METRO BALTIC HORIZONS PLC (MET.L)

TRADING UPDATE

3 August 2011

Metro Baltic Horizons plc ("MBH" or the "Company" and, with its subsidiaries, the "Group"), the property investment company focused on prime office, retail and residential development opportunities in St Petersburg, Russia and the cities of Riga and Latvia, Estonia wishes to provide the following trading update.

The Company has made a separate announcement (today, 3 August 2011, at 7.00 a.m.) in relation to the publication of its annual audited accounts for the year ended 31 December 2010 which will be posted to Shareholders today.

Background

On 11 November 2010, the Board of the Company (the "Board") requested that trading in the Company's shares be suspended. The Company's shares remained suspended pending substantial completion of an investigation into certain matters and publication of the Company's annual audited accounts for the year ended 31 December 2010.

The matters that were brought to the Board's attention related to the general financial position of the Company, including certain assets values and the liquidity position of the Company. They also related to the circumstances behind certain of the Group's transactions and related party issues in relation to the acquisitions made by the Group since Admission, and a series of transactions pursuant to which the Group raised finance (including via granting of security over the Group's primary asset in St. Petersburg), and apparent deficiencies in disclosures in relation thereto.

As a result of these matters, the Board believes that certain disclosures previously made by the Company were inaccurate. References to inaccurate disclosures below are not intended to be complete. The Board will update the market in the future in the event that further inaccuracies are identified as being material.

The Board has now conducted a preliminary internal investigation into the current assets and historic affairs of the Group. This investigation has taken considerable time and is ongoing. The Board reports below on the current status of the Group's assets and the outcome of its preliminary investigations.

Restoration of listing

The Board is pleased to announce that following a preliminary investigation into the financial irregularities highlighted above and the publication today of the Company's annual audited accounts for the year ended 31 December 2010, trading in the Company's shares will be restored from 7.30 a.m. today on the 3 August 2011.

Board changes

Since suspension on 11 November 2010, the Board has:

- appointed Ronan Reid, a non-executive director appointed to the Board on 29 October 2010, to the role of Chairman of the Company (2 December 2010);
- appointed Tim Crowley as a non-executive director of the Company (15 April 2011);
- removed Kristel Meos from the Board (11 May 2011).

In addition, on 10 May 2011, Robin James resigned from the Board.

The Board now currently consists of Ronan Reid, Brendan Murphy and Tim Crowley and the Company intends to add further non-executive directors to the Board in the near term.

Portfolio Update

Following Admission, the Company acquired four properties. The current status of each one of these properties, as understood by the Board, is set out below:

1. Bolshaya Pushkarskay 10, St Petersburg

This property was acquired by the Group in April 2007 for approximately €12.5 million via Gruppa KUB, one of the Company's subsidiaries and was subsequently sold to another subsidiary, Goldbrick Investments Limited ("Goldbrick"). The property, at the request of the Board, was valued by Jones Long Lasalle at €11.1 million as at 31 December 2010.

The valuation report provided the Board with a detailed note regarding development options for this asset, which the Directors are exploring further.

In order to obtain finance for certain of the Group's projects, on or about April 2009, Goldbrick and another Group company, Pedragon Investments Limited ("Pedragon"), entered into a series of transactions with OÜ BAP Holding ("BAP"), a special purpose vehicle incorporated in Estonia by the Company's investment adviser, Metro Capital Management AS ("MCM") to raise finance for the Group through the issue of secured, high yield bonds (the "Loan Notes"). The transactions included a loan agreement dated 4 April 2009, secured by a mortgage over the St Petersburg property. The Board is currently investigating a number of aspects of these transactions including (a) the validity of the loan agreement and the mortgage, (b) the fact that a very substantial proportion of the Loan Notes were issued to parties related to MCM, and (c) a series of purported assignments of the loan agreement and the mortgage to third parties. The ultimate purported assignee of the loan agreement is claiming approximately €1.9 million (as at 20 April 2011) from Pedragon, including interest and penalties at a rate of 40%, and has commenced proceedings in Russia seeking an order for the sale of the St Petersburg property.

The Board has sought legal advice in both Russia and Estonia and believes the Company has grounds upon which to contest the validity and/or enforceability of both the loan agreement and the security granted over the St Petersburg property and, as such, the Company aims to prevent any sale of the property by the purported assignee pending determination of the disputed status of the loan agreement. The Company has commenced declaratory proceedings in Estonia contesting the validity of the loan agreement and is defending the proceedings instituted in Russia. As a result of the Board's intervention a) at a hearing before the Russian court on 26 July 2011, the mortgage foreclosure hearing has been adjourned until 6 December 2011 and b) on July 28th 2011 the Estonian court ruled forbidding BAP from taking any steps towards executing the mortgage and forbidding further assignment pending determination of the disputed status of the loan agreement.

2. Krasta 99A, Riga ("Krasta")

In June 2007, the Group acquired an 80% holding in SIA Tilts Holding ("Tilts Holding"), a Latvian incorporated special purpose holding vehicle for the Krasta site, for €10.8 million and subsequently invested a further €0.9 million bringing the total investment to €11.7 million. The Company's announcement on 18 June 2007 noted that the Krasta project was being managed by MCM on behalf of third party investors. We now understand that in fact 100% of the share capital of Tilts Holding was owned by MCM albeit that some of the beneficial interest in Tilts Holding appears to have been held by clients of MCM. In addition, following the acquisition, MCM retained a 20% minority shareholding. This matter is still subject to ongoing review by the Board. The property continues to remain under formal legal protection thereby protecting the Company's interest in the site from foreclosure or otherwise being disposed of without the consent of the Company. This arrangement remains in place until September 2011. All debt in relation to this subsidiary is non-recourse and is 'ring fenced' within the subsidiary. Given the current state of the property market in Riga, the Board anticipates that insolvency filing is the most likely outcome and accordingly does not envisage any returns to shareholders following disposal of this asset, representing a loss of approximately €11.7 million.

3. Metro Plaza, Viru Square, Tallinn ("Metro Plaza")

In February 2011, the Group disposed of its remaining interest in Metro Plaza for €3 million. Pursuant to that and earlier sales of the Group's interests, the Group realised a total of approximately €5.1 million from this asset, representing a loss of approximately €5.6 million.

Previous announcements made in respect of this investment require clarification/correction including, without limitation, the following:

- The Company's announcement on 18 June 2007 noted that the Metro Plaza project was being managed by MCM on behalf of third party investors. In fact, as at the date of its acquisition 100% of the share capital of the SPV holding Metro Plaza ("OU Focus") was owned by MCM, either beneficially for itself or for parties related to MCM. In addition, upon acquisition of the share capital in OU Focus for circa €5 million, MBH through its subsidiary also assumed the debts of the company being circa €5 million of which €2.5 million was a performance fee payable to MCM.
- The former Chairman, Mr Robin James, noted in his Chairman's statement dated 7 May 2008 in the Company's Annual Report for the year ended December 2007 that the Company had secured a banking facility to fund 100% of the turnkey construction contract cost for Metro Plaza. The Board has since seen correspondence that indicates that this facility only lasted until August 2008 and the subsequent funding gap created the need for the Loan Notes described above.
- On 15 October 2010, the Company announced the sale of a 30.7% interest in OU Focus. That announcement also stated that the acquirer had also acquired the 19.7% (in fact, 19.3%) minority shareholding in OU Focus, describing that minority shareholding as being held by "an unrelated party". In fact, when that transaction took place, the minority shareholding was held by MCM.

4. Pirita Tee, Pirita Road, Tallin ("Pirita")

In late 2007, the Company acquired an 80% holding in Pirita Tee, Tallin, Estonia ("Pirita Tee") an Estonian special purpose holding vehicle for the Pirita site, for approximately €3.1 million. The Company's announcement on 27 September 2007 did not note that the 80% shareholding was purchased from MCM nor that MCM retained the minority shareholding (whether beneficially or on behalf of other clients). The Company has not re-financed the facility used to acquire Pirita Tee and is in continued discussions with the lending bank. The Board has negotiated a further two month rolling extension of the finance facility and has appointed a local representative to both continue the discussions with the bank and provide a strategic review of the asset. There is no certainty that the facility will be financed. All debt in relation to this subsidiary is non-recourse and is 'ring fenced' within the subsidiary. The Board expects to achieve some value in due course from this site dependent upon the development of the project in association with a partner firm. At this juncture the Board would ascribe a negligible value to the Company's investment in this project.

Preliminary investigation and relationship with Management Team

As referred to above, with assistance from external counsel, the Board has conducted a preliminary internal investigation into the affairs of the Group including the circumstances relating to the acquisitions made since Admission, the counter-parties to such acquisitions and the related financing secured by the Group and/or its advisers in completing such acquisitions.

Those preliminary investigations have revealed that the Group, via the actions of the Investment Manager (Metro Frontier Limited ("Metro Frontier")), MCM and the Company's financial controller (the "Management Team"), entered into a number of transactions involving MCM and/or related parties to MCM and the Board believes that the directors and the Management Team failed to manage the Company in its best interests and/or with due care and skill. In particular, the Board believes, based upon the information it has reviewed, that:

(a) inappropriate Powers of Attorney were issued to members of the Management Team and in situations where MCM was in a conflicted position;

(b) the actions of the Company's financial controller were not consistent with its being sufficiently independent from Metro Frontier and MCM. The former directors of the Company were unaware that that Paul McGuinness (who provided the services of financial controller via a corporate vehicle) was a director/employee of the same corporate finance house as James Kenny, who was, until his resignation in November 2010, an executive director of Metro Frontier and a member of the supervisory board of MCM;

(c) the Group acquired Krasta, Metro Plaza and Pirita from MCM and/or parties related to it pursuant to transactions which do not appear to have been entered into on an arm's length basis;

(d) procedures (in particular, those set out in the investment management and advisory agreements) designed to ensure both adequate disclosure to and protection of the Company in the event of transactions involving conflicts of interest on the part of Metro Frontier and MCM do not appear to have been followed;

(e) information provided by the Management Team to the Board relating to the projects and in reports to the Company (including the extent and nature of the Management Team's conflicts of interest) appears to have been inaccurate and/or misleading;

(f) the former directors of the Company appear to have failed to follow appropriate corporate procedure and/or exercise material supervision of the Management Team and/or sufficient independent judgment in relation to transactions entered into on behalf of the Group and/or their implementation;

(g) sufficient due diligence, including adequate valuations of some or all of the properties does not appear to have been carried out before acquisition;

(h) the Management Team appears to have acted without due authority in relation to at least one acquisition;

(i) without adequate disclosure, MCM appears to have profited from the sale of certain shares in OU Focus and/or otherwise acted to the detriment of the Group;

(j) the loan and mortgage arrangements between the Company's subsidiaries and BAP do not appear to have been negotiated on an arm's length basis and a substantial proportion of the Loan Notes were issued to parties related to MCM; and

(k) finally, despite the terms of the investment management agreement and despite repeated requests from the Board, Metro Frontier and MCM have failed and/or refused to provide documentation and information relating to the Group's affairs to the Company and/or its representatives.

In the circumstances, by letter dated 2 August 2011 the Company terminated its agreement with Metro Frontier and hence its relationship with MCM.

Given the reduced number of properties requiring active management the Board is considering an investment management strategy of local advisers in Tallinn and St Petersburg reporting directly to the Board.

The Board continues to review the strategic options available to the Company and is considering legal actions against various parties (including the former directors, professional advisers and Management Team) in relation to a material proportion of the losses suffered by the Group. The Board believes that legal proceedings may be in the best interests of the Company. The Board notes that such proceedings are costly and there is no guarantee of success and/or material recoveries but believes it appropriate to seek restitution for losses incurred as a consequence of untoward actions taken against the Company or acts of omission or negligence in regard of same and from all relevant offending parties.

Further details in relation to the above will be announced in due course.

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