to the Eurozone crisis before recovering to 3.5% and 4% in 2013 and 2014 respectively. Unemployment has reduced incrementally since 2009 with Oxford Economics predicting a further decline in the unemployment rate to 7.3% by the end of 2012.

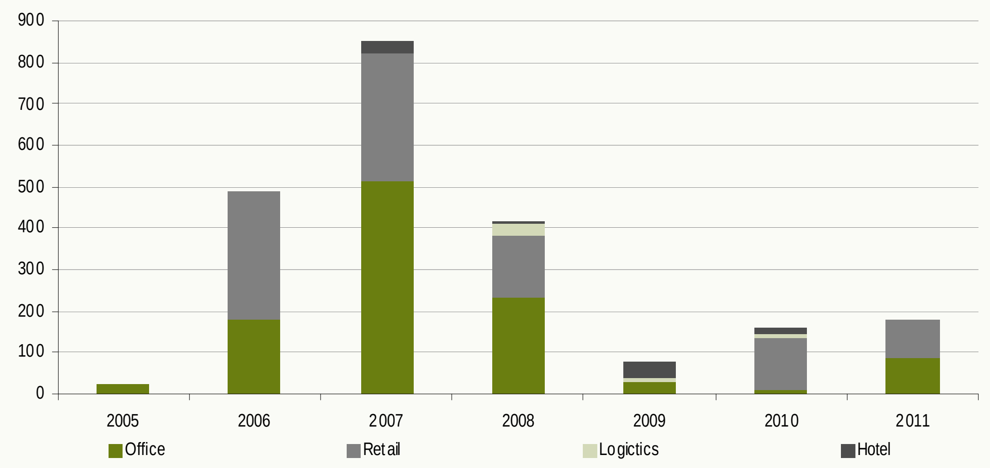
Figure 7: Macroeconomic indicators in Ukraine

Source: Bloomberg, World bank, Oxford Economics

Investment Market

The scarcity of debt financing has continued to limit investment transactions in the Ukrainian investment market in 2012. Despite this the investment market is showing signs of improvement and DTZ is forecasting total investment volumes of $800m which represents a c440% increase on 2011. A Russian investor (TPS) has reportedly purchased part of the Ocean Plaza shopping centre development for $280m. The majority of active demand is coming from local and Russian investors with modest but increasing demand from European investors.

Figure 8: Investment volumes by sector in Kiev ($m)



Source :Jones Lang LaSalle

Unsurprisingly, Kiev accounts for the vast majority of real estate transactions in Ukraine. In 2009 prime yields in Kiev moved out by c7ppts to 15% - 20% which was a much wider correction than experienced in core Central European markets of Prague, Budapest and Warsaw (c3 ppt correction). Prime initial yields in Kiev have compressed across all sectors over the past year driven by a marginal improvement in investor sentiment towards the region. Prime yields are now c12% for prime retail and office assets and 13% (ranging from 12% to 14%) for logistics properties. Colliers are forecasting a 50bps beneficial yield shift across all sectors in 2012 but even then prime yields will still be c300bps higher than other (admittedly more mature) CEE markets such as Bucharest and Budapest and c450bps higher than Warsaw and Prague.

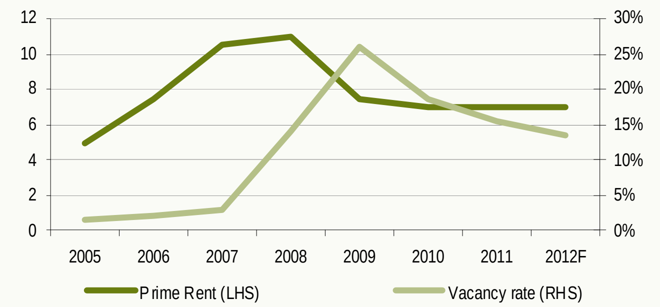
Figure 9: Prime yields in Kiev

Source: Colliers

Logistics Market

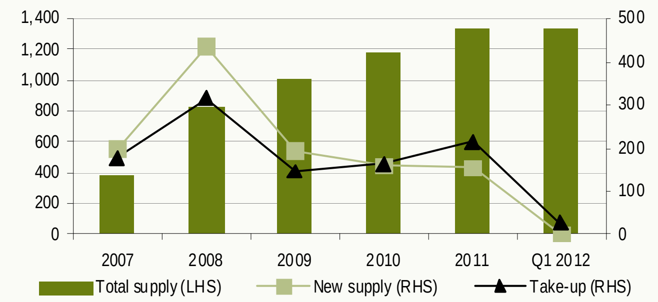
Take-up volumes rose by 30% in 2011 in the Kiev logistics market as existing tenants sought to improve the quality of their space occupied. The majority of demand was focussed on warehouses located near M-06 and M-07 in the west and Brovary in the east. Take-up is expected to contract in 2012 to levels seen in 2010 (source: DTZ). Total supply of space is now 1.3m sqm and the estimated pipeline for 2012 is 100,000 sqm as new development starts are being delayed in the absence of pre-lets.

Figure 10: Prime rents ($ per sq m per month) and vacancy rates



Source: Jones Lang La Salle

Figure 11: Kiev logistics - Total supply, new supply and take up (000 sqm)



Source: DTZ

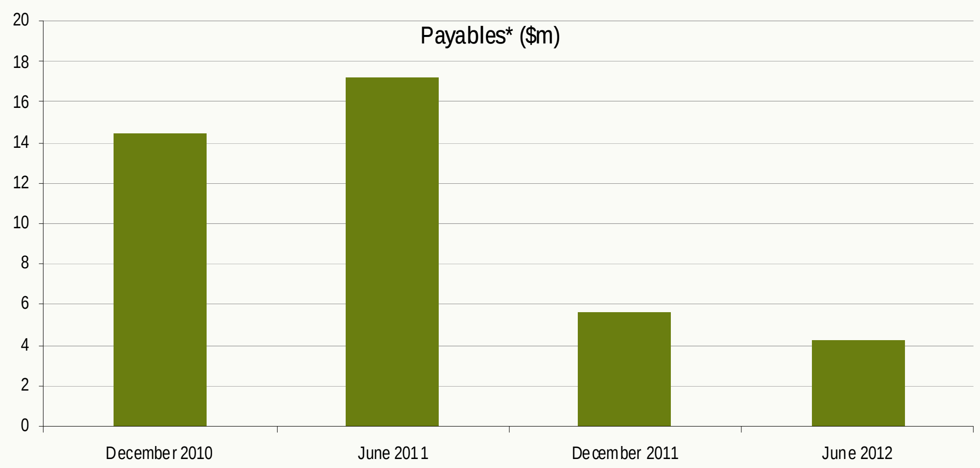
Prime logistics rents in Kiev are comparable to those in Bucharest and Prague but lower than in Moscow and Warsaw. Rents stabilised in 2011 at $7 per sqm (c40% below the peak in 2008) on the Western side of the city and $6 per sqm on the eastern side of the city near Brovary and Boryspil (Terminal Brovary is currently achieving lettings above $6 per sqm). Vacancy rates have decreased from a peak of c25% in 2009 as take-up has outstripped new supply over the period. This has resulted in a gradually reducing vacancy rate and this trend is expected to continue in 2012 & 2013 with a constrained supply pipeline and rents are expected to remain broadly flat.

A Transformational Year

AISI has undergone a significant transformation since the $10.3m capital injection ($8m in August 2011 & $2.3m in H1 2012) and appointment of the new management team in August 2011. The strategy for the new investors was to turn the company around, stabilise its financial situation and reposition it for growth. We summarise the main achievements below:

- **Terminal Brovary letting success –** The new management team's focus on intense asset management has delivered a notable uplift in occupancy from 20% a year ago to 83% currently. This is particularly impressive when viewed in light of the difficult occupier environment in which it is operating. Having achieved almost full occupancy of the logistics space (c60% of vacant space relates to mezzanine / office use) AISI is now targeting rental growth at the property which we think will generate a revaluation surplus of $4.2m / 21.6p per share by FY 2013E.

Figure 12: Improvement in creditors position



Source: Company data

**Payables exclude bank debt, finance leases and tenant deposits*

- **Resolving creditors and legacy issues –** Gross payables (excluding bank loans, finance leases and tenant deposits) have reduced to $4.2m from $17.3m at the end of June 2011. The new management team have conducted extensive negotiations and the majority of these payables have been settled or deferred. The majority of these liabilities have been settled at c50% of the original liability. Several of the creditors related to legacy issues on certain properties such as a $3m - $5m claim from a contractor at Bela Logistics Centre (settled for $1m) and a $1.55m claim from a logistics company that had originally signed a contract to rent out 100% of Terminal Brovary (settled for $1m).

- **Significant cost reductions** – The company has achieved a considerable reduction in operating expenses from $2.7m in H2 2011 to $2.2m in H1 2012 (of which $1.6m is recurring). This is partly due to the termination of the previous external management agreement but also a conscious focus on tight cost control including a 32% reduction in headcount. Management are now forecasting further admin cost reductions of 46% from what is expected in FY 2012E ($2.8m) to FY 2014E ($1.5m). In combination with the letting progress at Terminal

Brovary, AISI is now producing sufficient income to cover recurring costs and interest which is a considerable improvement on the deficit of $3.2m in 2011.

- **Future opportunities** – AISI has survived through a turbulent period and is now on a much sounder footing to grow from. The company is looking to take advantage of the attractive yields available in South Eastern European assets and grow the cashflow of the business. Investor caution and the lack of available bank debt has exacerbated the polarisation between prime and secondary assets. Whilst it is understandable in the current economic environment that the majority of capital is targeting liquid markets, we think attractive returns could be available to investors who can take a long-term view.

Forecasts

Our forecasts for the main income statement and balance sheet items are summarised below (Figure 15 on page 16 contains a full breakdown of our forecasts).

Figure 13: Summary forecast

	FY 2011A	H1 2012A	FY 2012E	FY 2013E	FY 2014E
Net rental income ($m)	0.4	0.6	2.1	3.1	3.2
Recurring PBT ($m)	-3.2	-1.6	-1.9	0.3	0.6
Free cashflow ($m)	-5.4	-1.7	-1.8	0.9	1.2
Recurring EPS ($)	-0.81	-0.17	-0.21	0.02	0.05
Recurring EPS (p)	-52.2	-10.9	-13.3	1.4	3.4
DPS (p)	0.0	0.0	0.0	0.0	0.0
Adjusted NAV per share ($)	3.29	2.91	3.01	3.10	3.15
Adjusted NAV per share (p)	212	185	189	195	198
Adjusted NAV gearing	47.9%	51.1%	37.3%	33.9%	30.1%

Source: Liberum Capital estimates

Income statement forecasts

We forecast an improvement in recurring loss before tax from -$3.2m in FY 2011 to $0.6m in FY 2014E and expect AISI to generate positive free cashflow of $1.2m in FY 2014E. The key drivers of this are:

- Our net rental income forecasts increase from $2.1m in FY 2012E to $3.2m in FY 2014E as the full year effect of lettings in 2012 flow through to the income statement. Net rental income is bolstered by a positive contribution from net service charge income (service charge income currently exceeds costs by c$0.2m pa).
- We have assumed that AISI re-lets space at Terminal Brovary which is coming up for expiry in H2 2012E (DSV) and FY 2013E (FM Logistics) at $6 per sqm in line with recent lettings at the property. This would generate an annualised uplift over the existing leases of c$0.2m pa (existing rents on these units ranges from $3.5 - $5.5 per sqm).
- We have estimated admin expenses of $2.8m for FY 2012E, $1.8m for FY 2013E and $1.5m in FY 2014E based on management guidance of further headcount reduction.
- We have assumed a constant interest cost of 7.2% across the forecast horizon. The cost of debt comprises of our 3 month USD Libor assumption of 0.45% and the margin on the EBRD debt facility of 6.75%.
- AISI can retain the VAT charged on rental income at Terminal Brovary (c$0.6m pa) as it can be offset against VAT receivable ($4.5m on the balance sheet) from previous payments relating to the construction cost on Terminal Brovary. This cashflow benefit explains the difference of c$0.6m pa between recurring profits and free cashflow in FY 2013E and FY 2014E.

Balance sheet forecasts

Our NAV forecasts imply a NAV CAGR of 3.2% over the 2.5 year forecast horizon to FY 2014E.

- The main driver of NAV growth is our assumptions for capital growth of Terminal Brovary in H2 2012E and FY 2013E of 16.0% and 3.4% respectively. This is due to occupancy increases already achieved, expected income uplifts on re-letting units coming up to expiry and our assumption of a 12% capitalisation rate in H2 2012E (currently 12%), 25bp compression in FY 2013E to 11.75%, and 11.75% in FY 2014E.
- This is partly mitigated by the dilutive impact of the potential share issue for working capital purposes. Shareholders approved a proposal in July 2011 to allow the company to issue 2,619,790 new shares (at 95p per share) to raise a further c$4m of capital if required for working capital purposes. 895,248 shares have been issued to date (raising $1.35m) with a further commitment from Narrowpeak for $1m (of which $130,000 has already been advanced). We have assumed that AISI issues the remaining amount of shares in H2 2012 raising an additional $2.45m (see cashflow projections below).
- We estimate a closing cash position of $1.2m at FY 2012E. We have included a $0.3m payment to UVK as part payment of a settlement agreement finalised post-period end as well as amortisation payments to EBRD in September and December ($0.47m per quarter).

Figure 14: Cashflow projections in H2 2012

Cash on balance sheet at June 2012	$154,672
Potential remaining share issue	$2,455,002
Estimated free cashflow in H2 2012	-$148,627
Part payment of settlement with UVK	-$300,000
Amortisation	-$940,000
Projected cash on balance sheet at December 2012	$1,221,047
Less	
Tenant deposits	-$211,522
Cash held as collateral for bank guarantee	-$200,000
Projected available cash at December 2012	$809,525

Source: Liberum Capital estimates, Company data

- AISI had total debt outstanding of $15.8m at June 2012. The maturity date on the loan is September 2012 and the company is scheduled to commence quarterly amortisation payments of $0.47m at that date. We understand that management are in discussions with EBRD about converting the debt to an investment loan. For the purposes of our forecasts, we have assumed that 2 quarterly amortisation payment are made (total $0.94m) by the year end prior to converting to an investment loan.

Valuation

AISI's share price has fallen by 14.6% since the shares were readmitted for trading in August 2011. This is despite the turnaround in the company's prospects over that period which include a vastly improved financial position and occupancy increase at Terminal Brovary from 20% to 83% which should see the company generate positive recurring cashflow by FY 2014E.

The company is in a much stronger position for growth and is actively exploring investment opportunities in the South Eastern European markets which offer attractive opportunities and potential long-term returns. We believe the discount can narrow to 40% (currently 60% discount to FY2012E NAV) given management's successful track record to date and the potential for a future capital raise which would create a larger, more liquid and income-focussed vehicle.

Figure 15: Summary Financials & Valuation

	Year-end December ($m)	2010A	2011A	2012E	2013E	2014E
INCOME STATEMENT	Net rental income	0.0	0.4	2.1	3.1	3.2
	Trading profits	0.0	0.0	0.0	0.0	0.0
	Other income	-0.1	0.0	0.0	0.0	0.0
	Administrative expenses	-6.0	-2.2	-2.8	-1.8	-1.5
	Depreciation	0.0	0.0	0.0	0.0	0.0
	Joint venture or Associate EBIT	0.0	0.0	0.0	0.0	0.0
	EBIT (including JV/Associates)	-6.0	-1.9	-0.7	1.3	1.7
	Capitalised interest	0.0	0.0	0.0	0.0	0.0
	Net interest payable	-0.9	-1.4	-1.2	-1.1	-1.1
	Recurring PBT	-7.0	-3.2	-1.9	0.3	0.6
	Change in fair value of derivatives	0.0	0.0	0.0	0.0	0.0
	Revaluations on property and investments	-20.0	-0.6	3.4	0.8	0.0
	Profit on sale of investment property	0.0	0.0	0.0	0.0	0.0
	Exceptional items	1.7	3.0	0.0	0.0	0.0
	PBT	-25.2	-0.8	1.4	1.1	0.6
	Tax	0.0	-0.2	-0.2	0.0	0.0
	Minorities	0.3	0.0	0.0	0.0	0.0
	Attributable earnings	-24.9	-1.1	1.2	1.1	0.6
	EPS - recurring (US$)	-1.61	-0.81	-0.21	0.02	0.05
	EPS - recurring (p)*	-103.3	-52.2	-13.3	1.4	3.4
	DPS (p)*	0.0	0.0	0.0	0.0	0.0
	Recurring income cover of expenses (x)	0.0	0.1	0.5	1.1	1.2
	Net interest cover (x)	-6.5	-1.3	-0.4	1.8	2.2
	P/E (x)	-1.3	-1.4	-5.7	54.5	22.7
	EV/EBITDA (x)	-3.5	-11.7	-32.9	16.3	12.0
CASH FLOW	Cash generated from operations	-6.2	-4.3	-1.0	1.3	1.7
	Net Interest paid	-0.4	-1.1	-1.1	-1.1	-1.1
	Tax paid	0.0	0.0	0.2	0.6	0.6
	Net dividends paid	0.0	0.0	0.0	0.0	0.0
	Property acquisitions	-1.9	0.0	0.0	0.0	0.0
	Development capex	-0.2	-1.5	-0.1	0.0	0.0
	Property disposals	0.0	0.0	0.0	0.0	0.0
	Net cash from share issues	0.2	8.0	3.8	0.0	0.0
	Other	3.7	-0.7	-1.4	0.0	0.0
	Net cash flow	-4.7	0.5	0.5	0.9	1.2
BALANCE SHEET	Investment/Development properties	43.9	44.0	47.5	48.3	48.3
	Other fixed assets	0.1	0.0	0.0	0.0	0.0
	Investments in JVs	6.0	5.0	5.0	5.0	5.0
	Trading properties	0.0	0.0	0.0	0.0	0.0
	Debtors	6.4	5.0	4.3	3.7	3.1
	Cash	0.3	0.8	1.2	2.1	3.3
	Short Term borrowings	0.0	-15.8	-14.9	-14.9	-14.9
	Other Creditors	-13.9	-5.3	-4.2	-4.2	-4.2
	Long Term Debt	-15.5	0.0	0.0	0.0	0.0
	Convertible Loans	0.0	0.0	0.0	0.0	0.0
	Derivative Financial Instruments	0.0	0.0	0.0	0.0	0.0
	Other Long Term Liabilities	-1.3	-1.2	-1.2	-1.2	-1.2
	Minority Interests	-1.0	-1.1	-1.1	-1.1	-1.1
	Net assets	25.0	31.4	36.6	37.7	38.3
	EPRA adjustments (including dilution)	0.0	0.0	0.0	0.0	0.0
	Adjusted fully diluted NAV	25.0	31.4	36.6	37.7	38.3
	fd adj NAV per share (US$)	6.03	3.29	3.01	3.10	3.15
	fd adj NAV per share (p)*	386	212	189	195	198
	NAV growth (%)	-76.7%	-45.4%	-8.7%	3.0%	1.7%
	NNNAV per share fully diluted (US$)	6.03	3.29	3.01	3.10	3.15
	Total net debt	15.3	15.1	13.7	12.8	11.5
	Gross LTV (incl JV) (%)	35.4%	35.9%	31.3%	30.8%	30.8%
	Adjusted NAV net gearing (%)	61.2%	47.9%	37.3%	33.9%	30.1%
	Portfolio capital growth (%)	-24.5%	0.2%	7.6%	1.7%	0.0%
	Total return (NAV + dividend) (%)	-76.7%	-45.4%	-8.7%	3.0%	1.7%

Source: Liberum Capital estimates – forecasts assume constant GBP/USD FX rate of1.5884

Risks to investment case

There are a number of risks to our view. We first address risks that are specific to the AISI investment case before discussing risks facing the wider property market.

- **Political risk** – the international perception of Ukraine has suffered in recent years due to a relatively unstable political situation. President Yanukovich has cemented his executive power and has sentenced his strongest opponent to prison. International attention will be focussed on the parliamentary elections in October 2012. Further political instability could negatively affect investor sentiment towards the region and deter economic and property investment.

- **Currency risk** – The majority of property transaction and rental agreements are denominated in USD. The majority of tenants earn income in UAH and pay rent in USD. The USD/UAH has been maintained at roughly 8 since 2009 but there is a risk that FX fluctuations could impact tenant's ability to maintain rental payments.

- **Economic risk** – Ukraine's economic growth is expected to decline in 2012 given the financing risks the country faces. The IMF postponed the receipt of loan tranches over a dispute on domestic gas tariffs. The government has refused to raise gas prices ahead of the elections in October and instead has sought to negotiate cheaper gas from Russia which remains unresolved. The IMF continues to delay funding which needs to be resolved given that Ukraine is effectively locked out of international bond markets at current yields. These risks could weaken occupier confidence and hinder investor appetite in Ukraine.

- **Property illiquidity** – The Kiev commercial real estate market has suffered from poor liquidity in recent years. Jones Lang LaSalle report that there were only two commercial real estate transactions in 2011. Further illiquidity could delay AISI's ability to exit a number of assets that are targeted for disposal.

- **Debt expiry risk** – The company's sole bank debt facility with EBRD expires in September 2012. AISI is in negotiations with EBRD to convert the loan into an investment facility. We would expect the company to be able to extend the facility for a period of time given the improvements in operating income at Terminal Brovary which provides security for the loan. However, until an agreement is reached the loan will become payable in H2 2012.

- **Cashflow risk** – AISI has limited cash resources with only $0.15m of cash at June 2012 and we forecast that it will issue the remaining permitted shares to raise $2.5m of working capital in H2 2012. The company may need to raise further working capital in 2013 depending on the outcome of negotiations with EBRD and the potential sale of the Bela asset.

- **Tenancy risk** – 30% of the rental income at Terminal Brovary is coming up for expiry with the next year. Although this provides management with the opportunity to re-let the units at a higher average rent and create additional income there is a risk that the units will remain vacant for a period of time.

- **Share illiquidity** – AISI has a relatively small free float with 47% of the shares owned by Narrowpeak Consultants Ltd and a market cap of £8m.

- **Collateral on advance on investment -** AISI provided a loan of $12m in 2007 under the previous management team for the acquisition of five buildings in the Podil district of Kiev. The acquisition never proceeded and the creditor defaulted on the loan. As collateral for the loan AISI was provided with a charge over a 42.3 hectare land plot in Kiev Oblast which is valued at $5m. The collateral has been written down from an original value of c$20m. AISI is currently proceeding with legal actions to take control of the collateral.

Appendix

Management Biographies

Lambros Anagnostopolous (CEO)

Lambros Anagnostopoulos was appointed as CEO in August 2011 following the $8m investment from Narrowpeak into the business. Mr Anagnostopolous has considerable experience in South Eastern Europe real estate markets having been CEO of LAMDA Development S.A., a real estate developer listed on the Athens Stock Exchange (2000-2006) as well as vice Chairman of the Board in EFG Eurobank Properties, the first Greek REIT listed in the Athens Stock Exchange (2001-2007). He founded South East Continent Unique Real Estate (SECURE) Management in 2006 as a private equity platform in order to manage property investment and development vehicles South Eastern Europe. SECURE has established two funds which invest in development projects in Romania, Bulgaria and Serbia. Since 1992, he has been a Geneva based executive of the Latsis Group, directing the Group's global business planning & development.

Constantinos G. Bitros (CFO)

Constantinos Bitros was appointed as CFO of AISI in August 2011 following the investment by Narrowpeak into AISI. Mr. Bitros has been CFO of SECURE Investments Group, a private company with more that €250m AUM in 3 SEE countries, since 2007. Previously he held positions at Kantor Management Consultants (2005-2006) and various investment firms in Greece (2000-2004). He also run a USA private equity derivatives portfolio in the USA (1998-2000, AUM $150m). Among others he has set-up and implemented risk management systems for financial and industrial mid to large size companies in the USA and Greece and created and managed a venture capital and a long/short equity market neutral hedge fund. Constantinos Bitros holds a MBA in Financial Engineering and Business Strategy from Loyola University of Chicago and a BA in Finance & Accounting from Athens University of Economics and Business (AUEB).

Paul Ensor (Non-executive Chairman)

Paul Ensor has been non-executive chairman of AISI since the IPO in 2007. He is currently a partner at RK Equity Advisors, an advisory firm with offices in London and New York which focuses primarily on natural resource projects worldwide. He is also an executive director of Brazil Tungsten Holdings, which is currently developing a tungsten mine in NE Brazil. During the 1990s he held senior equity research positions in the Bangkok, Hong Kong, and London offices of Societe Generale, UBS, and CLSA, and prior that worked as a journalist for the Economist, and Far Eastern Economic Review.

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