

EPH Group expects a profit for the year ended 2019 and announces the issuance of subordinated notes in the amount of EUR 204.7 million to its major shareholders

23 March 2020, Road Town, Tortola, BVI

Profit for the year ended 2019

Eastern Property Holdings (“EPH” or the “Company”) would like to announce that the Company expects a net profit in the range of US\$ 35-45 million for the year ended 31 December 2019, compared to a profit of US\$ 30.2 million for the year ended 31 December 2018.

The main factors contributing to such a result are:

Performance of newly acquired properties

In February 2019, the Company acquired fully let office building QBC 4 in Vienna, Austria. The contribution of the property to the net rental income of the Group is expected at the level of US\$ 3 million.

Sales of residential properties

The Company expects to achieve a profit on the sale of apartments and parking lots in Arbat properties (Russia, Moscow) in the amount of about US\$ 3 million.

Fair value adjustments on Investment Properties

The Company expects a substantial gain from fair value adjustments of its investment properties in USD equivalent (2018: loss of US\$ 36 million). It reflects the signs of economic stabilisation observed in Russia and in the industry by the end of 2019, as well as successful management efforts to improve operational efficiency and tenant portfolio of the properties in Russia and Western Europe. Also, RUB appreciation during the reporting period positively affects the USD value of the current rental stream denominated in RUB and a higher estimated rental value (ERV) applied by the appraiser after the expiration of the existing leases. It should be noted, however, that the valuation process is not finalised yet, therefore, further changes are still possible.

Currency effect

Strengthening of RUB by the end of 2019 (about 11%) negatively affected RUB values of Russian investment properties, resulting in recognition of foreign exchange loss. The negative effect was half offset by gain realised on revaluation of the net US\$ financial liabilities by the entities with RUB functional currency and on revaluation of the net EUR financial liabilities caused by weakening of EUR/US\$ rate.

The opposite change in RUB/US\$ rate by the end of 2018 (about 21%) resulted in a significant net foreign exchange gain.

We expect, however, that the negative currency impact on the Company’s financial results will be for the most part eliminated by the positive change in Cumulative Translation Adjustment (CTA), so that the overall negative effect on the Company’s net assets will not be significant. The CTA reflects gains and losses from currency translation which have accumulated over the period of ownership of the subsidiaries. The strengthening of RUB against USD in 2019 has a positive effect on CTA.

The Company would like to emphasise that from an operating standpoint, the Company’s income-generating properties continue to demonstrate stable profitability and generate sufficient cash to cover the Company’s operating expenses, including payment of interest on the bonds issued by the Company.

The above stated figures in relation to 2019 are preliminary and are still subject to finalisation of the Company’s financials. The audited results for the year ended 31 December 2019 will be published by 30 April 2020. No further information on the Group’s business performance will be released until then.

Issuance of subordinated notes to the Company’s shareholders

As of today, Eastern Property Holdings Ltd. has received EUR 204.7 million by issuance of subordinated notes to its two largest shareholders at an interest rate of 3.5% p.a. Unless previously redeemed, EPH undertakes to repay all outstanding notes at par of their aggregate principal amount, without further notice on 23 March 2023. At any time on or after 15 March 2020, the Issuer may redeem all but not only some of the Notes for the time being outstanding at par with interest accrued to the day of redemption.

Eastern Property Holdings Ltd. intends to use the funds for the acquisition of properties in Western Europe in order to further strengthen the Group's business and follow its strategy to invest in premium quality income producing commercial property assets in Europe.

Possible Effects of COVID-19

Starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world, resulting in the announcement of pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and are having a significant impact on global financial markets. As the situation is rapidly evolving, it may have a significant effect on the business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the global economy.

The Company would like to underline that COVID-19 effects are considered as being non-adjusting event per the accounting standards and do not affect Company's financial results, including valuation adjustment of Investment property, for the year ended 31 December 2019.

Eastern Property Holdings Ltd. is an investment company listed on SIX Swiss Exchange which holds interest in office, residential and retail properties. EPH is managed by Valartis International Ltd. a wholly-owned subsidiary of Valartis Group AG.

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