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Communication

Zug, 31. December 2020

Varia Europe Properties AG – 2020 year-end Communication

Dear Investors and Partners,

In Europe this year, the coronavirus pandemic global disruption has reminded us how unpredictable events can be in an increasingly interconnected world. Many businesses have been affected by the lockdowns and millions of European households have suffered from regulations. However, governments and central banks provided and shall continue providing strong support setting aside the vision of a worst-case scenario.

On behalf of Stoneweg Group and Varia Europe Properties, we would like to remind you the health and safety of our people, investors and portfolio has always been our top priority.

We are fully operational with minimal business interruption and we ensure employees are equipped with the appropriate resources and technologies to continue to carry out their role effectively.

From an investment perspective, we believe it is not a bad scenario that the economic normalization will be gradual. Our investment strategy based on diversification will provide stable cash returns to our investors in the long run and thus it positions us well during this current period of uncertainty.

Although a great deal of uncertainty still remains from the pandemic and its public health and economic implications, we believe our in-depth due diligence and risk management allows us to navigate with low impact through current varying market conditions for the following reasons:

- › **Flexible Strategies to capitalize on diversification:** Varia EU implements different strategies in Spain, Italy and recently implemented a strategy focused on the Irish residential market.
- › **Long term and local experience:** Varia Europe Properties AG aims to anticipate, and capture shifting market conditions and capitalize on opportunistic deals thanks to its long-time experience in acquiring, financing, and operating actively local real estate assets that achieve high cash returns on invested capital.
- › **Stable returns:** Varia EU targets investments that provide stable and long-term cash returns through high yield bridge loan financing and steady income generating assets.
- › **Marginal exposure to impacted sectors:** Our portfolio has marginal exposure to hospitality and retail, the most affected sectors by Covid-19.
- › **Recovering economy:** The picture for the global economy is looking brighter with the prospect of vaccines and better virus management. Still, the scars will be with us for years to come, as the crisis has put pressure on job markets, widened inequalities and exposed the digital divide.

Following the publication of the 2020 Interim Report, we are glad to share with you the last updates of the portfolio regarding our investing activities

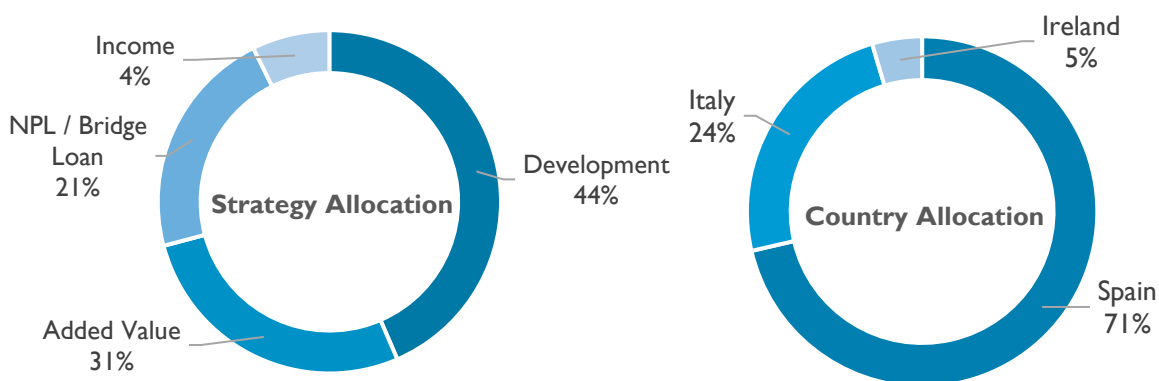
Deployment of Proceeds from December 2019 Capital Increase

From an investing and deployment standpoint, we had an active year with the deployment of the totality of the proceeds from December 2019 capital increase for a total of EUR 25 million

Out of this deployment, Varia EU strengthened its investments in developments by allowing approximately 37% to the starting strategy PRS and additional capital into Spanish development strategies.

Varia EU also allocated 33% of the proceeds from the capital increase to start investments in Value-add strategies. 20% of it allowed Varia Europe to invest into Iberia Income III new bridge loan strategy and 10% of it were used to invest into the Varia Ireland Strategy.

Overall Portfolio Allocation as of Q3 2020



Note: Based on Q3 2020 Valuations

Overall Portfolio Performances

Income Strategy Performance:

ENI project has been exited in Q3 2020 leading to a 14.5% IRR and a 1.15x multiple at Varia EU level for a total 3-year duration.

Bridge Loan Strategy Performance:

In order, to promote the best possible asset recovery strategy for the loans in a workout situation, the Iberia Income I have been extended 12 months with a new maturity expected for the 31st December 2021. Stoneweg already started to look for alternatives such as secondary sales of the loans as well as partnership to favor a full exit of the portfolio during this extension. Last quarter, the fund went ahead of interest non-recovery risks by covering them with the inclusion of an additional provision. It will be reversed once interest is paid thus guarantying a stable performance on the asset class.

On the bridge financing portfolio, Iberia Income I portfolio was able to distribute 57.2% of its subscribed capital and Iberia Income II reimbursed approximately 24.3% of its subscribed capital.

NPLs Strategy Performance:

On the Non-Performing Loan (NPL) strategy, renegotiations are ongoing with borrowers, but we can already assume that performances will be impacted considering issues with claim settlement, judicial recoveries all postponed. However, the exposure to this related borrower is marginal to our portfolio.

Spanish Development Strategy Performance:

Spanish economy has experienced this year one of the toughest Covid-19 lockdowns in Europe, unemployment increased and according to OECD forecasts, Spain's economy will not fully be stabilized before 2022.

The main impact in the Spanish development portfolio has been only a few weeks delay in the construction. The main uncertainty is now on the sales of the remaining units. The marginal number of pre buyers who have defaulted on their acquisition at signature show the resilience and ability of buyers to execute despite the Covid-19 crisis.

Spanish Developments valorizations were slightly impacted. This is due to the increase of development costs and the impact of Covid-19 on exit prices but also due to the change of strategy without developments.

New Implemented Strategies

Value Add Strategy:

Varia Europe diversified in 2020 its strategies even more by investing in single opportunistic deals with objectives to capture value through repositioning and/or restructuring of mixed assets over a 3-year horizon with an active asset management. The current Covid-19 situation helped uncovering off-market deals with strong performance potential. Local teams will continue to implement the strategy as we move into 2021.

Irish Strategy:

The capital invested in the strategy as already been deployed in five executed residential projects with a total investment value of EUR 11.3m. Further additional projects have been identified and Stoneweg is currently working with third party debt providers to negotiate the debt provision to bring the pipeline forward.

Ireland is being less impacted at the moment, and we are seeing government giving more importance to subsidized residential market. This is key to the strategy our asset manager is following in this market, and with cash available to deploy, we expect the strategy to benefit for good entry prices and increased demand, and support from authorities, with normalization of economy.

The asset manager monitors the situation daily with its local teams, and we continue in close contact with them to ensure any risk can be managed and anticipated. Our company will be publishing 2020 annual results in May, but we will communicate again on the situation during this month, as information continues, and we have more visibility.

Still, while this period has been challenging, results achieved are encouraging and we will continue to operate with careful investing considerations in such unprecedented times to deliver attractive results to our investors and assuring the healthy condition of our portfolio in a volatile market.

We remain available should you have any questions, and we hope you and your family stay safe.

Varia Europe Properties AG Board of Directors

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About Varia Europe Properties AG

Varia Europe Properties AG is a Swiss based company tailoring investment strategies to the European real estate market. Our Ambition is to maintain best in class asset allocation by creating a diversified portfolio of real estate and real estate backed opportunities which are expected to provide steady capital value growth and income potential. We have a purely bottom-up approach to project selection.

More information: <http://www.variaeuropeproperties.com>

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