ANNUAL REPORT
2018

valartisgroup

KEY FIGURES AT GLANCE

Key Figures

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017
Total operating income	**9,743**	**12,016**
Income from management services	2,714	3,660
Income from investment property	2,954	6,834
Share of results of associated companies	3,002	347
Other income	1,073	1,175
Administrative expense	**-11,344**	**-13,813**
Personnel expense	-5,231	-6,127
General expense	-6,113	-7,686
Earnings before depreciation, valuation adjustments, provisions, interest and taxes	**-1,601**	**-1,797**
Depreciation, valuation adjustments and provisions	-2,574	-1,768
Earnings before interest and taxes (EBIT)	**-4,175**	**-3,565**
Finance result, net (financial income, financial expense, market value adjustment)	-3,912	1,106
Net loss from continued operations before taxes	**-8,087**	**-2,459**
Income taxes	1,189	-287
Net loss from continued operations	**-6,898**	**-2,746**
Net result from discontinued operations	**-46**	**960**
Net loss	**-6,944**	**-1,786**
attributable to shareholders of Valartis Group AG	-5,026	-2,383
attributable to non-controlling interests	-1,918	597

in CHF 1,000	31.12.2018	31.12.2017
Total assets	**163,978**	**177,406**
Current assets	69,487	82,775
Non-current assets	91,831	91,896
Non-current assets classified as held for sale	2,660	2,735
Total liabilities	**39,984**	**42,202**
Current liabilities	22,970	37,683
Non-current liabilities	17,014	4,519
Total shareholders’ equity (including non-controlling interests)	**123,994**	**135,204**
Equity capital quota, in per cent	75.6	76.2
Staff (full-time equivalents, FTE)	56	54
Closing price of VLRT share, in CHF	10.30	9.56
Equity of shareholders per share, in CHF	24.84	24.82

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This annual report is also published in German, whereby the English version is binding. The Annual Report 2018 is available online and in a pdf version (http://www.valartisgroup.ch/en/#geschaeftsberichte).

LETTER TO OUR SHAREHOLDERS

Dear Shareholders

Gustav Stenbolt,
Chairman and Delegate of the Board of Directors

The course of business in fiscal year 2018 was more difficult on the investment side with both equity and fixed income markets worldwide generally declining. However, the continued restructuring measures in the Group had a positive effect. According to International Financial Reporting Standards (IFRS), the Group loss amounts to CHF 6.9 million (previous year: Group loss of CHF 1.8 million). The main effects are the currency movements, fair value adjustments and the impairment on a Russian real estate investment asset. Furthermore, the market developments for trading assets had a negative effect. On the operational level, cost savings in operating expenses of 18 per cent compared to the previous year were achieved.

FUTURE DEVELOPEMENTS

The future of Valartis Group lies in the successful development of existing and new profitable, cash producing activities. Valartis Group has applied a bottom-up approach over the last two years, based on overriding corporate objectives reflected in the strategy. These corporate objectives are thus a product of a comprehensive analysis of current business framework conditions, and key decisions have been based thereon. These form the basis for implementation which is translated into specific investment decisions. The disciplined implementation of these individual steps is geared to attaining one objective: a consistent focus on profitability with a favourable risk-return ratio.

In 2018, Valartis Group took the first steps in selecting a new investment target in a market which is currently attractive in spite of the risks involved as it is not overpriced: the shipping industry. Based on the experiences from this particular investment in 2019, further, larger scale investments might follow. We would be looking for relatively stable investments with long term fixed rates giving an attractive yield in comparison to other investments.

Here, it is decisive for Valartis to partner up in a business endeavour whereby the new partner contributes a long standing and successful experience in shipping and certain market dominance in shipping segments and Valartis its international financing and structuring expertise. We have found such a partner and thus a first low-scale investment was made.

Furthermore, Valartis Group has geared its market development accordingly and adapted its range of services. The group structure was adapted to new circumstances, requirements and range of services which required further adjustments to the group's organisation and infrastructure. From a strategic and tactical perspective, the focus of activities in 2019 will be on the successful set-up and management of Valartis Group's new strategic projects in addition to the daily business activities of ENR Russia Invest SA and the property management activities for EPH Eastern Property Holdings Ltd.

ACTIVITIES IN 2018

Valartis Group continued to actively pursue its business activities and participations in 2018:

EPH Eastern Property Holdings Ltd. acquired in December 2017 the newly renovated Work Life Centre in Hamburg, Germany. The building was constructed in late 19th century as the central postal administration building in Hamburg. The finalisation of the fit-out and the letting process as well as the integration of the building into the EPH portfolio was done in 2018. EPH negotiated successfully during 2018 the acquisition of the newly built BDO Headquarter in Vienna, Austria. The transaction closed in February 2019.

As an investor as well as an investment advisor, Valartis participates in managing the Valartis German Residential Health Care Fund which was created exclusively for qualified investors. The fund is focused on the megatrend "Aging" and invests in nursing homes in Europe, mainly in Germany. Valartis German Residential Health Care Fund used to encompass three nursing homes and has been under management for 10 years. The Fund's current portfolio now covers nine senior living facilities comprising of five nursing homes, three independent and assisted living facilities and one nursing home under construction. Recent transactions will result in six new properties with a total investment of EUR 25 million. The Fund has distributed dividends to its investors between 6.5 to 7.5 per cent of its investment over the last six years.

Valartis continues to hold a stake of 25 per cent in Norinvest Holding SA, the parent company of Banque Cramer Cie SA. Banque Cramer divested its subsidiary bank, Private Investment Bank Ltd., Bahamas, during 2018 with a significant profit. On the operational side, the Swiss private banking market continues to be challenging.

ENR Group's office building investment in St. Petersburg, Petrovsky Fort showed an increase in fair value of 4 per cent according to the Jones Lang Lasalle valuation (independent assessment from a licensed professional valuation specialist). However, the sharp decline of the RUB/CHF exchange rate of 16 per cent had a negative impact on ENR. ENR also had to impair a real estate project due to late delivery of milestones. ENR successfully refinanced the Petrovsky Fort mortgage with Bank Austria/Unicredit at very attractive rates. This will lead to significantly reduced financing costs for ENR in 2019.

VALARTIS GROUP TODAY

The business model continues to be based on the core competencies Financial Services, Real Estate project management and Participations and comprises for participations the three areas active management, management of third-party assets and exploration of new opportunities.

We continue to look for new or additional investments today. We are mainly looking for investments which will increase our cash flow. Our main industries are still financial services and real estate projects, but we are also looking for opportunities in other markets.

Christoph N. Meister did not stand for re-election as a Member of the Board of Directors at the 2018 Annual General Meeting. Christoph Meister had been a member of the Board of Directors since 2011 and Vice-Chairman since 2015. Over many years, he has contributed substantially towards shaping the realignment of Valartis Group. We thank Christoph Meister for his strong commitment and valuable contribution to the Group and wish him continued success in his future activities.

Olivier Brunisholz was elected as a member of the Board of Directors at the 2018 Annual General Meeting. Olivier Brunisholz is a founding partner of the law firm Briner & Brunisholz Lawyers in Geneva, Switzerland. Olivier Brunisholz specialises in Swiss and international taxation. We are pleased to have found a third board member with his kind of expertise and the independence he brings to the Board of Directors.

At the end of 2018, Valartis Group employed a total of 56 people in the Swiss front and service organisation and in Russian real estate management in Moscow and St. Petersburg (marketing, leasing and maintenance) – previous year: 54 employees.

The 2018 Annual General Meeting authorised the repurchase of up to a maximum of 400,000 shares of Valartis Group's own shares prior to the 2019 Annual General Meeting by way of a public share buy-back programme for cancellation purposes. The amendment of the Articles of Association (reduction of share capital) in respect of the actual number of shares repurchased will be submitted to the Annual General Meeting 2019 for approval. As of 31 December 2018, a total volume of shares had been purchased for CHF 1.97 million at an average purchase price of CHF 11.25. This corresponds to a total number of shares bought of 175,125 shares or 44 per cent of the programme total (400,000 shares).

DIVIDEND

With its overall good financial position, Valartis Group remains in a comfortable position which should also be reflected in its dividend policy. The Board of Directors will propose a dividend of CHF 0.10 per share entitled to dividend (previous year: CHF 0.20 per share entitled to dividend) to the 31st Annual General Meeting on 14 May 2019. Based on year-end shareholdings, this corresponds to a total distribution of CHF 0.44 million (previous year: CHF 0.94 million). The Board of Directors thus expresses its appreciation to the shareholders and thanks them for the trust they have placed in us.

TODAY'S AND TOMORROW'S PRIORITIES

The 2019 financial year will continue to present us with challenges. A key success factor in our front units Private Equity, Real Estate Project Management and Financial Services continues to be the rapid and successful development of new profitable activities and the further development of existing projects. Valartis Group focuses on market development, develops and launches innovative investment opportunities and adapts its range of services to demand.

THANK YOU

We would like to take this opportunity to express our special appreciation and gratitude to our employees for their continued loyalty. We thank you, dear Clients, and dear Shareholders of Valartis Group AG, for the loyalty and understanding you have shown us. We are confident that Valartis Group is well prepared for future challenges and will return to sustained corporate success.

Fribourg, Switzerland, 27 March 2019

Gustav Stenbolt
Chairman and Delegate
of the Board of Directors

BUSINESS PERFORMANCE AND ECONOMIC SITUATION OF VALARTIS GROUP

Operational business developed in line with expectations for 2018, and the Group's restructuring measures had a positive impact. The course of business was more difficult on the investment side, though, with both equity and fixed income markets worldwide generally declining. According to International Financial Reporting Standards (IFRS), an annual loss of CHF 6.9 million (previous year: annual loss of CHF 1.8 million) was incurred. A positive effect is the reversal of impairment losses on a long-term investment asset, the investment property of ENR Group: +4 per cent compared to year-end 2017. Furthermore, cost savings of CHF 2.5 million or 18 per cent compared to the previous year had a positive impact. On the other hand, fair value adjustments due to currency effects (- CHF 4.2 million), market developments for trading assets (- CHF 5.0 million), and a net impairment for a real estate project (- CHF 2.0 million; net of deferred taxes) negatively impacted the annual result, totalling CHF 11.2 million negative impact from the investment side (unrealised losses).

With the sale of investments and business activities in previous years, Valartis Group is seeking new, additional investments. In 2018, various projects were actively evaluated under the leadership of the Business Development Committee of the Board of Directors, including corresponding due diligence processes. An important aspect of new projects is their ability to increase the Group's operating cash flow. The main sectors of the search are still financial services and real estate projects, but also opportunities in other sectors.

As a result from this process, Valartis Group took the first steps in selecting a new investment target in a market which is currently attractive in spite of the risks involved as it is not overpriced: the shipping industry. Based on the experiences from this investment in 2019, further, larger scale investments might follow. We would be looking for relatively stable investments with long term fixed rates giving an attractive yield in comparison to other investments. Here, it is decisive for Valartis to partner up in a business endeavour whereby the new partner contributes a long standing and successful experience in shipping and certain market dominance in shipping segments and Valartis its international financing and structuring expertise. We have found such a partner and a first low-scale investment was made.

Overview of the 2018 financial year

EPH Eastern Property Holdings Ltd. (EPH) acquired in December 2017 the newly renovated Work Life Centre in Hamburg, Germany. The finalisation of the fit out and the letting process as well as the integration of the building into the EPH portfolio was done in 2018. EPH negotiated successfully during 2018 the acquisition of the newly built BDO Headquarter in Vienna, Austria. The transaction closed in February 2019. EPH is a public limited company listed on the SIX Swiss Exchange. As a property investment and real estate development company, EPH focuses primarily on Russian and European commercial and residential real estate markets. On 19 December 2012, Valartis Group fully sold its stake in EPH (around 40 per cent). Valartis International Ltd., a Valartis Group company, continues to be responsible for certain of EPH's investment management functions under a management contract thus generating management fees for these services.

As an investor as well as an investment advisor, Valartis Group participates in managing the Valartis German Residential Health Care Fund in Luxembourg which was created exclusively for qualified investors. The fund is focused on the megatrend Aging and invests in nursing homes in Europe, mainly in Germany. Valartis German Residential Health Care Fund used to encompass three nursing homes and has been under management for 10 years. The Fund's current portfolio now covers nine senior living facilities comprising of five nursing homes, three independent and assisted living facilities and one nursing home under construction. Recent transactions will result in six new properties with a total investment of EUR 25 million. The Fund has distributed dividends to its investors between 6.5 to 7.5 per cent of its investment over the last six years.

Valartis Group continues to hold a stake of 25 per cent in Norinvest Holding SA, the parent company of Banque Cramer Cie SA, Geneva, Switzerland. Banque Cramer divested its subsidiary bank, Private Investment Bank Ltd., Bahamas, during 2018 with a significant profit. Therefore, the value of the 25 per cent stake in Norinvest Holding SA is significantly higher than in the previous period. The share in net profit of associated companies from Norinvest Holding SA amounted to CHF 2.9 million due to this sale.

ENR Group's office building investment in St. Petersburg, Petrovsky Fort showed an increase in fair value of 4 per cent according to the Jones Lang Lasalle valuation (independent assessment from a licensed professional valuation specialist). However, the sharp decline of the RUB/CHF exchange rate of 16.2 per cent had a negative impact on. ENR Group also had to impair a real estate project due to late delivery of milestones. On the other hand, ENR Group successfully refinanced the Petrovsky Fort mortgage with Bank Austria/Unicredit at competitive rates. This will lead to significantly reduced financing costs for ENR in 2019.

The 2018 Annual General Meeting authorised the repurchase of up to a maximum of 400,000 shares of Valartis Group's own shares prior to the 2019 Annual General Meeting by way of a public share buy-back programme for cancellation purposes. The amendment of the Articles of Association (reduction of share capital, article no. 3) in respect of the actual number of shares repurchased will be submitted to the Annual General Meeting 2019 for approval. As of 31 December 2018, a total volume of shares had been purchased for CHF 1.98 million at an average purchase price of CHF 11.30. This corresponds to a total number of shares bought of 175,125 shares or 44 per cent of the programme total (400,000 shares).

THE FINANCIAL SITUATION OF VALARTIS GROUP

Consolidated equity at the end of 2018 amounts to CHF 124 million (31.12.2017: CHF 135 million). The decrease of approximately CHF 11 million is due to the 2018 annual loss in the amount of roughly CHF 7 million and negative currency translation adjustments booked in equity (CTA) of roughly CHF 4 million compared to the previous year. This CTA movement is due to the negative currency effect (RUB) during 2018 (-16 per cent). Overall, this corresponds to an equity ratio (i.e. total equity in per cent of balance sheet total) of 75.6 per cent (previous year: 76.2 per cent).

The 2018 cash flow statement is strongly influenced by short-term cash management for the purpose of generating interest income. Net cash and cash equivalents of continuing operations decreased from CHF 25.7 million in the previous year to CHF 6.1 million. In 2018, approximately CHF 9 million were invested for short-term investments, participations and capital increases, CHF 4 million for the benefit of shareholders (dividend 2018 and the share buyback programme) and for a loan to a related party (see Note 35 on page 100); this indicates that operational costs are largely covered by operational income, and that the cash reserves do not have to be used for current operations.

EMPLOYEES OF VALARTIS GROUP

Over the years, Valartis Group employees have made a decisive contribution to the restructuring success of Valartis Group through their identification with the company and their commitment to its objectives. They are of great importance for the success of Valartis Group and its future competitiveness. See also chapter Corporate Sustainability, page 12 ff. The financial recognition of individual performance through modern remuneration models is an important factor, and it is a specific concern of the Board of Directors to recognize the performance of the employees accordingly. For further information, see the section entitled Compensation Report, page 26 ff.

The Board of Directors and the Executive Committee of Valartis Group would like to take this opportunity to thank the employees for their commitment over the past year and the continued high level of loyalty and trust they have shown to Valartis Group.

As of 31 December 2018, Valartis Group employed a total of 56 full-time adjusted employees in operations in Russia (Moscow and St. Petersburg) and Switzerland; previous year for the Group: 54 employees).

The new organisational structure of Valartis Group, see organisation chart, page 11, consists of a Board of Directors at Group level and a Delegate of the Board of Directors (additional function for the Chairman of the Board of Directors) as well as 10 full-time positions in Switzerland. These employees provide services in the areas of real estate projects, investment projects, corporate finance and, as part of the Group's service organisation, in the areas of Group Accounting & Controlling, IT & Logistics and Corporate Communications. Other services required by the Group (personnel administration, tax and legal advice) are obtained from external providers.

Due to the full consolidation of Group companies, further employees of Valartis International Ltd. in Moscow (29 employees) and of ENR Group in St. Petersburg (17 employees) are included. These employees provide services in the areas of real estate projects and real estate administration (marketing, rentals and maintenance).

CARRYING OUT A RISK ASSESSMENT

The Board of Directors monitors the risk management system and deals with all risks on a quarterly basis with corresponding reports. Current risk topics are discussed and evaluated. See also Risk Management in the separate chapter and in Valartis Group's consolidated financial statements, pages 15 and 61 ff.

Each year, the Board of Directors conducts a structured analysis of the main risks to which the Group is exposed on account of its business model. These include credit, market, liquidity, operational, strategic, business and reputational risks. The Board of Directors takes into account risk-minimizing measures, internal controls and findings from changes in political, economic, sociocultural or technological conditions. Building on this, the Board of Directors sets overall targets and risk limits, compliance with which is continuously monitored.

Strategic and organisational decisions are made on this basis with the aim of optimising Valartis Group's risk positions. A key component of this is the design and further development of the internal control system which is intended to address identified risks through appropriate, stringent control measures and minimise their probability of occurrence. The appropriate establishment of risk management and controlling processes which ensure the identification, assessment, management, monitoring and reporting of material risks and the associated risk concentrations, ensures that all risks are taken into account accordingly. A key objective here is to create transparency about risks at an early stage and to reduce potential losses. The Board of Directors considers the structures and measures for controlling and monitoring material risks to be appropriate.

Description of the accounting-related internal control system
Valartis Group's internal control system comprises all principles, procedures and measures designed to ensure the effectiveness, efficiency and regularity of accounting and compliance with the relevant legal provisions. It is based on the international COSO model and comprises the components control environment, risk assessment process, accounting-related information systems, control activities and monitoring of the internal control system (ICS). COSO (Committee of Sponsoring Organisations of the Treadway Commission) is a voluntary private sector organisation in the United States that aims to help improve the quality of financial reporting through ethical conduct, effective internal controls and good corporate governance. There have been no significant changes since the balance sheet date that would require an adjustment of the internal control system.

BUSINESS DEVELOPMENT

Income statement

The Group posted a net loss of CHF 6.9 million for the 2018 financial year (31.12.2017: net loss of CHF 1.8 million). The course of business was more difficult on the investment side with both equity and fixed income markets worldwide generally declining. A positive effect was the reversal of impairment losses on the investment property of ENR Group: +4 per cent compared to year-end 2017. Furthermore, cost savings of CHF 2.5 million or 18 per cent compared to the previous year had a positive impact. On the other hand, fair value adjustments due to currency effects (minus CHF 4.2 million), market developments for trading assets (minus CHF 5.0 million), and a net impairment for a Russian real estate project of ENR Group (minus CHF 2.0 million; net of deferred taxes) negatively impacted the annual result, totalling CHF 11.2 million negative impact from the investment side.

Management Services fell from CHF 3.7 million in the previous year to CHF 2.7 million in 2018. The decline is partly due to negative currency effects on services charged in other currencies than CHF, and partly due to projects which were not closed in 2018 and, thus, the service fee could not be levied, yet. Income from investment property 2018 – CHF 2.9 million – closes lower than last year's result (previous year: CHF 6.8 million) mainly due to the negative Ruble valuation of the US Dollar financing loan for the investment property Petrovsky Fort of ENR Group. The actual rental income from real estate decreased compared to the previous year from CHF 6.6 million to CHF 5.8 million due to higher vacancy rate.

Share of results of associated companies is up from CHF 0.3 million as of 31 December 2017 and amounts to CHF 3.0 million at year-end 2018. Valartis continues to hold a stake of 25 per cent in Norinvest Holding SA, the parent company of Banque Cramer Cie SA, and Banque Cramer divested its subsidiary bank, Private Investment Bank Ltd., Bahamas during 2018 with a significant profit. The value increase of the associated company Norinvest Holding SA amounts to CHF 2.9 million due to this sale and is the main effect in this position.

Other ordinary income includes income and expenses from the sale of financial investments or other ordinary income and expenses. At CHF 1.1 million, other ordinary income remains roughly at the same level as the previous year (2017: CHF 1.2 million).

Operating expenses fell by 18 per cent to CHF 11.3 million (31.12.2017: CHF 13.8 million) due to the resizing of the organisation and further cost-cutting measures and the reduction of consulting costs from previous years. Personnel expenses fell by 15 per cent year-over-year from CHF 6.1 million to CHF 5.2 million. Although general and administrative expenses were reduced to CHF 6.1 million (31.12.2017: CHF 7.7 million), they still remain high in relative terms; consulting costs in 2018 still come in at CHF 1.6 million – of which CHF 0.6 million for advisory services, CHF 0.4 million for the assessment of new business opportunities, CHF 0.3 million for a consulting agreement with a related party and CHF 0.3 million for audit fees – and make up for 26 per cent of general and administrative expenses.

Valuation adjustments, provisions and losses for 2018 amount to CHF 2.5 million, caused by the impairment for a Russian real estate project of ENR Group.

Financial income, i.e. interest income on trading portfolio assets, amounts to CHF 2.6 million for 2018 (2017: CHF 3.2 million).

Financial expenses, though, increased substantially from CHF 2.1 million for 2017 to CHF 6.5 million for 2018, of which CHF 5.0 million are caused by equity and fixed income markets declining during 2018. These are an unrealised losses.

Income taxes show a positive contribution of CHF 1.2 million, rather than an expense, due to changes in deferred tax assets. The impairment booked for a Russian real estate project gave rise to a tax asset as did the value increase of the Russian investment property. Temporary differences can result in needing to record a deferred tax asset instead of a liability.

BALANCE SHEET

The balance sheet total of CHF 164 million reported as of 31 December 2018 (31.12.2017: CHF 177 million), decreased compared to the previous year mainly due to the decrease in cash & cash equivalents. Cash was used for investments, including short-term investments and capital increases, in the amount of CHF 9 million, for the benefit of shareholders in the amount of CHF 4 million (dividend 2018 plus share buyback programme) and for a loan to a related party (see Note 35 on page 100); this shows that operational costs are largely covered by operational income, and that cash reserves do not have to be used for running operations. Liabilities are limited to CHF 40 million (previous year: CHF 42 million), around half of which comprise loan obligations (e.g. for a real estate property of the fully consolidated Group company Petrovsky Fort LLC financed by an external loan). While Group equity stood at CHF 124 million at the end of 2018 (end of 2017: CHF 135 million), equity attributable to shareholders of Valartis Group AG now stands at CHF 108 million (end of 2017: CHF 117 million). Total Group equity of Valartis Group decreased by roughly CHF 11 million due to the 2018 annual loss of roughly CHF 7 million and negative currency translation adjustments booked in equity (CTA) of roughly CHF 4 million. This CTA movement is due to the negative currency effect (RUB) during 2018 (-16 per cent).

SIGNIFICANT EVENTS

Significant events after the balance sheet date

There were no significant events after the balance sheet date. Events after the balance sheet date are also reported in Valartis Group's consolidated financial statements, Note 45.

Segment reporting

Valartis Group has only one single segment and, in accordance with IFRS 8, reporting is only for one business component of the Group. See also the notes to the consolidated financial statements in Note 37.

OUTLOOK

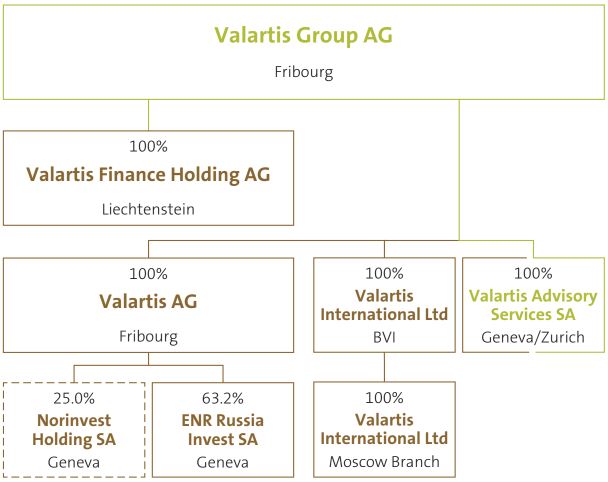
Expected development of Valartis Group

The focus in the front units Private Equity, Real Estate Project Management and Financial Services for 2019 will be on continuing the successful development of new profitable activities started in 2017 and 2018 and on the further development of projects already underway, with a continued focus on results. While cost recovery was sufficient for 2017, a modest overall positive contribution sufficient for 2018, increased earnings must result in 2019. Valartis Group continues to focus its market development and adapts its range of services to demand. The group structure will be adapted to new circumstances and project implementations, new requirements and an expanded range of services which will require further adjustments to the Group's organisation and infrastructure. From a strategic and tactical point of view, the activities of 2019 will now focus on building up and managing new participations and new projects in line with Valartis Group's strategic guidelines. An important aspect of these new projects is their ability to increase the Group's operating cash flow. For further information see also chapter Strategy and Objectives, page 9 f.

STRATEGY AND OBJECTIVES

Valartis Group is an internationally active financial group with offices in Switzerland (Fribourg, Geneva and Zurich), Luxembourg and Russia (Moscow and St. Petersburg). Valartis Group AG, headquartered in Fribourg, Canton Fribourg, Switzerland, is the holding company of the Group. The registered shares of Valartis Group AG are listed on the SIX Swiss Exchange (ISIN CH0367427686). Valartis Group AG holds direct or indirect participations in fully consolidated companies and in associated companies (see Note 38).

Valartis Group – Operational Structure



THE STRATEGIC DIRECTION

Today, Valartis Group's business activities comprise the areas of financial services, real estate projects and participations. Therefore, taking into account the basic principle of risk-bearing capacity, the return-oriented assumption of risks is now the focus of operational management instead of running an operative banking business, compared to previous years.

Financial services
Here, Valartis Group concentrates on the comprehensive management of niche funds (investment satellites). The focus of investment activity is on the markets of Russia and Germany. Valartis Group also provides certain advisory services in the area of corporate finance.

Valartis German Residential Health Care Fund
As investment advisor, Valartis Group manages the Valartis German Residential Health Care Fund which was launched exclusively for qualified investors. The fund focuses on the megatrend Aging and invests in nursing homes in Germany. Valartis Group performs various administrative tasks for the fund. For theseservices, it is compensated at customary market fees.

Corporate Finance
Valartis Corporate Finance/Mergers & Acquisitions services focus primarily on advisory activities for listed and non-listed medium-sized companies in Germany, Austria and Switzerland as well as in Central and Eastern Europe.

Real estate projects
On the real estate side, Valartis Group combines the management of profitable commercial and residential properties with investments in promising development projects. With their know-how and broad network of contacts, the real estate investment specialists of Valartis Group also support the search for specific investment vehicles in the real estate sector.

Especially for Russian real estate investment companies, the direct acquisition of properties with project development and management of well let properties in top locations in Moscow and St. Petersburg have proven to be a valuable investment.

ENR Russia Invest SA
ENR Russia Invest SA (ENR) is an investment company listed on the SIX Swiss Exchange and a member of the Swiss Association of Investment Companies. Since 1996, the company has been investing in private equity, listed shares, real estate and non-current-income instruments of Russian companies and companies from other states of the Commonwealth of Independent States and the Baltic States. ENR Group holds an investment property in St. Petersburg, Russia, the business property Petrovsky Fort. This is a class B+ office and retail property, completed in 2003, located in the centre of St. Petersburg near Neva Dam. It has nine office and two retail levels with a large central atrium. Of the total net rental area, approximately 15,000 square metres are earmarked for office purposes and approximately 6,000 square metres for retail space. Furthermore, ENR owns 50 per cent of a parking garage located very centrally on Moscow's Turgenevskaya Square. The underground car park offers spaces for 290 cars on 6 underground floors.

Eastern Property Holdings Limited
Eastern Property Holdings Limited (EPH) is a stock corporation listed on the SIX Swiss Exchange. As a real estate investment and development company, EPH concentrates primarily on Russian and European commercial and residential property markets. On 19 December 2012, Valartis Group sold its entire stake in EPH (close to 40 per cent). Valartis International Ltd, a company of Valartis Group, continues to be responsible for certain investment management functions at EPH under a management contract.

Participations
The focus is on equity participations as a shareholder. Valartis Group pursues a bottom-up approach and is constantly looking for investments for its own investment portfolio.

Elements of the traditional portfolio management process such as portfolio realisation (asset allocation, monitoring, review) and portfolio control (performance measurement, attribution) are used to select investment opportunities. The disciplined implementation of these steps contributes to achieving the objective of a stringent profitability orientation with an appropriate risk/return ratio. One of the central challenges in putting together your own investment portfolio is to resolve the conflict between optimising the expected return (value growth including interest and dividends less costs) within a certain period of time on the one hand and limiting the risk of loss on the other. Typically, the structure of an investment portfolio will show a certain consistency over time which implies an anti-cyclical behaviour which involves both opportunities and risks.

Norinvest Holding SA

Norinvest Holding SA, headquartered in Geneva, Switzerland, is a Swiss investment company founded in 1984. It is listed on the OTC platform of the Cantonal Bank of Berne and is the 100 per cent owner of Banque Cramer & Cie SA which specialises in private banking and asset management. Following the completed sale of its two Swiss subsidiaries Valartis Bank AG and Valartis Wealth Management SA to Banque Cramer & Cie SA in 2014, Valartis Group AG acquired a 25 per cent stake in Norinvest Holding SA.

Whitebox Services AG

Whitebox Services AG, through its wholly owned subsidiary Whitebox GmbH, founded in July 2014, has been one of the first online asset management companies on the German market, as of January 2016. Whitebox aims at a return on investment that is significantly better than that of conventional offers at the same risk level. Whitebox GmbH, Weil am Rheine, is a wholly owned subsidiary of Whitebox Services AG which is based in Switzerland. The owners of Whitebox Services AG are the founders, former management members of leading banks and industry experts. Valartis has acquired a smaller stake in Whitebox Services AG.

Briese Schiffahrts GmbH & CO KG MS

On 12 December 2018, Valartis Group invested in Briese Schiffahrts GmbH & Co. KG MS, a limited partnership, by way of a contribution as a limited partner of EUR 1,445 million representing CHF 1,628 million or 49.8 per cent of the capital contributions of the company as of year-end 2018. Briese Schiffahrts GmbH & Co. KG MS operates a mid-size freight cargo and is located in Leer, Germany (see also Note 39).

Athris Holding AG

Athris Holding AG (until August 2008 Jelmoli Beteiligungen AG), headquartered in Zug, Canton of Zug, Switzerland, is a Swiss investment company whose shares are traded on BX Bern eXchange which is a Swiss regulated stock exchange under the supervision of FINMA. Valartis Group holds this investment as a financial categoryassets at fair value through OCI.

The organisational structure

Board of Directors and Executive Committee

With confirmation of the Annual General Meeting of 15 May 2018, the Board of Directors of Valartis Group is composed as follows: Gustav Stenbolt, Chairman of the Board of Directors, Philipp LeibundGut, Vice Chairman, and Olivier Brunisholz, Member. See also press release of 15 May 2018: Results of the Annual General Meeting of Valartis Group AG; at http://www.valartisgroup.ch/en/#medienmitteilungen. The Executive Committee was reduced at the beginning of 2017 when the Chairman of the Board of Directors, Gustav Stenbolt, additionally assumed the function of Delegate of the Board of Directors after the then CEO had decided to resign from his function as CEO of Valartis Group and to leave the Group on 28 February 2017: http://www.valartisgroup.ch/en/#medienmitteilungen. George M. Isliker continues to serve as CFO/CRO (since 2011).

Organisational chart

1 Business Development Committee
2 Compensation Committee

Valartis Group employs a total of 56 people.

The employees provide services in the areas of real estate projects, investment projects, corporate finance and, as part of the Group's service organisation, in the areas of group Accounting & controlling, IT & logistics and corporate communications. Other services required by the company (personnel administration and tax and legal advice) are obtained from external providers.

Due to the full consolidation of Group companies, further employees of Valartis International Ltd. in Moscow (29 employees) and of ENR Group in St. Petersburg (17 employees) have been added. These employees provide services in the areas of real estate administration (marketing, leasing and maintenance) and projects.

Focused growth

One of the central challenges in the composition of investments is to solve the conflict of objectives between optimising the expected return (value growth including interest and dividends less costs) within a certain period of time on the one hand and limiting the risk of loss on the other. Typically, the structure and composition of investments will show a certain consistency over time which implies an anti-cyclical behaviour and, therefore, involves both opportunities and risks. Pro-cyclical behaviour would result in strong annual changes in the per centage composition of the investments which would result in increased transaction costs.

Measures to increase earnings and control costs

All front units of the Group have already initiated or newly launched programs with the aim of increasing earnings or reducing costs in order to achieve the targeted increase in efficiency and profitability in a timely manner. In particular, management is working to increase short-term flexibility despite increasing challenges and complexity in setting up additional investments in order to make the business model more scalable and to keep costs under control. Stringent risk management and compliance with the criteria for risk-bearing capacity remain key principles of the Group. The internal control system of Valartis Group (ICS) is continuously adapted and helps to manage operational risks efficiently. Details can be found in the chapter Risk Management of Valartis Group, page 15 and in the chapter Notes on risk management, pages 61 and ff.

Increase in commission income

In addition to building up and managing investments, Valartis Group also aims to increase income from services. This will require a substantial increase in commission income in order to generate positive contributions to earnings in the medium term beyond the sustainable coverage of operating costs. Cooperation opens up a way not only to counter rising costs, but also to jointly develop and implement investment projects. Valartis Group is therefore in constant exchange with partners in order to jointly use existing resources and optimise their use.

OUTLOOK

The focus in the front units for 2019 will be on the successful development of new profitable activities and the further development of projects already under way, whereby the target of a significantly increased earnings orientation must be adhered to. Valartis Group focuses its market development by working on the development and launch of innovative and promising investment opportunities within a reasonable period of time and continuously adapts its range of services to demand.

CORPORATE SUSTAINABILITY

SUSTAINABLE CORPORATE GOVERNANCE

We are an interactive, internationally focussed company and are aware of the diversity and the great importance of our international and local stakeholders and dialog groups. In a phase of realignment of the business model in particular, it is essential to know the interests and needs of our stakeholders and to take them into account appropriately for the further development of the Group in order to ensure the sustained success of the company's development.

We not only integrate economic criteria into our thinking and actions, but also include social and ecological aspects and thus strive for a holistic perception of our corporate responsibility. Our ethical and professional core values such as integrity, respect, trust, customer and dialogue orientation, partnership and transparent communication as well as a sustainable sense of responsibility are laid down in the Code of Conduct. The Code of Conduct is published under Investor Relations at http://www.valartisgroup.ch/en/#codeofconduct.

Sustainable business practices and thus sustainable profitability are central to our long-term success. We integrate environmental and social aspects into our business decisions and into the management of our resources and infrastructure. We want to achieve continuous sustainability for our internal and external stakeholders[1]

1 Code of Conduct of Valartis Group, section Sustainability

An essential function of the Code of Conduct is to make all people in the company aware of applicable laws and company guidelines and to make them aware of legal risks in everyday working life. The Code of Conduct summarises laws and other rules that are of particular relevance to Valartis Group and provides guidance. As a binding guideline for legally compliant and ethically responsible conduct in our company, the Code of Conduct also defines the standards for responsible conduct towards business partners and the public, but also in dealing with one another within the company. All employees and the Board of Directors of Valartis Group are obliged to comply with the principles laid down in the Code of Conduct (see chart in the right column). Valartis Group maintains an open, transparent dialogue and strives for a relationship based on trust and responsibility with clients, partners, investors and employees. Effective Corporate Governance is essential for sustainable business success which is why Valartis Group consistently complies with corporate governance rules and follows the principles and recommendations of economiesuisse's Swiss Code of Best Practice for Corporate Governance.

Corporate responsibility

VALUES AND PARTNERSHIP

We adhere to our traditional core values such as trust, partnership, a sense of risk and responsibility, dialogue orientation and innovative strength, combined with competence, know-how and many years of experience. Our core competencies – real estate project management, financial services and our participations – form the basis for our current corporate alignment.

Risk Management and Compliance

We attach great importance to both risk management and compliance – in the sense of compliance with rules, i.e. compliance with laws and guidelines, but also with voluntary codes. Compliance governs the exercise of legal responsibility and compliance with all relevant internal and external regulations as well as the timely implementation of new requirements. Our business activities are based on disciplined, prudent risk management. We only take those risks that we can assess and evaluate and want to bear within our risk appetite. In the interest and for the protection of our stakeholders, we as a Group attach great importance to internally independent control procedures and activities, descriptions and information on risk management (see pages 15, 61 and ff.).

As a result of the current strategic orientation, both the regulatory framework conditions and the requirements relating to risk management have changed significantly due to the significant reduction in risk density compared to the previous years (see also Risk Management on pages 15, 59 and ff.).

FOR OUR SHAREHOLDERS – TRANSPARENCY AND SUSTAINABLE CORPORATE DEVELOPMENT

As a listed company, important stakeholder groups of Valartis Group AG are our shareholders with a free float of 37 per cent of the shares (excluding the treasury shares) and the majority shareholder, MCG Holding SA, Baar ZG, Switzerland which holds 50.2 per cent of the nominal capital and voting rights of the company (see Registered shares, page 139 and Note 29). The remaining shares are held by the company itself.

We remain committed to generating sustained profits vis-à-vis our majority shareholder and minority shareholders. These profits form the basis for a development that not only allows targeted reinvestment in business activities, but also enables the funding of reserves for economically difficult times. The Group also aims to return the capital provided by the owners at an appropriate rate of interest in the form of dividends.

Sustainable corporate development – value-oriented management

The basis of overall corporate management is a systematic, multilevel financial planning and management process based on a dual management concept with a separation between decentralized control of front activities and centralisation of the service organisation, including the company's own financial assets and hedging strategies. With the new on-set of the company, overall corporate management will remain in place, whereby the dual management concept will be considerably simplified due to the significant reduction in the size of the Group and its front organisations.

Board of Directors and Executive Committee

The three-member Board of Directors is responsible for deter-mining the medium- and long-term strategic orientation of Valartis Group. Its members have many years of experience and expertise in the areas of finance & banking, international investments and investment projects, international taxation, finance and accounting, risk management and in dealing with internal control systems (see also Corporate Governance, page 16 ff.). The strategic guidelines of the Board of Directors are implemented by the Executive Committee. It is also responsible for the operational management of Valartis Group, operational liquidity planning and overall results, defines as a decision-making body the operational medium-term planning (roll-over) and the profit targets at gross profit level valid for the next three years, and defines the central tactical measures at Group level.

The persons responsible for private equity, real estate project management and funds report to the Executive Committee. On the basis of a detailed annual plan, they determine their income, risk and activity budget for the coming year and, within this framework, decide on the use of necessary funds. Non-operative taxable income and expenses such as trading or valuation gains, however, do not form part of medium-term planning. Timely monitoring and discussion of the monthly results allows countermeasures to be implemented quickly during ongoing operations, especially in the event of significant budget deviations. At the same time, appropriately designed information and risk management systems make it possible to keep operational risk under control at all times (see also Risk Management on pages 15, 59 and ff.). The three-year capital planning process concludes the financial management process.

SUSTAINABLE EMPLOYEE DEVELOPMENT

We are proud to have employees who take on challenges, overcome obstacles and are committed to the company as a whole, even under difficult conditions.

The challenging conditions in the internationally competitive environment will make prudent, sustainable promotion and constant further training of Valartis Group employees even more important in the future. Our continued international activities demand a high degree of professionalism, expertise, knowledge of people and culture from our employees, as well as the values we desire. Furthermore, Valartis Group can only operate sustainably and master future challenges due to the specific expertise, the highly solution-oriented service approach and the high personal commitment of each individual employee.

Wherever possible, we offer our employees a high degree of flexibility so that they can balance their workload with their private lives. Our value-oriented management approach is characterised by a leadership style based on partnership and a climate of cooperation supported by comradery and provides for attractive salaries in line with the market, a performance-oriented remuneration system and progressive social benefits that create incentives for personal development.

The compatibility of career and family and a balanced work-life balance are important prerequisites for the long-term performance of employees. Accordingly, within the Group we offer market-conform, regionally adapted holiday and vacation regulations as well as the possibility of flexible working hours and are open to the home office concepts in accordance with operational requirements.

Equal treatment also applies to the individual determination of remuneration. In this way, female specialists at the same location receive the same salaries as their male colleagues with the same qualifications and experience. Dealing with issues of gender equality is regulated by the personnel regulations. At the same time, a culture of freedom of expression encourages a high degree of employee participation and co-determination.

Value-based remuneration system – target orientation and appreciation

We are committed to fair, balanced and performance-oriented remuneration and offer our employees in all Group companies not only attractive salaries in line with market conditions and progressive social benefits, but also a bonus system that appropriately rewards above-average performance. Our value-based remuneration system is geared to the medium-term economic success and sustainable competitiveness of the Group (for details see also Compensation Report of Valartis Group, page 26 ff.). Due to the significantly reduced size of Valartis Group, the Com-

OUR PROMISE TO OUR EMPLOYEES

Accept social responsibility	Sustainable employee development – future-driven	Value-driven compensation system – target-oriented, appreciation	Values – trust, responsibility, cooperation, respect
We wish all employees an adequate work-life balance, i.e. a good work-life balance and an adequate balance between work and appropriate leisure, exercise and nutrition. Accordingly, the Valartis companies offer market-conform, regionally adapted holiday and holiday regulations as well as the possibility of flexible working hours.	We promote and facilitate personal and professional development within the group. We have institutionalised internal and external training and further education.	We offer market-based remuneration at all locations. The remuneration system provides incentives that promote performance-, team- and risk-conscious culture as well as entrepreneurial thinking and acting and strengthening Valartis Group as a whole.	We follow the principle of equal treatment, especially in determining salaries. Female specialists receive the same salaries within the same location with the same qualifications and experience as their male colleagues. We have institutionalised internal and external training and further education. We offer and expect from our employees a cosmopolitan attitude and respect towards other nations, cultures, mentalities, age groups and needs.

pensation Committee replaced for 2018 the previous bonus programme with an employee participation programme. As a company, we motivate employees to live a performance-, team- and risk-conscious culture and promote independent entrepreneurial thinking and acting in the interests of the Group. In addition to targeted employee development and advancement, a salary in line with market conditions and progressive social benefits, Valartis Group offers its employees a range of fringe benefits such as benefits for long-service anniversaries, weddings or births as well as benefits and discounts from external partners.

SOCIAL COMMITMENT

As a company aware of its social responsibility, Valartis Group can only modestly support a number of international charitable organisations due to its much small size.

FOR THE ENVIRONMENT – FUTURE-ORIENTED, LONG-TERM BALANCE

In our corporate management, we are guided by the basic principle of an adequate, long-term balance between our economic, social and ecological responsibility as a company.

In matters of sustainability, we will continue to focus on resource efficiency because we are convinced that this is an important factor for the long-term success of the company and our investment portfolio. In the future, stakeholders will increasingly demand concrete steps from companies with regard to sustainable use of non-renewable resources, a further increase in resource efficiency and a shift towards renewable energies.

Due its very limited capacities and infrastructures, Valartis Group refrains from systematically collecting and evaluating ecologically relevant information.

We reduce our ecological footprint by, for example
- use public transport for business travel;
- critically question the necessity of air travel;
- use new technologies for meetings (online or video conferencing);
- strive for efficiency in the consumption of electricity for computer systems and other electrical equipment;
- reduce paper consumption;
- develop and offer user-friendly online communication tools and platforms, such as microsites and apps for annual reports and publications;
- use chilled ceilings in the offices which contribute to a pleasant room climate in summer and winter;
- collect waste paper and recycle it;
- obtain beverages from our customers and employees in returnable bottles and return them to the dealer after use.

OUR EMPLOYEES IN 2018

	31.12.2018	31.12.2017
Valartis Group (full-time equivalents)	56	54
Nationalities	9	9
Locations	4	5

RISK MANAGEMENT OF VALARTIS GROUP

RISK SITUATION OF VALARTIS GROUP

Overview

The balance sheet total of CHF 164 million reported as of 31 December 2018 (31.12.2017: CHF 177 million), decreased compared to the previous year mainly due to the decrease in cash & cash equivalents. Cash was used for investments, including capital increases, in the amount of CHF 9 million, for the benefit of shareholders in the amount of CHF 4 million (dividend 2018 plus share buyback programme) and for a loan to a related party (see Note 35 on page 100); this shows that operational costs are largely covered by operational income, and that cash reserves do not have to be used for operations. Liabilities are limited to CHF 40 million (previous year: CHF 42 million), around half of which comprise loan obligations (e.g. for a real estate property of the fully consolidated Group company Petrovsky Fort LLC financed by an external loan). While Group equity stood at CHF 123 million at the end of 2018 (end of 2017: CHF 135 million), equity attributable to shareholders of Valartis Group AG now stands at CHF 108 million (end of 2017: CHF 117 million). Total Group equity of Valartis Group decreased by roughly CHF 11 million due to the 2018 annual loss of roughly CHF 7 million and negative currency translation adjustments booked in equity (CTA) of roughly CHF 4 million. This CTA movement is due to the negative currency effect (RUB) during 2018 (–17 per cent).

The assets side of the balance sheet at the end of the year was as follows:

in CHF million	31.12.2018	31.12.2017
Current assets	69.5/42%	82.8/47%
Non-current assets	91.8/56%	91.9/51%
Assets classified as held for sale	2.7/2%	2.7/2%

Risk management for the remaining risks on the asset side is based on the professional principles of value-oriented corporate management which include the targeted assumption of risks and their professional management. Taking into account the basic principle of risk-bearing capacity, return-oriented risk assumption is now the focus of risk management.

Valartis Group takes a bottom-up approach to its own investments and is constantly looking for new long-term investments for its participation portfolio. Elements of the traditional portfolio management process such as portfolio realisation (asset allocation, monitoring, review) and portfolio control (performance measurement, attribution) are used to select own investment opportunities. The disciplined implementation of these steps contributes to achieving the objective of a stringent profitability orientation with an appropriate risk/return ratio. One of the central challenges in putting together your own investment portfolio is to resolve the conflict between optimising the expected return (value growth including interest and dividends less costs) within a certain period of time on the one hand and limiting the risk of loss on the other. Typically, the structure of an investment portfolio will have a certain consistency over time which implies an anti-cyclical behaviour and involves both opportunities and risks.

Organisation of risk management

Valartis Group has a central risk management organisation.

In its capacity as the highest operative supervisory body, the Board of Directors continues to bear responsibility for all risks of the Group and defines the corresponding risk policy. It is responsible for determining the annual risk budget, the structure of limits and the maximum risk tolerance (quantitative and qualitative) in relation to the risk-bearing capacity of the Group. The operational management is responsible for the implementation of the risk management and control principles and ensures permanent compliance with the specified limits. Risk monitoring and risk assessment see chapter Management Report, page 5 ff.

At present, the business activities of Valartis Group essentially comprise the following risks:

- Market risk (price risk of equity instruments, interest rate risk and foreign currency risk)
- Liquidity risk
- Credit risk (bond default risk)
- Non-counterparty-related risk (real estate project risk)

Generally, the currency risk is currently the main risk to be assessed. See also further explanations in the consolidated financial statements of Valartis Group, page 61 ff.).

The currency balance sheet at the end of the year was as follows:

in CHF million	31.12.2018	31.12.2017
Current assets	69.5	82.8
in CHF	12.9/19%	19.3/23%
in EUR	18.9/27%	26.7/32%
in USD	34.3/49%	34.5/42%
other (2018: RUB)	3.4/5%	2.3/3%
Non-current assets	91.8	91.9
in CHF	48.2/52%	42.3/46%
in EUR	1.6/2%	0.2/0%
in USD	3.6/4%	38.5/42%
other (2018: RUB)	38.4/42%	10.9/12%
Net position per foreign currency (total assets per currency less total liabilities per currency)		
in EUR	5.3	25.0
in USD	21.2	41.6
other (2018: RUB)	38.9	7.3

CORPORATE GOVERNANCE

Valartis Group attaches great importance to a strong Corporate Governance and sees this as a central factor for corporate success. The protection of shareholder interests, a transparent and comprehensive information policy and an appropriate remuneration policy are key elements of Valartis Group's Corporate Governance. Corporate Governance also regulates the relationship between management and control of the Group.

LEGAL GUIDELINES AND PRINCIPLES

Valartis Group follows the principles and recommendations of economiesuisse's Swiss Code of Best Practice for Corporate Governance and its appendix with recommendations on the remuneration of the Board of Directors and the Executive Committee (see Compensation Report, page 26 ff.). As a company listed on the SIX Swiss Exchange (SIX), Valartis Group is also subject to the guidelines of SIX Exchange Regulation. The principles of Valartis Group's corporate governance correspond to the SIX Directive on Information Relating to Corporate Governance (DCG) of 13 December 2016 and the disclosure requirements under Art. 663bbis and 663c para. 3 of the Swiss Code of Obligations (CO). The following information is as of 31 December 2018, unless otherwise stated.

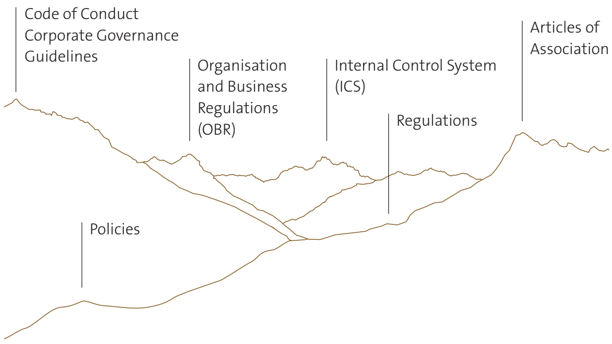
CORPORATE GOVERNANCE FRAMEWORK OF VALARTIS GROUP

Valartis Group's corporate governance guidelines define and allocate the roles, competencies and areas of responsibility of the management and supervisory bodies in a clear and balanced manner and provide for appropriate controls. All principles and guidelines relating to Corporate Governance are binding for the organisation and management of Valartis Group. These documents form the corporate governance framework of Valartis Group and comprise the following elements:

- The Articles of Association explain the corporate purpose and the comprehensive organisational framework of Valartis Group. The Articles of Association are posted under Investor Relations at http://www.valartisgroup.ch/en/#statuten.
- Valartis Group's Code of Conduct defines basic ethical and professional values such as integrity, respect, client and dialogue orientation, fairness, transparent communication and a sustainable sense of responsibility. The Code of Conduct is published under Investor Relations at http://www.valartisgroup.ch/en/#codeofconduct.
- The internal Organisation and Business Regulations (OBR) define the responsibilities and competencies within Valartis Group. The essential elements of these regulations are set out in this Corporate Governance Report in the chapters Board of Directors (see page 16 ff.), Compensation Committee (see page 21 f) and Executive Committee (see page 22 and ff.).
- The rules of the Compensation Committee set out the duties and responsibilities of this body and its members. The essential elements of these regulations are set out in Compensation Report 2018 (see page 26 and ff.).
- The remuneration policy: The Compensation Report – see also http://www.valartisgroup.ch/en/#investorrelations under Annual Report or http://www.valartisgroup.ch/en/#geschaeftsberichte – defines the essential elements and principles of an appropriate compensation system for the members of the Board of Directors, the Executive Committee and the employees (see Compensation Report 2018, pages 29, 31 and 33).
- The responsibilities and competencies defined in the internal Organisation and Business Regulations (OBR) are, where appropriate, additionally described and defined in various regulations.

Corporate Governance

Organisation and Business Regulations (OBR)



GROUP STRUCTURE AND SHAREHOLDERS

Group's structure

Valartis Group AG is a stock corporation under Swiss law with its registered office in Fribourg, Canton of Fribourg, Switzerland. The registered shares of Valartis Group AG (ISIN CH0367427686) are listed on the SIX Swiss Exchange. As of 31 December 2018, the market capitalisation of Valartis Group AG amounted to CHF 51.5 million – corresponding to CHF 0.74 or 7.7 per cent higher per share on the total of 5,000,000 shares issued compared to the previous year. Of these, Valartis Group held 9.26 per cent or 462,878 treasury shares as of 31 December 2018. The organisational chart in the chapter Strategy and Objectives on page 9 illustrates the operational structure and organisation of Valartis Group. Information on segment reporting and further explanations can be found in the management report on page 5 ff. and the notes to the consolidated financial statements, Note 37. For an overview of treasury shares, please refer to Note 27 to the Consolidated Financial Statements.

Consolidation

The Group companies of Valartis Group AG (scope of consolidation) are listed in the notes to the Group financial statements in Note 38, together with information on the company, registered office, purpose, share capital, shareholding and capital and voting rights. The associated companies are also listed and described in Note 20 to the consolidated financial statements.

The following material participation in the scope of consolidation is listed on the SIX Swiss Exchange: ENR Russia Invest SA, Geneva (Switzerland), ISIN CH0034476959 which had a market capitalisation of CHF 26.4 million as of 31 December 2018.

Significant shareholders
MCG Holding SA, Baar, Canton Zug, Switzerland, directly holds 50.2 per cent of the nominal capital and voting rights of Valartis Group AG. The beneficial owners of MCG Holding SA are Gustav Stenbolt, Geneva, and Philipp LeibundGut, Zurich.

In addition, Nebag AG, Zurich, Switzerland, holds 3.1591616 per cent of the capital and voting rights in Valartis Group AG in accordance with its disclosure of 2 September 2016. No other shareholders are known to hold more than 3.0 per cent of the voting registered shares. Detailed information on the shareholder structure can be found in the notes to the consolidated financial statements, Note 29 and in the notes to the financial statements of Valartis Group AG, on page 89. There are no shareholders' agreements.

For an overview of the disclosures made in the year under review, please refer to the website of SIX Exchange Regulation (https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

Cross-shareholdings
There are no cross-shareholdings in terms of capital or voting rights between Valartis Group AG and its subsidiaries and other companies.

CAPITAL STRUCTURE

Share capital
The share capital of Valartis Group AG amounts to CHF 5,000,000, divided into 5,000,000 registered shares with a par value of CHF 1.00 each. All registered shares of Valartis Group AG are fully paid up and listed on the SIX Swiss Exchange. With the exception of the registered shares held as treasury shares (an overview of treasury shares can be found in the notes to the consolidated financial statements, Note 27), all registered shares of Valartis Group AG are entitled to dividend and there are no preferential rights. As of the balance sheet date of the financial year 2018, there are no financial instruments outstanding that could lead to a dilution of the Company's equity.

The registered shares of Valartis Group AG are issued as uncertificated securities and carried as intermediated securities. The Company may withdraw shares held as intermediated securities from the custody system. Dispositions of intermediated securities, including the provision of collateral, are subject to the Intermediated Securities Act.

Shareholders may at any time request the Company to issue a certificate for their registered shares. However, shareholders are not entitled to the printing and delivery of certificates or the conversion of registered shares issued in a particular form into another form. In contrast, the Company may issue certificates (individual certificates or share certificates) or convert uncertificated securities and certificates into another form at any time and cancel issued certificates that are delivered to it.

Entry in the share register
Valartis Group AG keeps a share register for the registered shares in which the owners and usufructuaries, insofar as they are entitled to voting rights, are entered with their name, address and nationality (in the case of legal entities the registered office). The entry in the share register requires proof of the formal and statutory acquisition of the shares. In relation to the Company, a shareholder is only deemed to be a shareholder if registered in the share register as a shareholder.

After hearing the person concerned, the Board of Directors of Valartis Group AG may delete entries in the share register with retroactive effect to the date of entry if these were made on the basis of incorrect information provided by the acquirer. The affected shareholder must be informed immediately of the deletion.

The Board of Directors shall make the necessary arrangements for maintaining the share register and may issue corresponding regulations or guidelines. He may delegate his duties. In 2017, the Board of Directors appointed Computershare Switzerland AG in Olten, Switzerland, to manage the share register.

In the invitation to the General Meeting, the Board of Directors announces the date of entry in the share register which is decisive for participation and voting rights. For the corporate calendar of Valartis Group AG see below, Agenda 2019, page 25.

Conditional capital
Valartis Group AG has no conditional capital.

Authorised capital
Valartis Group AG has no authorised capital.

Changes in capital
The share capital of Valartis Group AG did not change in the business year 2018. The changes in equity for the years 2018 and 2017 are listed in the table Consolidated statement of changes in equity on page 42 and 43. The changes in equity for the year 2016 are listed in the table Consolidated statement of changes in equity of Valartis Group Annual Report 2016 on pages 46 and 47 (http://www.valartisgroup.ch/en/#geschaeftsberichte). The changes in equity for the year 2015 are listed in the same table (https://valartisgroup.ch/wp-content/uploads/2018/02/ANNUAL-REPORT-2016.pdf).

Profit participation certificates
Valartis Group AG has no profit participation capital.

Limitations on transferability
The registered shares of Valartis Group AG can be transferred without restriction. The only condition for entry in the share register is a declaration by the purchaser that the shares were acquired in his own name and for his own account. There are no other restrictions on registration (see also Art. 5 of the current Articles of Association at http://www.valartisgroup.ch/en/#statuten).

Convertible Bonds and Options
Valartis Group AG has not issued any convertible bonds or options.

Annual General Meeting 2018

Board of Directors after the ordinary Annual General Meeting of 15 May 2018.

At the Annual General Meeting of 15 May 2018, Gustav Stenbolt was re-elected as Chairman of the Board of Directors, and Philipp LeibundGut as a member of the Board of Directors and its Vice Chairman; Olivier Brunisholz was newly elected as a member of the Board of Directors. All were elected for a term of office ending at the close of the Annual General Meeting 2019. See also press release, 15 May 2018: Outcome of Valartis Group AG General Meeting 2018; https://valartisgroup.ch/wp-content/uploads/2018/05/MR_AGM-180515_e_final.pdf.

In accordance with the law and the Articles of Association of Valartis Group AG (available at http://www.valartisgroup.ch/en/#statuten), apart from non-transferable and irrevocable responsibilities, some responsibilities of the Board of Directors may be transferred to individual members (delegates), to a group of members (committees) or to third parties. Details on this are laid down in the Organisational Business Regulations (OBR). The Board of Directors as a body does not perform any management tasks within the Group. However, since 1 March 2017, the Chairman of the Board of Directors additionally assumed the function of Delegate of the Board of Directors following the then finalised restructuring and resizing of the Group.

The Board of Directors is considered adequately independent in accordance with the Corporate Governance Guidelines and the criteria laid down in the OBR and the Committee Regulations, and taking into account applicable law and listing requirements.

When filling an open position on the Board of Directors of Valartis Group as a small company – regardless of gender – primarily focuses on the professional skills and international experience of the persons to be elected.

BOARD OF DIRECTORS

Members of the Board of Directors

Name	Function	Nationality	Elected until	First election
Gustav Stenbolt [1)]	Chairman & Delegate of the BoD	Norwegian	2019	2015
Philipp LeibundGut [2)]	Vice-Chairman/ non-executive member of the Board of the Directors	Swiss	2019	2016
Olivier Brunisholz [3)]	Member/non-executive member of the Board of Directors	Swiss	2019	2018

1) Gustav Stenbolt had served as Group CEO since 2007 until he was elected Chairman of the Board of Directors by the Annual General Meeting on 2 June 2015. Gustav Stenbolt has been a member of the Compensation Committee since 2016. Gustav Stenbolt has also been Chairman of the Board of Directors of Valartis Advisory Services SA since 2014 and Chairman of the Board of Directors of ENR Russia Invest SA since 2015. Since March 2017, he is also the Delegate of the Board of Directors of Valartis Group.

2) From 2011 to 2014, Philipp LeibundGut was a member of the Executive Committee of Valartis Bank AG, Switzerland. In 2016, he became a member of the Board of Directors and the remuneration committee of Valartis Group upon his return to Valartis Group. Since 2018, he is the Chairman of the Compensation Committee.

3) In 2018, Olivier Brunisholz became a member of the Board of Directors and the remuneration committee of Valartis Group.

Gustav Stenbolt, born 1957

Lic. rer. pol. from the University of Fribourg, Switzerland. Delegate of the Board of Directors as of 1 March 2017 and Chairman of the Board of Directors since 2015. From 2007 to 2015, he was Group CEO of Valartis Group. Gustav Stenbolt is also Chairman of the Board of Trustees of the Pension Fund Foundation of Valartis Group and since 2014 Chairman of the Board of Directors of Valartis Advisory Services SA and other Group companies of Valartis Group. From 2004 to 2007, he was Chief Executive Officer of Jelmoli Holding Ltd. Gustav Stenbolt founded the MCT Group in Geneva in 1996 and was its CEO until 2004. In 2005, the MCT Group merged with OZ Holding AG and has been operating under the Valartis Group brand since 2007. From 1983 to 1996, he was Chief Investment Officer of Unifund for Asia, Latin America, Eastern Europe and the CIS. Gustav Stenbolt is a member of the Board of Directors of ENR Russia Invest SA (as Chairman), Eastern Property Holdings Ltd, Norinvest Holding SA, Whitebox Services AG and Anglo Chinese Group Ltd, Hong Kong.

Philipp LeibundGut, born 1973

Graduate of the Basel University of Applied Sciences (FHBB), member of the Board of Directors of Valartis Group AG since 2016. From 2011 to 2016 Philipp LeibundGut was responsible for the Institutional Clients segment of Valartis Group and until its sale in 2014, a member of the Executive Committee of Valartis Bank AG, Switzerland, where he was responsible for the Bank’s Corporate Finance, Structured Finance and Portfolio and Fund Management activities. From 2002 to 2006 he was a member of the Executive Committee of Valartis Asset Management SA and from 2005 to 2011 a member of the Board of Directors of Valartis Group AG, Valartis Bank (Liechtenstein) AG, Valartis Bonus Card AG and Eastern Property Holdings Ltd, Tortola (BVI), as well as a member of the Supervisory Board of Valartis Bank (Austria) AG. Prior to that, Philipp LeibundGut worked from 1998 to 2001 as an investment advisor at Hansa AG, Baar, Canton of Zug, Switzerland, where he was responsible for the development of an investment portfolio in Russia.

Olivier Brunisholz, born 1955

Lic.iur. of the University of Fribourg, Switzerland. Since 15 May 2018, member of the Board of Directors. He is a founding partner of the law firm Briner & Brunisholz Lawyers in Geneva, Switzerland. Olivier Brunisholz specialises in Swiss and international taxation. As a board member in many Swiss and foreign companies and foundations, he has an international client basis. Furthermore, he is active in the field of immigration law, advises and assists clients on their establishment in Switzerland, as well as the formation or the transfer of their corporations to Swiss soil. He was admitted to the bar in 1983 in Geneva and in 1991 in Fribourg. Before founding his own law practice in 1991, he was with ABN Trust Company, Geneva (1983–1986) and with KPMG Peat Marwick, Geneva (1986–1991).

Articles of Association

The last amendment to the Articles of Association was unanimously approved by the Annual General Meeting on 15 May 2018 (see also press release, 15 May 2018: Outcome of Valartis Group AG General Meeting 2018; https://valartisgroup.ch/wp-content/uploads/2018/05/MR_AGM-180515_e_final.pdf).

Each member of the Board of Directors is elected individually. Re-election is permissible. If a member resigns before the end of his term of office, the next General Meeting shall elect a substitute. If the number of members of the Board of Directors falls below three, an Extraordinary General Meeting shall be held within a reasonable period for supplementary elections. The substitute elected member enters into the term of office of his predecessor. The first election is regulated in the section Members of the Board of Directors of the Articles of Association; see also http://www.valartisgroup.ch/en/#statuten. The Board of Directors constitutes itself, appoints from among its members a Vice Chairman and may appoint a Secretary who needs not be a member of the Board of Directors.

Internal Organisation

The Board of Directors is the highest operative oversight body of Valartis Group AG. It is responsible to the shareholders for the ultimate direction of the company and decides on all matters that are not delegated to the General Meeting by law or the Articles of Association (available at http://www.valartisgroup.ch/en/#statuten).

Other activities and vested interests

The other activities and interests of the individual members of the Board of Directors are listed in the above short biographies. Article 23 of the current Articles of Association (available at http://www.valartisgroup.ch/en/#statuten) regulates the number of additional mandates that a Board of Directors member may exercise (15 additional mandates, of which no more than 5 in listed companies).

Main tasks of the Board of Directors

The Board of Directors is responsible for controlling and supervising the management of the Group. It performs the tasks assigned to it by law, the Articles of Association or internal regulations, insofar as these are not assigned to other bodies. In addition to the duties listed in the Articles of Association, the Board of Directors performs the following irrevocable and non-transferable duties and duties in particular:

- the definition and periodic review of medium- and long-term corporate objectives (strategy) and the determination of the resources required to achieve the corporate objectives (medium-term planning);
- the harmonisation of strategy, risks and finances;
- the definition of the organisation;
- the determination of the compensation principles of personnel and remuneration policy (see also Compensation Report, page 26 f.);
- the determination of the compensation principles of personnel and remuneration policy (see also Compensation Report, page 26 f.);
- the design of the accounting system, financial control, financial planning and approval of annual planning;
- the appointment of the members of the committees of the Board of Directors from among its members;
- the appointment and dismissal of the persons entrusted with the management of the company;
- the supervision of the persons entrusted with the management, in particular with regard to compliance with the law, the Articles of Association, regulations and directives;
- the responsibility for the content of the annual report, the preparation of the Annual General Meeting and the execution of its resolutions;
- the adoption of resolutions on the proposals to be submitted to the Annual General Meeting regarding the remuneration of the Board of Directors and the Executive Committee and the preparation of the Compensation Report;
- the handling and acceptance of the reports of the external auditors.

Other exclusive duties of the Board of Directors

- the regular exchange of information on the course of business and special events, in particular on the earnings situation, balance sheet development, liquidity, equity and risk situation;
- the definition of risk policy and risk control systems as well as the monitoring of consolidated risk management (see also risk management pages 15 and 61 ff.) and the management report page 5 ff.).
- the issuance of guidelines or regulations for risk management as well as the regulation of responsibilities and the procedure for the approval of risk transactions;
- the decision on the acquisition or sale of participations in other companies and on the formation or liquidation of subsidiaries;
- the decision regarding the establishment and liquidation of companies, branches and representative offices;
- setting group and overall position limits;
- the decision on the admissibility of non-Group related part-time activities by employees.

Subject to irrevocable and non-transferable duties, parts of the agendas of the Board of Directors may be transferred to individual members (delegates), to a circle of members (committees) or to third parties. The Compensation Committee was established in 2014 and the Business Development Committee in 2017.

The meeting of the Board of Directors is convened by the Chairman or, in his absence, by the Vice Chairman as often as business requires, at the request of one of its members or the external auditors. The Board of Directors passes its resolutions by an absolute majority of the votes of the members present. In the event of a tie, the Chairman has the casting vote. Minutes of the meetings of the Board of Directors are kept and signed by the Chairman and the acting Secretary.

Information and control instruments
The Board of Directors and its committees have various information and control instruments at their disposal to exercise their management and supervisory duties vis-à-vis the Executive Committee. These instruments include the strategy process, medium-term planning, the annual planning process and internal and external reporting.

The members of the Board of Directors regularly receive the corresponding reports, in particular the monthly management controlling report (MIS), including a risk overview, the liquidity report as well as the reports on the quarterly, half-yearly and annual financial statements (consolidated financial statements and individual financial statements). These reports include quantitative and qualitative information such as budget deviations, benchmark comparisons, period and multi-year comparisons, key management figures and risk analyses. The reports are prepared both for the operating Group companies and for the entire Group.

These reports allow the Board of Directors to keep abreast of key developments and the risk situation at all times. Those reports that fall within the remit of the committees are discussed in the relevant committee and, if necessary, forwarded to the Board of Directors with appropriate proposals for decision. The current reports are discussed in detail at the meetings of the Board of Directors. The meetings of the Board of Directors are also attended by the CFO/CRO of the Group and, if necessary, other persons. The description of the performance of a risk assessment by the Board of Directors and the description of the Group's accounting-related internal control system can be found in the chapter Management Report of the Executive Committee on page 5. For current risks, see also the chapters on risk management, pages 15 and 61 ff.

In 2018, seven ordinary and three extraordinary Board of Directors meetings were held. The usual frequency of meetings for the full Board of Directors is generally quarterly, whereby the meetings usually last from 10.00 a.m. to 5.00 p.m. Committee meetings are held following a Board of Directors meeting, usually three in a financial year, each lasting one hour.

COMPENSATION COMMITTEE

The Compensation Committee was convened in 2014 and consists of at least three members of the Board of Directors, each of whom is elected individually by the General Meeting for a term of one year, i.e. up to and including the first Annual General Meeting after their election. Re-election is permissible. If one or more members resign or if the Compensation Committee is not fully composed, the Board of Directors elects the missing members from among its members until the end of the next General Meeting. Philipp LeibundGut, Gustav Stenbolt and Olivier Brunisholz were confirmed as members of the Compensation Committee at the Annual General Meeting on 15 May 2018.

The Compensation Committee constitutes itself and appoints one of its members as Chairman. The Compensation Committee meets as often as business requires, but generally three times a year, including in 2018.

Duties
The Compensation Committee performs its duties and competencies as an overall and collective body. The members have no personal powers and therefore cannot issue any orders. In all compensation-related matters, the Compensation Committee can in principle only submit proposals to the Board of Directors; due to the current constellation, both bodies – Board of Directors and Compensation Committee – consist of the same members which means that the decisions of the Compensation Committee are binding for Valartis Group.

The Compensation Committee supports the Board of Directors in its tasks and responsibilities in the area of human resources policy. These include, among other things:
- the preparation, development and periodic review of the remuneration policy and performance targets of the Executive Committee;
- the periodic review of the implementation of remuneration policy;
- the annual review of the remuneration of the individual members of the Executive Committee;
- the annual assessment of the members of the Executive Committee;
- succession planning and nomination for executive management positions;
- the selection of candidates for election or re-election to the Board of Directors.

Compensation of the Board of Directors and the Executive Committee

The members of the Board of Directors are entitled to a fixed remuneration which (i) is determined in accordance with the duties and functional responsibilities of the members of the Board of Directors and (ii) is independent of the business result (see also Article 27 of the Articles of Association at http://www.valartisgroup.ch/en/#statuten; for details see Compensation Report, page 29 ff.). Furthermore, due to the small size of Valartis, members of the Board of Directors may take on activities and projects with a sustainable benefit to Valartis Group and may thus merit a performance-related compensation.

The members of the Executive Committee are entitled to (a) a fixed compensation which is (i) calculated in accordance with the duties and functional responsibilities of the person concerned and (ii) independent of the business performance, and (b) a variable compensation (bonus). The variable remuneration component is determined taking due account of the individual performance of the employee of the business operation concerned and the success of the company as a whole. The variable remuneration can be paid in cash or in the form of the company shares. The performance targets and the type of compensation (i.e. cash and/or company shares) are determined by the Board of Directors at the request of the Compensation Committee. With regard to the remuneration in the form of company shares, the Board of Directors determines the conditions for allocation. Which are to take place at market price and in particular provide for holding or vesting periods (see also Article 28 of the Articles of Association; for details, see Compensation Report, page 31 ff.).

The Compensation Committee decides on the total remuneration of the Board of Directors and the Executive Committee which the Board of Directors is required to submit annually to the Annual General Meeting for approval.

Compensation report

The Compensation Committee prepares the Compensation Report and submits it to the Board of Directors for approval; see Compensation Report, page 27 ff.

Insurance and employee benefits

The Compensation Committee periodically evaluates appropriate insurance policies for the members of the Board of Directors and the Executive Committee with the involvement of experts and, if necessary, proposes adjustments to the Board of Directors. The Compensation Committee is informed by the Executive Committee at least every three years about the pension plans of all employees.

The tasks of the Compensation Committee are explained in detail in a separate set of regulations.

EXECUTIVE COMMITTEE

Members of the Executive Committee

Name	Function	Nationality	First election
Gustav Stenbolt 1)	Delegate of the Board of Directors	Norwegian	2017
George M. Isliker	Chief Financial Officer and Chief Risk Officer (CFO/CRO)	Swiss	2011

1) Gustav Stenbolt had served as Group CEO since 2007 until he was elected Chairman of the Board of Directors by the Annual General Meeting on 2 June 2015. Stephan Häberle was CEO of Valartis Group from 3 June 2015 until his departure on 28 February 2017 when Gustav Stenbolt assumed the function as Delegate of the Board of Directors as of March 2017.

Organisation of operational management

The Executive Committee conducts the business of the Company to the extent that the law, the Articles of Association (available at http://www.valartisgroup.ch/en/#statuten) or the Organisational Regulations do not reserve such business for the Board of Directors. The Delegate of the Board of Directors heads the Group and the Executive Committee which decides on business development. The Executive Committee is responsible in particular for the implementation of the Group strategy defined by the Board of Directors and for its results. The Delegate of the Board of Directors is thus responsible for overall management and overall group coordination as well as for corporate development.

Other activities and vested interests

The other activities and interests of the individual members of the Executive Committee are listed in the above short biographies. According to the current Articles of Association, Article 25, no member of the Executive Committee may hold more than 15 additional offices, of which no more than 5 are held in listed companies; see also the Articles of Association at http://www.valartisgroup.ch/en/#statuten.

Management contracts

Valartis Group AG has not delegated any management tasks to third parties. A consulting agreement was concluded in 2017 between a Group company of Valartis Group and a Swiss stock corporation privately held by the Board of Directors' Chairman at arm's length terms. This agreement provides for the provision of advisory and consulting services in the areas of the Group's short-term investment policy and strategy, in particular in the areas of short-term cash management, business development and project development. The remuneration for this agreement is disclosed in the Compensation report on page 30 and under Note 35 Related parties and companies, page 100.

Gustav Stenbolt, born 1957

Lic. rer. pol. from the University of Fribourg. Delegate of the Board of Directors as of 1 March 2017 and Chairman of the Board of Directors since 2015. From 2007 to 2015, he was Group CEO of Valartis Group. Gustav Stenbolt is also Chairman of the Board of Trustees of the Pension Fund Foundation of Valartis Group and since 2014 Chairman of the Board of Directors of Valartis Advisory Services SA and other Group companies of Valartis Group. From 2004 to 2007, he was Chief Executive Officer of Jelmoli Holding Ltd. Gustav Stenbolt founded the MCT Group in Geneva in 1996 and was its CEO until 2004. In 2005, MCT Group merged with OZ Holding AG and has been operating under the Valartis Group brand since 2007. From 1983 to 1996, he was Chief Investment Officer of Unifund for Asia, Latin America, Eastern Europe and the CIS. Gustav Stenbolt is a member of the Board of Directors of ENR Russia Invest SA (as Chairman), Eastern Property Holdings Ltd, Norinvest Holding SA, Whitebox Services AG and Anglo Chinese Group Ltd, Hong Kong.

George Marc Isliker, born 1964

Certified Public Accountant (CPA), Trust and Estate Practitioner (TEP), law studies at the University of St. Gallen (HSG). George M. Isliker joined Valartis Group in 2011 as Chief Financial Officer & Chief Risk Officer. He has been a member of the Board of Directors of Valartis Advisory Services SA and other Group companies of Valartis Group since 2014 and a member of the Board of Trustees of the Pension Fund Foundation of Valartis Group AG since 2015. From 2004 to 2010, he was Head of Group Finance & Risk at VP Bank Group, Vaduz, Liechtenstein. In 2003, he enjoyed a sabbatical year. From 1995 to 2002 he was Head of Finance and Head of the Credit Department at the private banking group Hottinger & Cie Banquiers, Zurich, Switzerland, and from 1992 to 1995 as an auditor at the auditing firm KPMG, Zurich, Switzerland.

REMUNERATION, SHAREHOLDINGS AND LOANS

Information on the remuneration system of Valartis Group and on the remuneration of the members of the Board of Directors, including the Delegate of the Board of Directors, and the Executive Committee in the 2018 business year can be found in the separate Compensation Report (see page 26 ff.) and in the notes to the Group financial statements in Note 35 and Note 36.

Loans to members of the Board of Directors and the Executive Committee may only be granted if their amount corresponds to market practice and the applicable internal guidelines of the company. The total amount of outstanding loans per member of the Board of Directors or Executive Committee may not exceed CHF 5 million (according to the current Articles of Association, Article 30; see Articles of Association at http://www.valartisgroup.ch/en/#statuten). Details of the shareholdings and loans of the members of the Board of Directors and the Executive Committee are disclosed in the Compensation Report on page 33 f. and in the notes to the consolidated financial statements, Note 36.

SHAREHOLDERS' PARTICIPATION RIGHTS

Restriction and representation of voting rights
Shareholders' participation rights comply with the legal provisions of the Swiss Code of Obligations. There are no voting restrictions. Each share entitles the holder to one vote at the Annual General Meeting of Valartis Group. Shareholders may exercise their voting rights at the General Meeting themselves or be represented by a proxy, another shareholder with voting rights or the independent proxy. Powers of attorney are only valid for one General Meeting at a time.

Statutory quorums
There are no regulations deviating from Article 704 of the Swiss Code of Obligations. Accordingly, no special statutory quorums were determined.

Convocation of the General Meeting of Shareholders
There are no provisions in the Articles of Association that deviate from the law regarding the convening of the Annual General Meeting. The General Meeting is convened by the Board of Directors at least 20 days before the date of the meeting, stating the agenda and proposals. In the invitation to the Annual General Meeting, the Board of Directors announces the date of entry in the share register which is decisive for participation and voting rights. The invitation is issued by means of a single announcement in the company's official publication channel. This is currently the Swiss Official Gazette of Commerce (SOGC). An Extraordinary General Meeting may also be convened in writing by one or more shareholders who together represent at least ten per cent of the share capital, stating the agenda items and proposals.

Addition to the agenda
The Articles of Association provide that shareholders who together represent at least three per cent of the share capital may request in writing that an item be included on the agenda for the General Meeting, stating the item and the proposal to be included on the agenda, whereby this proposal must be received by the Company at least 45 days before the General Meeting.

CHANGE OF CONTROL AND DEFENSIVE MEASURES

Duty to make an offer (opting-out)
An acquirer of shares in the Company is not obliged to make a public purchase offer pursuant to Articles 135 and 163 of the Swiss Federal Act on Financial Market Infrastructures and Market Behaviour in Securities and Derivatives Trading.

Clauses on changes of control
The rules explicitly exclude severance payments for members of the Board of Directors and employees. There are also no other clauses on changes of control.

AUDITORS

Duration of the mandate and term of office of the lead auditor
BDO AG was first elected in 2017, with Nigel Le Masurier as auditor in charge, who has held this function since the election in 2017. The rotation frequency for this office is seven years (maximum duration) in accordance with the applicable legal requirements.

Audit fee
BDO AG charges Valartis Group CHF 0.28 million in the business year 2018 for services in connection with a half-year review, the interim audit, the audit of the annual financial statements and the audit of the consolidated financial statements of Valartis Group and its Group companies. BDO AG charged Valartis Group CHF 0.28 million in the business year 2017.

Additional fees
Furthermore, Valartis Group did not use any other services from BDO such as services in the areas of legal advice, taxes, projects and IT. New audit items and any special audits must be approved by the Board of Directors. There is no set catalogue of criteria to be used in the approval of such additional mandates. The Board of Directors decides in each individual case whether the granting of the additional mandate calls the independence of the audit firm into question.

Supervisory and control instruments vis-à-vis the auditors
The external auditors and the group auditor are supervised by the Board of Directors. It is responsible for dealing with the reports of the external auditors.

As a rule, the external auditors report in person and in writing at the December meeting of the Board of Directors on the planning, dates and budget of the audit activities of the following year and present the head of the mandate and his deputy with brief biographies. At the March meeting of the Board of Directors, at which the Board of Directors approves the annual report for the past business year, the external auditors present the comprehensive report of the statutory auditors to the Board of Directors, both in person and in writing, for the respective annual financial statements as of 31 December, of the previous year for Valartis Group (the Group) and for the individual company Valartis Group AG and report on the audit activities performed. Further meetings of the external auditors at board of directors' meetings are instructed by the Chairman of the Board.

When selecting the audit firm and assessing the performance of the audit firm, the legal requirements must be met. Further decisive selection and assessment criteria for the Board of Directors are the proven expertise in complex financial and valuation issues in accordance with IFRS accounting standards as well as in Valartis-specific special topics. Great attention is also paid to continuity. At medium-term intervals – usually every three to five years – an in-depth assessment takes place. The results are discussed with the auditing company in each case.

INFORMATION POLICY

The legally prescribed announcements of Valartis Group are legally effective in the official publication channel (Swiss Official Gazette of Commerce, SOGC). Valartis Group AG informs shareholders and capital market participants in a timely, open and comprehensive manner. Its information policy is based on the principle of equal treatment. As a company listed on the SIX Swiss Exchange, Valartis Group AG is subject in particular to the obligation to disclose price-sensitive events without delay (SIX Ad hoc Publicity Directive, RLAhP). In 2018, the company published 7 ad-hoc announcements (see also http://www.valartisgroup.ch/en/#-medienmitteilungen).

Market participants who wish to be directly informed about Valartis Group regarding potentially price-sensitive facts can register with the pertinent e-mail service: http://www.valartisgroup.ch/en/#kontakt.

In addition to ad-hoc announcements and the publication of annual and half-yearly reports prepared in accordance with International Financial Reporting Standards (IFRS), reporting also includes media information on current developments, the annual media and analyst conference, usually in April, and the Annual General Meeting in May (see also http://www.valartisgroup.ch/en/#events In addition to the electronic distribution of media information, the annual reports are available online to all interested parties. The annual report is available online as a document in pdf format, see Investor Relations at http://www.valartisgroup.ch/en/#geschaeftsberichte.

The corporate governance rules (see page 16) are briefly described and the Articles of Association and Code of Conduct are published on the Valartis website under the title Investor Relations: http://www.valartisgroup.ch/en/#investorrelations.

Agenda 2019

Annual Report 2018	9 April 2019
Closing date for the share register	26 April 2019
Annual General Meeting 2019	14 May 2019
Half-year results 2019	28 August 2019

Investor Relations

Valartis Group AG
rue de Romont 29/31
CH-1700 Fribourg FR
Tel. +41 44 503 54 10
corporate.communications@valartis.ch

Valartis Market Information

Listing:	SIX Swiss Exchange
Security symbol:	VLRT
Reuters:	VLRT.S
Bloomberg:	VLRT SW
ISIN:	CH0367427686

www.valartisgroup.ch

COMPENSATION REPORT

DEAR SHAREHOLDERS

Philipp LeibundGut,
Chairman of the Compensation Committee

Since 2011, our compensation system has supported employees who take responsibility and display entrepreneurship while placing the long-term interest of Valartis and its stakeholders at the centre of all undertakings. We believe that a consistent and predictable compensation system over time is very valuable and in the interest of all. In the 2018 compensation report, we describe both the current remuneration policy and remuneration system of the Group and explain how the performance components are linked to the overall compensation. Valartis Group Compensation Report 2018 comprises the following chapters:

- Compensation Committee: organisation, tasks and responsibilities
- Compensation principles for the Board of Directors, the Executive Committee and employees
- Determination of the remuneration
- Compensation of the Board of Directors
- Compensation of the Executive Committee
- Compensation of the Employees
- Overview of the loans and shareholdings of the members of the Board of Directors and the Executive Committee as of yearend 2018

The Compensation Report 2018 complies with current corporate governance requirements and is based on the requirements of economiesuisse's Swiss Code of Best Practice for Corporate Governance, the SIX Swiss Exchange Corporate Governance directives, the transparency provisions of Art. 663 bbis Swiss Code of Obligation, Art. 95 para. 3 of the Swiss Federal Constitution and its implementing provisions within the framework of the Swiss Ordinance against excessive remuneration in listed stock corporations (VegüV).

In accordance with the provisions of the Swiss Code of Best Practice for Corporate Governance and the VegüV, the Board of Directors proposed to the 2018 Annual General Meeting of 15 May 2018 the overall framework for the compensation of the Board of Directors and the Executive Committee. The shareholders approved the proposed total amounts with a large majority.

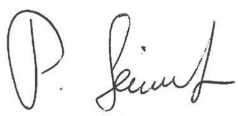
Value-based compensation system

Valartis Group's remuneration system serves as an instrument for harmonising the interests of shareholders and employees. As a company, we thus create incentives for our employees to achieve our corporate objectives and offer competitive remuneration in line with the market while safeguarding the interests of our shareholders. We are committed to a fair, balanced and performance-oriented remuneration. In addition to progressive social benefits, the employees of the Group companies also receive attractive base salaries in line with market conditions and have the opportunity to participate in a bonus system of Valartis Group that is dependent on individual performance and the success of the company.

Valartis Group's performance-related remuneration system is geared to the Group's medium-term economic success and sustainable competitiveness. It coordinates the interests of shareholders and employees in a way that promotes a performance-, team- and risk-conscious culture as well as entrepreneurial thinking and acting and thus strengthens the Group as a whole.

Following the restructuring of Valartis Group over the last three years and the associated transformation to the current business model and size of the Group, the Compensation Committee has approved a new bonus and employee participation programme for 2018 better suited to a Valartis of today.

On behalf of the Board of Directors



Philipp LeibundGut

COMPENSATION COMMITTEE: ORGANISATION, TASKS AND RESPONSIBILITIES

The organisation, tasks and responsibilities of the Compensation Committee are defined as follows for the Board of Directors of Valartis Group AG in accordance with Art. 24 of the Articles of Association of 15 May 2018 (see Articles of Association at http://www.valartisgroup.ch/en/#statuten) and Art. 3.10 (a) of the Organisational Regulations of 3 April 2017:

Organisation
The Compensation Committee consists of at least three members of the Board of Directors who are elected individually by the General Meeting for a term of one year, i.e. up to and including the first Annual General Meeting after their election. Re-election is permissible. If one or more members resign or if the Compensation Committee is not fully composed, the Board of Directors shall appoint the missing members from among its members by the end of the next General Meeting.

On 15 May 2018, the General Meeting elected Philipp LeibundGut, Gustav Stenbolt and Olivier Brunisholz as members of the Compensation Committee for a term of office until the conclusion of the next Annual General Meeting 2019 on 14 May 2019. Therefore, the Compensation Committee is currently made up of the same three members as the Board of Directors of Valartis Group currently consists of.

The Compensation Committee is self-constituting and appoints one of its members as Chairman, whereby the Chairman of the Board of Directors may not chair the Compensation Committee. Philipp LeibundGut is the Chairman of the Compensation Committee. The Compensation Committee meets as often as business requires, generally three times a year. The Compensation Committee performs its duties and competencies as a collective body. The members have no personal powers and therefore cannot issue any instructions. The Compensation Committee is generally quorate if a majority of its members are present. Resolutions are passed by a majority of the votes cast. In the event of a tie, the Chairman has the casting vote. Minutes of the meetings are made available to the Board of Directors.

Tasks and responsibilities
In all compensation-related matters, the Compensation Committee can in principle only submit proposals to the Board of Directors; due to the current constellation, both bodies – Board of Directors and Compensation Committee – consist of the same members which means that the decisions of the Compensation Committee are binding for Valartis Group. The associated tasks with the Compensation Committee include, among others:

- the establishment of principles for the compensation of the Board of Directors, the Executive Committee and employees;
- the preparation, development and periodic review of the remuneration policy and performance targets of the Executive Committee;
- the periodic review of the implementation of remuneration policy;
- the annual performance assessment of the members of the Executive Committee;
- succession planning and nomination for executive management positions;
- the annual review of the remuneration of each member of the Executive Committee;
- the selection of candidates for election or re-election to the Board of Directors and the preparation of corresponding proposals for the attention of the Board of Directors;
- the preparation and presentation of the Compensation Report for approval by the Board of Directors;
- the periodic evaluation of appropriate insurance policies for the members of the Board of Directors and the Executive Committee with the involvement of external experts and the preparation of appropriate recommendations for the Board of Directors.

COMPENSATION PRINCIPLES FOR THE BOARD OF DIRECTORS, THE EXECUTIVE COMMITTEE AND EMPLOYEES

Valartis Group's performance-related remuneration system aims to attract, promote and retain suitable employees in order to ensure the Group's long-term economic success and sustainable competitiveness. It is based on the following principles:

- The remuneration system provides incentives that promote a performance-, team- and risk-conscious culture as well as entrepreneurial thinking and acting and thus strengthens Valartis Group as a whole.
- The total compensation generally includes a fixed and a variable component.
- The variable remuneration component depends to an appropriate extent on individual performance, the result of the business unit and the success of the Group as a whole.
- Both directly measurable and non-measurable criteria serve as the basis of assessment for the variable remuneration component.
- The variable component may to a large extent be remunerated in Valartis Group AG shares.
- The payment of a significant portion of the variable remuneration is dependent on the future success of Valartis Group. In doing so, the risks entered into must be adequately taken into account.
- Severance payments for members of the Board of Directors and the Executive Committee are excluded.

Valartis Group AG employs a total of 56 people at various locations (e.g. Geneva and Zurich or St. Petersburg and Moscow) in the areas of financial services, real estate projects and participations. Due to the small size of the individual business activities, the Board of Directors and the Executive Committee consider it unproductive and disproportionate to make benchmark comparisons when determining the remuneration of both the Executive Committee and employees. Rather, the relevant bodies base their decisions on their own experience and discretion.

Compensation of the Board of Directors
The compensation of the members of the Board of Directors consists of a fixed compensation and, if applicable, a performance-related compensation (for details see page 29 f.). Due to the

small size of Valartis, members of the Board of Directors may take on activities and projects with a sustainable benefit to Valartis Group and may thus merit a performance-related compensation (for details see page 29 f.).

Compensation of the Executive Committee
The compensation of the members of the Executive Committee consists of a fixed compensation and, if applicable, a performance-related compensation (for details see page 31 f.):
– The fixed compensation is determined by the task and functional responsibility of the member of the Executive Committee.
– The performance-related compensation is determined, if the Board of Directors decides to grant it, by the Group's operating profit, the operating profit of the business unit and the individual contribution.
– The agreement of performance-related remuneration components forms an element of the annual target agreement process, within the framework of which both individual and financial performance targets are defined. At the end of the period, the degree of target achievement is measured.
– The interests of shareholders (return on equity, contribution to earnings from market movements, etc.) must be adequately taken into account when determining the quantitative objectives of the members of the Executive Committee.
– In addition to measurable parameters such as earnings improvement, project completion, etc., individual contributions also include non-financial target parameters (compliance, compliance with risk policy requirements, employee management, and commitment to the Group as a whole).

Bonus Shares Programs
Valartis Group's Bonus Shares Programme is an integral component of the remuneration system which takes into account the company's success and individual performance as well as the objective of long-term employee loyalty and safeguarding shareholder interests (see details on page 28 f.).

DETERMINATION OF COMPENSATION

The Compensation Committee decides on the total remuneration of the Board of Directors and the Executive Committee which the Board of Directors must submit annually to the Annual General Meeting for approval. This task comprises the following two steps:
– The Compensation Committee decides on the compensation of the members of the Board of Directors within the maximum total amount approved or to be approved by the General Meeting and submits corresponding proposals to the Board of Directors (see also table Competences and responsibilities, see page 29).
– The Compensation Committee decides on the compensation of the Delegate of the Board of Directors and, after consulting the Delegate of the Board of Directors, the other members of the Executive Committee within the maximum overall amount approved or to be approved by the General Meeting and submits corresponding proposals to the Board of Directors (see also table Competences and Responsibilities, page 29).
– Due to the fact that the Board of Directors has only three members and that the Chairman simultaneously performs the duties of the Delegate of the Board of Directors, he is also a member of the Compensation Committee. Decisions on the proposals and recommendations of the Compensation Committee are taken jointly by the Board of Directors. The members of the Board of Directors or the Delegate of the Board of Directors concerned in each individual case shall abstain from voting on their case.

Board of Directors and Executive Committee
Subject to approval by the General Meeting and in accordance with the company's organisational regulations, the Board of Directors of Valartis Group determines the remuneration of the members of the Board of Directors and, after consultation with the Delegate of the Board of Directors, of the members of the Executive Committee on the proposal of the Compensation Committee.

Employees
The Delegate of the Board of Directors proposes the amount of bonus per operating profit center, based on the total bonus amount decided by the Board of Directors, to the Compensation Committee which reviews the corresponding proposal. In consultation with the Delegate of the Board of Directors, the manager responsible for the profit center determines the bonus payments to the employees of such a unit.

Approval of the remuneration of the members of the Board of Directors and the Executive Committee
In accordance with the provisions of the Swiss Code of Best Practice for Corporate Governance and the Swiss VegüV, the Board of Directors proposed to the 2018 Annual General Meeting of 15 May 2018 the overall framework for the compensation of the Board of Directors and the Executive Committee. The shareholders approved the proposed total amounts with a large majority. Valartis Group seeks dialogue with shareholders and shareholder representatives in order to receive valuable feedback on its remuneration policy. This is regularly evaluated and appropriately taken into account.

COMPENSATION OF THE BOARD OF DIRECTORS

The members of the Board of Directors receive a fixed remuneration for their work, the amount of which depends on their function within the Group. 2018, there is no variable remuneration component for members of the Board of Directors. The Compensation Committee decides on the remuneration of the members and the Chairman of the Board of Directors within the maximum total amount approved or to be approved by the General Meeting and submits the corresponding proposals to the Board of Directors (see also table Responsibilities and competencies, page 29). The fees of the members of the Board of Directors are fixed for the period between two Annual General Meetings.

The entire remuneration is to be paid out in cash. However, each member of the Board of Directors has the option of receiving all or part of the remuneration in the form of shares. Information on loans, shares and options held is disclosed in Note 36 and on page 33 f. of this Compensation Report).

The Chairman of the Board of Directors receives a board of directors' fee plus, in his function as Delegate of the Board of Directors, an additional fee in the form of a salary. This salary is based on the performance of the operational management of the company. The total remuneration corresponds to the status of the Chairman of the Board of Directors and his active role as a delegate in implementing the strategy, managing and monitoring Group activities and exchanging information with shareholders. As Chairman of the Board of Directors, he coordinates the activities of the Board of Directors, works with the committees to coordinate the tasks of the committees and ensures a sufficient flow of information between the individual members of the Board of directors so that they can properly discharge their responsibilities. As Delegate, he is in charge of the implementation of the strategy, the implementation of the structural and organisational guidelines set by the Board of Directors and bears a significant responsibility for the fulfilment of the company's objectives. In addition, the Chairman of the Board of directors exerts influence on compensation issues, including performance evaluation. He chairs the Board of Directors, the General Meetings and plays an active role in representing the Company to key shareholders, investors, regulators, industry associations and other stakeholders.

The other members of the Board of Directors assume the areas of responsibility assigned to them in accordance with the organisational responsibility of the Board of Directors and serve on the committees of the Board of Directors in accordance with the organisational regulations.

Remuneration of the Chairman of the Board of Directors and Delegate of the Board of Directors

The Executive Committee which had consisted of two members since 2016, was further reduced at the beginning of 2017 after the successful reorganisation of the previous years. Besides being Chairman of the Board of Directors, Gustav Stenbolt assumed the additional function as Delegate of the Board of Directors as of 1 March 2017.

After the additional time burden for a board of directors Chairman and Delegate of the Board of Directors increased significantly due to the very large reduction in the number of employees in the group service organisation and included tasks which traditionally are not performed directly by these two functions, a consulting agreement was concluded between a Group company of Valartis Group and a Swiss stock corporation privately held by the board of directors' Chairman at arm's length terms. This agreement provides for the provision of national and international advisory and consulting services in the areas of the Group's investment policy and strategy and asset management, in particular in the areas of short-term cash management, business development and project development. This agreement is also disclosed under Note 35 Related parties and companies, page 100. The contract was concluded with Valartis International Ltd. because this company uses most of these advisory and consulting services.

Competencies and responsibilities

Decision	Delegate of the BoD	Compensation Committee	BoD	AGM
Compensation of the members of the BoD [1], the Chairman [1] and the Delegate of the BoD		proposal	approval	
Fixed compensation of members of the Executive Committee	proposal	review proposal	approval	
Bonus Shares Programme for the Delegate of the Board of Directors [2]		proposal	approval	
Bonus Shares Programme for the Executive Committee members (excluding the Delegate of the BoD)	proposal	review proposal	approval	
Bonus Shares Programmes for the Employees	proposal	review proposal	approval	
Total remuneration of BoD and Executive committee			proposal	approval

1) Board of Directors
2) Cash and Bonus Share Programme of Valartis Group: Cash, Bonus Shares and Super Bonus Shares (details see page 33.)

Compensation of the Board of Directors 2018 and 2017

2018 in CHF	Gustav Stenbolt, Chairman & Delegate of the BoD [2]	Christoph N. Meister, Vice Chairman [3]	Philipp LeibundGut, Vice Chairman [3]	Olivier Brunisholz, Member [3]	Total
Compensation of the Board of Directors					
Fees from Group companies (fixed)	130,000	33,750	126,250	37,500	327,500
Compensation of the Delegate of the Board of Directors	123,500				123,500
Pension contributions [1]	43,048	3,428	14,027	4,169	64,672
Other employers' social security contributions [1]	12,003	923	4,577	1,897	19,400
Fees for additional services (to related parties) [2]	323,100				323,100
Other benefits	6,500				6,500
Total	**638,151**	**38,101**	**144,854**	**43,566**	**864,672**

1) In addition to employer contributions, Valartis Group also pays the employee contributions on the fees of the Board of Directors. Pension contributions only include AHV contributions. For the remuneration of the Delegate of the Board of Directors, only the employer's contributions are included (the employee's contributions are deducted from the employee's gross salary); the pension contributions include not only the AHV contributions but also the BVG contributions.
2) The remuneration of the Chairman and Delegate of the Board of Directors for a financial year is composed as follows: CHF 130,000 as fee as Chairman of the Board of Directors (net) + CHF 130,000 as salary as Delegate of the Board of Directors (gross, including lump-sum expenses) + CHF 300,000 as compensation for a consulting agreement (net) with a Swiss public limited company privately held by the Chairman of the Board of Directors. = Total CHF 560,000 as total remuneration, plus social security contributions and VAT.
3) At the 30th Annual General Meeting of Valartis Group AG on 15 May 2018, following the resignation of Christoph N. Meister as a member of the Board of Directors, Olivier Brunisholz was elected as a new member of the Board of Directors for a term of office until the next Annual General Meeting in 2019. The Board of Directors subsequently elected Philipp LeibundGut as the new Vice Chairman of the Board of Directors.

2017 in CHF	Gustav Stenbolt, Chairman & Delegate of the BoD [2]	Christoph N. Meister, Vice Chairman	Philipp LeibundGut, Member		Total
Compensation of the Board of Directors					
Fees from Group companies (fixed)	212,500	112,500	106,250		431,250
Compensation of the Delegate of the Board of Directors	108,333				108,333
Pension contributions [1]	47,492	12,600	11,900		71,992
Other employers' social security contributions [1]	14,033	4,100	3,900		22,033
Total	**382,358**	**129,200**	**122,050**		**633,608**

1) In addition to employer contributions, Valartis Group also pays the employee contributions on the fees of the Board of Directors. Pension contributions only include AHV contributions. For the remuneration of the Delegate of the Board of Directors, only the employer's contributions are included (the employee's contributions are deducted from the employee's gross salary); the pension contributions include not only the AHV contributions but also the BVG contributions.
2) Gustav Stenbolt had held the position as Group CEO since 2007 until he was elected Chairman of the Board of Directors by the Annual General Meeting on 2 June 2015. Stephan Häberle was CEO of Valartis Group from 3 June 2015 until his departure in February 2017. Gustav Stenbolt took over as Delegate of the Board of Directors in March 2017.

REMUNERATION OF THE EXECUTIVE COMMITTEE

The remuneration policy for the Executive Committee is issued by the Board of Directors on the basis of Art. 3.9 (b) of the Organisational Regulations of Valartis Group AG dated 3 April 2017. The requirements contained therein follow the guidelines of the SIX Swiss Exchange regarding information on Corporate Governance (DCG). The Board of Directors of Valartis Group AG approves the remuneration of the Delegate of the Board of Directors and, after consulting the Delegate of the Board of Directors, the remuneration of the other members of the Executive Committee within the framework of the maximum total amount approved or to be approved by the General Meeting.

Structure of the remuneration system for the Executive Committee

The structure of the remuneration system for the Executive Committee is based on the combining business success with individual performance components which are also listed in the chapter Determination of remuneration on page 31.

The remuneration is determined according to the following criteria:

- The compensation of the members of the Executive Committee consists of a fixed compensation and, if applicable, a performance-related compensation.
- The fixed compensation is determined by the task and functional responsibility of the individual member.
- The performance-related compensation is determined on the basis of the following quantitative and qualitative components:
  - operating net income;
  - operating profit of the business unit;
  - individual contribution.

Compensation of members of the Executive Committee 2018 and 2017

The compensation paid to Gustav Stenbolt as Delegate of the Board of Directors [2] is shown above under Compensation of the Board of Directors.

2018 in CHF		George M. Isliker, CFO/CRO	Total
Compensation of the Executive Committee			
Fixed compensation in cash		350,000	350,000
Employer pension contributions [1]		71,013	71,013
Other employers' social security contributions		13,060	13,060
Total		**434,073**	**434,073**

1) The pension contributions include the employer's contributions for AHV and pension fund contributions.
2) Gustav Stenbolt had held the position as Group CEO since 2007 until he was elected Chairman of the Board of Directors by the Annual General Meeting on 2 June 2015. Stephan Häberle was CEO of Valartis Group from 3 June 2015 until his departure in February 2017. Gustav Stenbolt took over as Delegate of the Board of Directors in March 2017.

The remuneration of the Chairman and Delegate of the Board of Directors for a financial year is composed as follows: CHF 130,000 as fee as Chairman of the Board of Directors (net) + CHF 130,000 as salary as Delegate of the Board of Directors (gross, including lump-sum expenses) + CHF 300,000 as compensation for a consulting agreement (net) with a Swiss public limited company privately held by the Chairman of the Board of Directors. = Total CHF 560,000 as total remuneration, plus social security contributions and VAT.

This total remuneration is shown in the table of remuneration to the Board of Directors.

2017 in CHF	Stephan Häberle, CEO [1]	George M. Isliker, CFO/CRO	Total
Compensation of the Executive Committee			
Fixed compensation in cash	140,232	350,000	490,232
Employer pension contributions [2]	34,282	70,158	104,440
Other employers' social security contributions	5,422	12,322	17,744
Total	**179,936**	**432,480**	**612,416**

1) Stephan Häberle was CEO of Valartis Group from 3 June 2015 until his departure on 28 February 2017.
2) The pension contributions include the employer's contributions for the AHV and the pension fund contributions.

Weighting
When determining the individual components, the interests of the shareholders (return on equity, contribution to earnings from market movements, etc.) are taken into account in an appropriate manner. In addition to measurable parameters such as changes in earnings or the degree to which project objectives are achieved, individual contributions also include qualitative factors such as compliance, compliance with risk policy requirements, employee management and commitment to the Group as a whole (non-exhaustive list).

Due to the dependency on the course of business and the individual performance contributions, the total remuneration of a member of the Executive Committee may vary from year to year. The ratio between the fixed and variable compensation components changes accordingly.

Information on loans, shares and option holdings can be found in the notes to the consolidated financial statements in Note 36 and on page 33 f. of this Compensation Report.

REMUNERATION OF EMPLOYEES

The remuneration model described for the Executive Committee also applies to all employees in Switzerland. Based on the total bonus amount decided by the Board of Directors, the Delegate of The Board of Directors determines the total bonus payment for each operating profit center and submits a corresponding proposal to the Compensation Committee (see also page 28 f.). In consultation with the Delegate of the Board of Directors, the manager responsible for the respective unit determines the bonus payments to the employees working in such a unit.

Further information on salaries, bonuses, social benefits, employee benefits and equity compensation can be found in the Notes 5, 25, 30 and 36 to the Consolidated financial statements.

OVERVIEW: LOANS, SHARES AND OPTIONS HELD BY MEMBERS OF THE BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

The table below shows the total loans held by the Board of Directors and the Executive Committee, as well as all shares and options listed as of 31 December 2018:

Loans, shares and options held by the members of the Board of Directors 2018 and 2017

2018 in CHF	Gustav Stenbolt, Chairman & Delegate of the BoD	Christoph N. Meister, Vice Chairman [3]	Philipp LeibundGut, Vice Chairman	Olivier Brunisholz, Member [4]	Total
Shareholdings held by and Loans/Credits to Directors					
Number of shares held	2,183,787	4,821	384,333		2,572,941
Number of shares (entitlements) [1]					
Loans and credits, in CHF					
Loans and credits to related parties, in CHF [2]	3,500,000				3,500,000

1) Shares allocated as bonus components in the year under review or in previous years but not yet vested would be reported as entitlements.
2) Tudor Private Portfolio LLC (Tudor) was a shareholder of MCG Holding AG (MCG, majority shareholder of Valartis Group AG) and sold its stake in MCG on 21 December 2018. Tidesea SA, a Swiss stock corporation privately held by the Chairman of the Board of Directors, has acquired the shares in MCG, financed by a loan of CHF 3.5 million from Valartis Group AG. This loan was granted on market terms.
3) Member of the Board of Directors until the Annual General Meeting of Valartis Group AG on 15 May 2018.
4) Member of the Board of Directors since the Annual General Meeting of Valartis Group AG on 15 May 2018.

2017 in CHF	Gustav Stenbolt, Chairman & Delegate of the BoD	Christoph N. Meister, Vice Chairman	Philipp LeibundGut, Member		Total
Shareholdings held by and Loans/Credits to Directors					
Number of shares held	1,874,601	4,821	398,333		2,277,755
Number of shares (entitlements) [1]					
Loans and credits, in CHF					
Loans and credits to related parties, in CHF					

1) Shares allocated as bonus components in the year under review or in previous years but not yet vested would be reported as entitlements.

Loans, shares and options held by the members of the Executive Committee 2018 and 2017

Loans, shares and options held by Gustav Stenbolt as Delegate of the Board of Directors are shown above under Loans, shares and options held by the members of the Board of Directors 2018 and 2017.

2018 in CHF		George M. Isliker, CFO/CRO	Total
Shareholdings held by and Loans/Credits to the Executive Committee			
Number of shares held		15,285	15,285
Number of shares (entitlements) [1)			0
Loans and credits, in CHF			0
Loans and credits to related parties, in CHF			0

1) The entitlements shown are shares that were allocated to members of Group Executive Management as a bonus component in the year under review or in previous years but have not yet been transferred as vested.

There are no loans or credits to former members of Group Executive Management.

2017 in CHF	Stephan Häberle, CEO	George M. Isliker, CFO/CRO	Total
Shareholdings held by and Loans/Credits to the Executive Committee			
Number of shares held		15,285	15,285
Number of shares (entitlements) [1)			0
Loans and credits, in CHF			0
Loans and credits to related parties, in CHF			0

1) Shares allocated to members of Group Management as bonus components in the year under review or in previous years, but not yet transferred as vested, would be reported as entitlements.

There are no loans to former members of Group Executive Management.

Phone +41 22 322 24 24
Fax +41 22 322 24 00
www.bdo.ch

BDO AG
Rte de Meyrin 123
Case postale 150
1215 Genève 15

REPORT OF THE STATUTORY AUDITOR ON THE COMPENSATION REPORT

To the General Meeting of

Valartis Group AG, Fribourg

We have audited the compensation report (annual report page 26 to 34) of Valartis Group AG for the year ended 31 December 2018. The audit was limited to the information provided under articles 14 – 16 of the Ordinance against Excessive Compensation with respect to Listed Stock Corporations (the Ordinance).

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation with respect to Listed Stock Corporations. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report of Valartis Group AG for the year ended 31 December 2018 complies with Swiss law and articles 14 – 16 of the Ordinance.

Geneva, 8 April 2019

BDO Ltd

Nigel Le Masurier	Markus Schenkel
Auditor in Charge Licensed Audit Expert	Licensed Audit Expert

VALARTIS GROUP CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

in CHF 1,000	Note	1.1.–31.12.2018	1.1.–31.12.2017
Income from management services	1	2,714	3,660
Income from investment property	2	2,954	6,834
Share of results of associated companies	3	3,002	347
Other income	4	1,073	1,175
Total operating income		**9,743**	**12,016**
Personnel expense	5	-5,231	-6,127
General expense	6	-6,113	-7,686
Administrative expense		**-11,344**	**-13,813**
Earnings before depreciation, valuation adjustments, provisions, interest and taxes		**-1,601**	**-1,797**
Depreciation/amortisation of property, plant and equipment and intangible assets	7	-54	-84
Valuation adjustments, provisions and losses	8	-2,520	-1,684
Earnings before interest and taxes (EBIT)		**-4,175**	**-3,565**
Financial income	9	2,587	3,197
Financial expenses	9	-6,499	-2,091
Net loss from continued operations before taxes		**-8,087**	**-2,459**
Income taxes	10	1,189	-287
Net loss from continued operations		**-6,898**	**-2,746**
Net result from discontinued operations, after taxes	40	-46	960
Net loss		**-6,944**	**-1,786**
Net (loss) attributable to shareholders of Valartis Group AG		-5,026	-2,383
Net (loss)/gain attributable to non-controlling interests		-1,918	597

in CHF			
Earnings per share			
Undiluted earnings attributable to shareholders of Valartis Group AG		-1.11	-0.51
Diluted earnings attributable to shareholders of Valartis Group AG		-1.11	-0.51
Earnings per share – continued operations			
Undiluted earnings attributable to shareholders of Valartis Group AG		-1.10	-0.71
Diluted earnings attributable to shareholders of Valartis Group AG		-1.10	-0.71
Earnings per share – discontinued operations			
Undiluted earnings attributable to shareholders of Valartis Group AG		-0.01	0.20
Diluted earnings attributable to shareholders of Valartis Group AG		-0.01	0.20

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017
Net loss in the income statement	**-6,944**	**-1,786**
Other comprehensive income which will be reclassified to the income statement		
Change in fair value of financial assets available for sale [1]	-	3,258
(Gains) on financial assets available for sale reclassified to income statement	-	-572
Foreign exchange translation differences	-3,446	1,337
Foreign exchange translation differences reclassified to income statement	-	-404
Associated companies – attributable comprehensive income [2]	-	3,539
Other comprehensive income which will be reclassified to the income statement	**-3,446**	**7,158**
Other comprehensive income which will not be reclassified to the income statement		
Change in fair value of financial assets at fair value through OCI [1]	3,128	-
Remeasurement of defined benefit pension plans	119	831
Associated companies – attributable comprehensive income	-	-
Other comprehensive income which will not be reclassified to the income statement	**3,247**	**831**
Total other comprehensive income, after tax	**-199**	**7,989**
Total comprehensive income	**-7,143**	**6,203**
Allocation of total comprehensive income		
Shareholders of Valartis Group AG	-3,942	5,642
Non-controlling interests	-3,201	561

1) Since the financial assets available for sale have been moved to financial assets at fair value through OCI upon adoption of IFRS 9, the changes in fair value are presented in the corresponding line of the consolidated statement of comprehensive income.
2) In 2017, the total comprehensive income of CHF 3.5 million disclosed for the associated companies mainly included the translation differences from the sale of the participation in the Darsi Group reclassified to the income statement.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

in CHF 1,000	Note	31.12.2018	31.12.2017
Cash and cash equivalents		6,051	25,745
Trading portfolio assets	11	40,448	38,002
Derivative financial instruments	12	51	109
Other financial assets at fair value	13	1,635	1,696
Due from third parties	14	19,054	13,831
Accrued and deferred assets		2,248	3,392
Total current assets		**69,487**	**82,775**
Assets under development	15	2,480	5,921
Financial assets at fair value through OCI [1]	16	26,590	23,462
Property, plant and equipment	17	217	103
Investment property	18	33,619	37,151
Goodwill	19	1,939	2,313
Associated companies	20	22,008	17,381
Non-current receivables	21	4,211	5,565
Deferred tax assets	10	767	-
Total non-current assets		**91,831**	**91,896**
Total current and non-current assets		**161,318**	**174,671**
Non-current assets classified as held for sale	40	2,660	2,735
Total assets		**163,978**	**177,406**

1) Financial assets available for sale have been moved to Financial assets at fair value through OCI upon adoption of IFRS 9.

Liabilities and Shareholders' equity

in CHF 1,000	Note	31.12.2018	31.12.2017
Liabilities			
Trade payables		1,202	814
Current financial liabilities	22	17,242	28,916
Derivative financial instruments	12	-	1,751
Current tax liabilities		835	884
Other current liabilities	23	3,615	5,073
Current provisions	26	76	245
Total current liabilities		**22,970**	**37,683**
Non-current financial liabilities	24	15,440	2,059
Defined benefit obligations	25	1,306	1,458
Deferred tax liabilities	10	22	553
Non-current provisions	26	246	449
Total non-current liabilities		**17,014**	**4,519**
Total liabilities		**39,984**	**42,202**
Shareholders' equity			
Share capital	27	5,000	5,000
Treasury shares	27	-9,277	-5,872
Reserves		105,751	111,583
Cumulated income from financial assets at fair value through OCI		9,675	6,649
Foreign exchange translation differences		-3,697	-1,534
Remeasurement defined benefit pension plans	25	920	801
Shareholders' equity of the shareholders of Valartis Group AG		**108,372**	**116,627**
Non-controlling interests		15,622	18,577
Total shareholders' equity (including non-controlling interests)		**123,994**	**135,204**
Total liabilities and shareholders' equity		**163,978**	**177,406**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2017 in CHF 1,000	Share capital	Treasury shares	Capital reserves	Retained earnings
Opening balance at 1 January 2017	**5,000**	**-5,726**	**-5,507**	**120,718**
Effects of changes in accounting principles	-	-	-	-
Gains/(losses) from financial assets available for sale [1]	-	-	-	-
Foreign exchange translation differences	-	-	-	-
Remeasurement of defined benefit pension plans	-	-	-	-
Other comprehensive income	**-**	**-**	**-**	**-**
Net loss	-	-	-	-2,383
Comprehensive income	**-**	**-**	**-**	**-2,383**
Dividend payments	-	-	-	-948
Change in treasury shares	-	-146	-207	-
Employee participation plan	-	-	-90	-
Transaction with non-controlling interests	-	-	-	-
Owner-related changes	**-**	**-146**	**-297**	**-948**
Total shareholders' equity at 31 December 2017	**5,000**	**-5,872**	**-5,804**	**117,387**

2018 in CHF 1,000				
Opening balance at 1 January 2018	**5,000**	**-5,872**	**-5,804**	**117,387**
Effects of changes in accounting principles	-	-	-	-
Gains/(losses) from financial assets at fair value through OCI [1]	-	-	-	-
Foreign exchange translation differences	-	-	-	-
Remeasurement of defined benefit pension plans	-	-	-	-
Other comprehensive income	**-**	**-**	**-**	**-**
Net loss	-	-	-	-5,026
Comprehensive income	**-**	**-**	**-**	**-5,026**
Dividend payments	-	-	-	-908
Change in treasury shares	-	-3,405	-	-
Employee participation plan	-	-	-	-
Transaction with non-controlling interests	-	-	-	102
Owner-related changes	**-**	**-3,405**	**-**	**-806**
Total shareholders' equity at 31 December 2018	**5,000**	**-9,277**	**-5,804**	**111,555**

1) as of 1 January 2018, Financial assets at fair value through OCI

Net unrealised gains/losses on financial assets at fair value through OCI; until 31.12.2017 Available for sale	Foreign exchange translation difference	Remeasurement defined benefit pension plans	Total equity shareholders of Valartis Group AG	Non-controlling interests	Foreign exchange effect on non-controlling interests	Total non-controlling interests	Total shareholders' equity
3,963	**-6,042**	**-30**	**112,376**	**19,149**	**-674**	**18,475**	**130,851**
-	-	-	-	-	-	-	-
2,686	-	-	2,686	-	-	-	2,686
-	4,508	-	4,508	-	-36	-36	4,472
-	-	831	831	-	-	-	831
2,686	**4,508**	**831**	**8,025**	**-**	**-36**	**-36**	**7,989**
-	-	-	-2,383	597	-	597	-1,786
2,686	**4,508**	**831**	**5,642**	**597**	**-36**	**561**	**6,203**
-	-	-	-948	-	-	-	-948
-	-	-	-353	-	-	-	-353
-	-	-	-90	-	-	-	-90
-	-	-	-	-459	-	-459	-459
-	**-**	**-**	**-1,391**	**-459**	**-**	**-459**	**-1,850**
6,649	**-1,534**	**801**	**116,627**	**19,287**	**-710**	**18,577**	**135,204**
6,649	**-1,534**	**801**	**116,627**	**19,287**	**-710**	**18,577**	**135,204**
-	-	-	-	-	-	-	-
3,128	-	-	3,128	-		-	3,128
-	-2,163	-	-2,163	-	-1,283	-1,283	-3,446
-	-	119	119	-	-	-	119
3,128	**-2,163**	**119**	**1,084**	**-**	**-1,283**	**-1,283**	**-199**
-	-	-	-5,026	-1,918	-	-1,918	-6,944
3,128	**-2,163**	**119**	**-3,942**	**-1,918**	**-1,283**	**-3,201**	**-7,143**
-	-	-	-908	-	-	-	-908
-	-	-	-3,405	-	-	-	-3,405
-	-	-	-	-	-	-	-
-102	-	-	-	246	-	246	246
-102	**-**	**-**	**-4,313**	**246**	**-**	**246**	**-4,067**
9,675	**-3,697**	**920**	**108,372**	**17,615**	**-1,993**	**15,622**	**123,994**

CONSOLIDATED CASH FLOW STATEMENT

in CHF 1,000	31.12.2018	31.12.2017
Net loss after taxes from continued operations	-6,898	-2,746
Net loss after taxes from discontinued operations	-46	960
Net loss	**-6,944**	**-1,786**
Depreciation of property, plant and equipment	54	84
Net result from fair value adjustment and foreign currency effect on investment property	-1,403	-259
Share of results of associated companies	-3,002	-5,403
Change in valuation adjustments and provisions	2,323	1,684
Transfer of foreign currency differences from equity to profit and loss statements	-	3,539
Finance result, net	3,912	-1,105
Change in taxes	-1,189	844
Other non-cash income and expenses	-688	-1,162
Operating cash flow before changes in the working capital and taxes	**-6,937**	**-3,564**
Due from third parties	-5,406	3,992
Accrued and deferred assets	35	496
Accounts payables	189	-1,160
Other current liabilities	6,821	-3,498
Taxes paid	-102	-697
Cash flow from operating activities	**-5,400**	**-4,431**
Trading portfolio assets (including derivative financial instruments)	-9,275	-8,414
(Increase) decrease other financial assets at fair value	62	-
Other financial assets at fair value through OCI	-	-745
Non-current receivables	2,158	2,276
Interest and dividends received	2,586	3,197
Purchase of property, plant and equipment, investment property and intangible assets	-1,195	-273
Acquisition of associated companies	-1,628	-354
Sale of associated companies	-	13,189
Acquisition of subsidiaries less acquired cash	-	-2,133
Sale of subsidiaries less attributable cash [1]	-	11,277
Cash flow from investment activities	**-7,292**	**18,020**

1) Payments in the previous period relate to payments from escrow accounts.

in CHF 1,000	31.12.2018	31.12.2017
Proceeds from/(repayments of) current financial liabilities [1)]	-13,802	-9,061
Proceeds from/(repayments of) non-current financial liabilities [1)]	13,913	-265
Interest paid	-1,226	-1,674
Dividends paid to shareholders of the Company	-908	-948
Change in treasury shares	-3,405	-353
Change in non-controlling interests	-1,574	-330
Cash flow from financing activities	**-7,002**	**-12,631**
Effect of foreign exchange translation differences (including non-controlling interests)	-	260
Increase/(decrease) in cash and cash equivalents	**-19,694**	**1,218**
Position at 1 January	25,745	24,527
Position at 31 December	6,051	25,745
Cash	4	3
Due from banks at sight/callable	6,047	25,742
Total cash and cash equivalents	6,051	25,745

1) In 2018, the loan related to the investment property has been refinanced and a portion of CHF 13.8 million reclassified from current to non-current financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DESCRIPTION OF BUSINESS

Valartis Group's activities include financial services, real estate project management and equity investments. In financial services, Valartis Group concentrates on the comprehensive management of niche funds (investment satellites). In addition, Valartis Group provides corporate finance advisory services for listed and unlisted medium-sized companies. On the real estate side, Valartis Group combines the management of profitable commercial and residential properties with investments in promising development projects. In the case of participations, the focus is on equity participations as a shareholder. Valartis Group currently has offices in Switzerland (Fribourg, Geneva, Zurich), Luxembourg and Moscow with 56 employees (full-time equivalents as of 31 December 2018). Valartis Group AG, headquartered in Fribourg, Canton Fribourg, Switzerland, is the parent company of the Group and its registered shares are listed on the SIX Swiss Exchange. Geographically, the Group operates in Switzerland, Europe and Russia.

ACCOUNTING PRINCIPLES

The consolidated financial statements of Valartis Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the listing regulations of the Swiss Stock Exchange SIX Swiss Exchange.

Consolidation is based on the individual financial statements of the Group companies prepared in accordance with uniform accounting principles. The consolidated financial statements are presented in Swiss francs (CHF).

CHANGES TO ACCOUNTING POLICIES

Implemented International Financial Reporting Standards and interpretations

The following new or revised standards and interpretations have been in force since 1 January 2018 and had no effect on the financial statements of Valartis Group at the time of their first application or were of no significance to it:

- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 – applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts
- Transfers of Investment property (IAS 40)
- Annual Improvements 2014 to 2016

Standards and interpretations not yet implemented

Various new and revised IFRS and interpretations should be applied for financial years beginning after 1 January 2019. Valartis Group has not availed itself of the possibility of early application of these revised standards and interpretations (see following):

IFRS 16 – Leasing

In January 2016, the IASB published the new standard for the financial reporting of leases. The new standard introduces a new lessee accounting model that eliminates the classification of leases as either finance leases or operating leases. The definition of a lease relies on a control model (rather than risks and rewards). A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed when the Group has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

For all leases, the lessee recognises a leasing liability for its obligation to make future lease payments (with the exception of short term leases of 12 months or less) and leases for which the underlying asset is of low value. At the same time, the lessee capitalises the right to use the underlying asset which basically corresponds to the present value of future lease payments plus directly attributable costs. IFRS 16 replaces IAS 17 and the related interpretations and is to be applied for the first time to financial years beginning on or after 1 January 2019. Based on the analyses to date, with the exception of the rental agreements previously treated as operating leases (rental agreements for Valartis Group office locations), Valartis Group does not expect any material overall effects of the new provisions.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts will be effective from 1 January 2022 and apply to: insurance contracts, including reinsurance contracts, issued by an entity; reinsurance contracts held by an entity; and investment contracts with discretionary participation features issued by an entity that issues insurance contracts. Based on the analyses to date, Valartis Group does not expect any material overall effects of the new provisions.

IFRIC 23 – Uncertainty over Income Tax treatments

IFRIC 23 specifies how to reflect the effect of uncertainty in accounting for income taxes when it is unclear how tax law applies to a particular transaction or circumstance, or it is unclear whether a taxation authority will accept an entity's tax treatment. It clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 addresses the following key areas:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit/(loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

Based on the analyses to date, Valartis Group does not expect any material overall effects of the new provisions.

Amendments to IFRS 9 – Prepayment features with negative compensation

With these amendments to IFRS 9, particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at fair value through other comprehensive income, instead of at fair value through profit or loss.

Based on the analyses to date, Valartis Group does not expect any material overall effects of the new provisions.

Amendments to IAS 28 – Long-term Interest in Associates and Joint Ventures

Long-term Interest in Associates and Joint Ventures (Amendments to IAS 28) clarifies that entities account for long-term interest in an associate or joint venture to which the equity method is not applied using IFRS 9 before accounting for any losses or impairment losses applying IAS 28.

Based on the analyses to date, Valartis Group does not expect any material overall effects of the new provisions.

IAS 19 – Pension plan amendment, curtailment or settlement

In February 2018, the IASB published amendments to IAS 19 relating to accounting for pension plan amendments, curtailments and settlements during the reporting period. According to the amendments, following such an event, companies must recalculate current service costs and net interest for the remaining reporting period using current actuarial assumptions. The amendments also clarify how a plan change, curtailment or settlement affects the asset ceiling requirements. The amendments are effective prospectively for plan amendments, curtailments and settlements occurring on or after 1 January 2019. Earlier application is permitted. Valartis Group will not seek premature application of these amendments.

Other not yet implemented standards and interpretations

– Annual Improvements cycle to IFRS Standards 2015 to 2017
– IFRS Practice Statement 2, Making Materiality Judgements

Other change

As of 31 December 2017, the total income from investment property was presented net of related expenses. As of 31 December 2018, those related expenses are presented separately under General expense. Comparative figures for the previous year have been reclassified accordingly.

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The 2018 consolidated financial statements were approved by the Board of Directors on 27 March 2019. The consolidated financial statements are subject to the approval of the Shareholders' Meeting on 14 May 2019.

MAJOR ACCOUNTING PRINCIPLES

Consolidation principles

Subsidiaries

The consolidated financial statements comprise the accounts of Valartis Group AG, Fribourg, canton of Fribourg, Switzerland, and its subsidiaries as of 31 December 2018. A controlling relationship is deemed to exist if the following conditions are met cumulatively: Valartis Group has power over the other company; it is exposed to variable returns from its involvement with the other company; and it has the ability to affect the amount of those returns through its control over the other company.

If the Group does not hold a majority of the voting rights of an investee, it takes into account all the relevant facts and circumstances in determining whether control exists. These include, among others, contractual arrangements with other parties holding voting rights or rights arising from other contractual arrangements. If the facts and circumstances indicate a change in one or more of the three control elements, the Group will reassess whether it has control over an investee.

Consolidation of a subsidiary begins at the date the Group obtains control over that subsidiary and ceases when the Group losses control over a subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the reporting period are included on the balance sheet and in the statement of comprehensive income from the date the Group obtains control of the subsidiary until the date the Group ceases to control the subsidiary. If Valartis Group loses control over a company, any retained interest is recognised as an investment in an associate or as a financial instrument under IFRS 9.

Investments in associates and joint ventures

Group companies over which Valartis Group can exercise a significant influence are accounted for using the equity method, and are recorded under Associated companies. As a rule, influence is considered significant if the Group holds between 20 per cent and 50 per cent of the voting rights.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require unanimous con-sent of the parties sharing control. The Group's investments in a joint ventures are accounted for under Joint ventures in accordance with the equity method.

The considerations made in determining significant influence or joint control are comparable with those necessary to determine control over subsidiaries.

The acquisition of an investment in an associated company or a joint venture must be recognised and measured analogously to majority ownership in accordance with IFRS 3. Accordingly, the purchase price must be compared with the value of the investor's share (after revaluation) of the associated company or joint venture in order to identify any necessary adjustments and any positive or negative goodwill (bargain purchase). In contrast to IFRS 3, however, under the equity method all adjustments and good will positions are reported as a separate balance sheet item under Associated companies or under Joint ventures. Any negative goodwill positions are recognised as income under Income from business combinations (negative goodwill). Subsequently, the carrying amount of the associated company is increased or decreased depending on the Group's share in the profit or loss for the period of the associated company or joint venture, minus dividends received and foreign exchange translation differences.

Structured entities

The collective investment instruments of Valartis Group are structured entities as defined under IFRS 12. If Valartis Group operates such an investment instrument acting as an agent primarily in the interests of investors, this structured entity is not consolidated. Investments in such investment instruments held by Valartis Group are recognised as financial instruments. If Valartis Group acts as a principal primarily in its own interests, the investment instrument is consolidated.

Method of consolidation

All intercompany receivables and liabilities, earnings and expenses, as well as off-balance-sheet transactions, are completely eliminated in the Group financial statements. The equity of consolidated companies is recorded at the carrying amount of the participations at the parent company at the time of purchase or the time of establishment.

After the initial consolidation, changes resulting from business operations that are included in the result for the reporting period are allocated to retained earnings. Non-controlling interests in equity and net profit are stated separately in the consolidated statement of financial position and income statement.

Changes in the scope of consolidation

There were no changes in the scope of consolidation in 2018.

Changes in the scope of consolidation in the previous year:

On 6 July 2017 Valartis Group acquired all shares in Eastern Property Partners II LP (EPP II) from Eastern Property Holdings Ltd. EPP II holds a 50 per cent stake in Vestive Limited (Vestive) which owns and operates a parking garage in Moscow via the Russian company Inkonika LLC (Inkonika).

EPP II Ltd. has been fully consolidated since 6 July 2017. Since this date, Vestive and Inkonika have been accounted for as associated companies in the form of a sub-consolidated unit (see also Note 39).

The property in Vienna held by Valartis Bank (Austria) AG was sold to a previously established real estate company, Gebäudebesitz Rathausstrasse 20 GmbH (RHS GmbH) (asset deal). Valartis Bank (Austria) AG held 49.9 per cent and Wiener Privatbank SE 51.1 per cent share of this company. All shares in this company were sold to a third party on 2 January 2017.

The sale of the shares in Société des Centres Commerciaux d'Algérie SPA (SCCA) in Algeria to another existing investor was agreed on 4 April 2017 and completed on 26 September 2017. Through a subgroup – the Darsi Group – Valartis Group held a minority stake in SCCA.

On 18 December 2017, all shares in the associated company Panariello Enterprises Ltd. were sold to a third party.

Discontinued operations

The shares in the associated company Darsi Investment Ltd. are shown in the consolidated financial statements as discontinued operations (same as for 31 December 2017).

Consolidation period

The consolidation period for all Group companies is the calendar year. The closing date for the consolidated financial statements is 31 December 2018.

General principles

Revenue recognition

The Group has applied IFRS 15 using the cumulative effect method and, therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The application of IFRS 15 had no impact on Valartis Group's consolidated statement of financial position and income statement as of 1 January 2018.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue for each contract with a client if the following criteria are met:

- the parties to the contract have approved the contract and are committed to perform their respective obligations;
- the Group can identify each party's rights regarding the goods or services to be transferred;
- the Group can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the risk, timing or amount of the Group's future cash flows is expected to change as a result of the contract); and
- it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

In evaluating whether collectability of an amount of consideration is probable, the Group considers only the customer's ability and intention to pay that amount of consideration when it is due.

In the eventuality of a price concession the amount of consideration to which the Group will be entitled is considered to be less than the price stated in the contract.

Currency translation

The Group's functional currency is the Swiss franc (CHF), the currency of the country in which Valartis Group AG is domiciled. The assets and liabilities denominated in foreign currencies of foreign Group companies are translated into Swiss francs at the respective exchange rates on the balance sheet date. For the income statement and the cash flow statement, annual average exchange rates are used. Any exchange rate differences resulting from consolidation are reported as translation differences in equity.

In the individual financial statements of the Group companies, transactions in foreign currencies are recognised at the corresponding daily exchange rates. Monetary assets are translated and booked at the exchange rates valid on the balance sheet date with the exception of exchange differences arising on monetary items that form part of the reporting entity's net investment in a foreign operation; these are recognised, in the consolidated financial statements that include the foreign operation in other comprehensive income; they will be recognised in profit or loss on disposal of the net investment. In 2018, a Group company reassessed its internal group loans and identified a few loans to be qualified as net investment in a foreign operation. The following tables provide an overview of the effects on the balance sheet and income statement:

Balance sheet:

in CHF 1,000	31.12.2018 before reassessment according to IAS 21	Impact of reassessment according to IAS 21	31.12.2018
Currency translation adjustments in equity	4,072	-7,518	-3,446

Income statement:

in CHF 1,000	31.12.2018 before reassessment according to IAS 21	Impact of reassessment according to IAS 21	31.12.2018
Financial result, net	-11,430	7,518	-3,912
Loss for the year	-14,462	7,518	-6,944

Non-monetary items recorded at historical cost in a foreign currency are translated at the historical exchange rate.

The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Unrealised foreign exchange differences of an equity investment at fair value through other comprehensive income are part of the change of its entire fair value and are recognised in other comprehensive income.

The following exchange rates are used for the major currencies:

	2018 Balance sheet date rate	2018 Annual average rate	2017 Balance sheet date rate	2017 Annual average rate
EUR	1.1265	1.1511	1.1691	1.1159
USD	0.9850	0.9760	0.9753	0.9827
RUB (100)	1.4170	1.5574	1.6900	1.6908

Segments

Determination of the operating segments is based on the management approach. The management approach reflects the way in which management organises the entity for making operating decisions and for assessing performance, based on specific financial information. Therefore, the adoption of the management approach results in the disclosure of information for segments in substantially the same manner as they are reported internally and used by the entity's chief operating decision maker for purposes of evaluating performance and making resource allocation decisions.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of liquid assets (petty cash, postal cheque balances) and at sight/immediately callable amounts due from banks.

Domestic and non-domestic positions

Domestic includes positions in Liechtenstein.

Accrual of earnings

Income from services is recorded when the services are provided. Individual transactions, particularly in corporate finance, are fulfilled when the service is completed. Interest is accrued by period. Dividends are recognised on receipt of payment.

Determination of fair value

Valartis Group measures some of its financial instruments and financial liabilities as well as individual non-financial assets at fair value on each balance sheet date. Fair value is defined as the value that would be generated in an orderly transaction between market participants at the time of valuation upon sale of an asset or upon transfer of an obligation. Fair values are determined either to determine the balance sheet value or for disclosure purposes in the notes.

All assets and liabilities carried at fair value or for which disclosure of fair value is made in the notes are classified in the following fair value hierarchy:

Level 1 instruments

Level 1 instruments are those financial instruments whose fair value is based on quoted prices in active markets. This category comprises almost all equity and debt instruments held by the Group. Investment funds for which a binding net asset value is published at least daily, exchange-traded derivatives and precious metals are also categorised as level 1 instruments. Closing prices are used for the valuation of debt instruments in the trading book. In the case of equity instruments, listed investment funds and exchange-traded derivatives, the closing or settlement prices of the relevant exchanges are used. In the case of unlisted investment funds, the published net asset values are used. In the case of currencies and precious metals, generally accepted prices are applied. No valuation adjustments were made in the case of level 1 instruments.

Level 2 instruments

Level 2 instruments are financial instruments whose fair value is based on quoted prices in markets that are not active. The same categorisation is used where the fair value is determined using a valuation method where significant inputs are observable, either directly or indirectly. This category essentially comprises forex and interest-rate derivatives as well as illiquid debt instruments and investment funds for which a binding net asset value is not published on a daily basis. If no active market exists, the fair value is determined on the basis of generally accepted valuation methods. If all of the significant inputs are directly observable in the market, the instrument is deemed to be a level 2 instrument.

The valuation models take into account the relevant input such as the contract specifications, market price of the underlying asset, the foreign exchange rate, the corresponding yield curve, default risks, and volatility. The valuation of interest rate instruments for which no quoted prices exist is carried out using generally recognised methods. For the valuation of OTC derivatives, generally recognised option pricing models and quoted prices in markets that are not active are used. In the case of investment funds, the published net asset values are used. The credit risk is only taken into account when market participants would take it into account when determining prices.

Level 3 instruments

If at least one significant input cannot be observed directly or indirectly in the market, the instrument is classified as a level 3 instrument. These essentially comprise equity instruments and/or investment funds for which a binding net asset value is not published at least quarterly. The fair value of these positions is based on the estimates of external experts or on audited financial statements. Where possible, the underlying assumptions are supported by observed market quotes.

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

The categorisation of the financial instruments and financial liabilities in the described fair value hierarchy is shown in Note 33. In the case of non-financial assets that are recorded at fair value or for which a fair value must be disclosed, the information on the determination of the fair value and the categorisation level can be found in the corresponding notes.

Financial instruments

Basic principle

The Group recognise a financial asset or a financial liability in its statement of financial position according to IFRS 9 when, and only when, the entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised using the settlement date that is the date that an asset is delivered to or by the Group.

Classification of financial assets

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI-debt investment, FVOCI-equity investment (FVOCI – fair value through other comprehensive income) or FVTPL (fair value through profit & loss). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as of FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as of FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Initial measurement
On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as of FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

Subsequent measurement of financial assets
The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL
These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the consolidated income statement.

Financial assets at amortised cost
These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in the consolidated income statement.

Debt investments at FVOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified into the consolidated income statement.

Equity investments at FVOCI
These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified into the consolidated income statement.

Subsequent measurement of financial liabilities
After initial recognition, the Group measures a financial liability at amortised cost except for financial liabilities at fair value through profit or loss including derivatives that are liabilities and are measured at fair value.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of 1 January 2018:

Financial instruments	IAS 39 Measurement category (only for financial instruments)	IFRS 9 Measurement category (only for financial instruments)	31.12.2017 in CHF 1,000	IFRS 9 Reclassification in CHF 1,000	01.01.2018 in CHF 1,000
Financial assets					
Cash and cash equivalents	Amortised cost	Amortised cost	25,745	-	25,745
Trading portfolio assets	Fair value through profit & loss (FVTPL)	FVTPL	38,002	-	38,002
Derivative financial instruments	FVTPL	FVTPL	109	-	109
Other financial assets at fair value [1]	Designated as of fair value	FVTPL	1,696	-1,696	-
Other financial assets at fair value (FVTPL) [1]		FVTPL	-	1,696	1,696
Due from third parties	Amortised cost	Amortised cost	13,831	-	13,831
Accrued and deferred assets	Amortised cost	Amortised cost	3,392	-	3,392
Financial assets available for sale [2]	Available for Sale		23,462	-23,462	-
Financial assets at fair value through OCI (FVOCI) [2]		Fair value through other comprehensive income (FVOCI)	-	23,462	23,462
Non-current receivables	Amortised cost	Amortised cost	5,565	-	5,565
Total financial assets			**111,802**	**-**	**111,802**
Financial liabilities					
Trade payables	Amortised cost	Amortised cost	814	-	814
Current financial liabilities	Amortised cost	Amortised cost	28,916	-	28,916
Derivative financial liabilities	FVTPL	FVTPL	1,751	-	1,751
Other current liabilities	Amortised cost	Amortised cost	5,073	-	5,073
Non-current financial liabilities	Amortised cost	Amortised cost	2,059	-	2,059
Total financial liabilities			**38,613**	**-**	**38,613**

1) Financial assets designated at fair value have been moved to Financial assets at fair value through profit & loss upon adoption of IFRS 9.
2) Financial assets available for sale have been moved to Financial assets at fair value through OCI upon adoption of IFRS 9.

There were no value adjustments and no changes of impairment charges required for the transition from IAS 39 to IFRS 9.

Impairment of financial assets (impairment model)
IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Under IFRS 9, loss allowances are measured on either of the following bases:
– 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
– lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs for all categories. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Group considers a financial asset to be in default when:
– the borrower is unlikely to pay its credit obligation to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
– the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset. Impairment losses related to due from third parties and other receivables and on other financial assets are presented under finance costs, similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and OCI due to materiality considerations.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9 impairment requirements at 1 January 2018 results in no additional impairment allowance.

in CHF 1,000	Total
Impairment on financial assets as of 31.12.2017	7,261
IFRS 9 adjustments	-
Impairment on financial assets as of 01.01.2018	7,261
Impairment losses on financial assets for 01.01.–31.12.18	24
Release of impairment losses on financial assets for 01.01.–31.12.18	-
Impairment on financial assets as of 31.12.2018	7,285

Derecognition of financial assets
The Group derecognises a financial asset when, and only when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset.

Derecognition of financial liabilities
The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Hedge accounting
The Group does not use hedge accounting according to IFRS 9 (nor IAS 39 in past years).

Assets under development
Properties acquired or constructed for sale in the ordinary course of business (and not for rental or for capital appreciation) are not classified as investment property but as inventories (based on IAS 2 and IAS 40.9a).

Therefore, these assets are measured at the lower of cost and net realisable value (NRV). The acquisition or construction costs include the purchase of real estate and/or lease costs for land, the amounts paid to contractors for construction services, the cost of borrowed capital, the costs of planning and property preparation, and the fees for legal advice and services. Property acquisition taxes and other related costs are also taken into account.

The NRV is the estimated selling price in the ordinary course of business, based on market prices at the balance sheet date, discounted to present value (if material) less costs of completion and estimated selling costs. The NRV is determined by external valuation experts and taking into account current market transactions. The NRV for assets under development that are still under construction is valued at market prices for similar assets, less the estimated costs of completion of the construction up to the estimated completion date.

The acquisition or production costs of inventories are recognized in the income statement on disposal. Non-refundable commissions paid to sales agents for the sale of real estate units are recognised as an expense upon payment.

If a contract with third parties for the acquisition of assets under development provides for the future transfer of these assets to the Group company which is the contracting party, these assets are recognised as assets under development if this party acquires the right to the material risks and opportunities of these assets (management makes an assessment of whether and when this party has acquired the right to these risks and opportunities).

Property, plant and equipment

Property, plant and equipment include properties, undeveloped land and fixtures in third-party properties, IT and telecommunications equipment, software (including software in development), and other fixed assets. Acquisition and production costs are carried as an asset if future economic income is likely to flow from them to the Group and the costs can be identified and reliably determined. Property, plant and equipment is depreciated on a straight-line basis over the estimated useful life as follows:

Property	max. 100 years
Fixtures in third-party properties	max. 10 years
IT and telecommunication equipment	max. 5 years
Software	max. 5 years
Other fixed assets	max. 5 years

Impairment tests are performed on property, plant, and equipment if events or circumstances suggest that the carrying amount may have been impaired. If the carrying amount exceeds the achievable income, the carrying amount is written down.

Investment properties

Investment properties are real estate (land, premises or both) which is held by the Group in order to generate rental income, and/or income from added value. For initial reporting, investment properties are recorded at purchase or building cost. For later evaluation, investment properties are recorded at fair value and changes to fair value affect net income. Fair value is evaluated based on an annual independent assessment which is based on the highest level and best possible usage of the property. This takes into consideration the use of the asset which is physically possible, legally permissible, and financially meaningful. In case of investment properties being constructed, the investment properties also include part of the direct attributable costs necessary to obtain the authorisation of construction.

Investment properties in finance leasing

If a leasing agreement transfers the risks and rewards of an asset, the lease is recorded as a finance lease and the related asset is capitalised. Initially the value of the asset is posted at the future non-discounted minimum leasing rate, and, at the maximum, the fair value of the leased asset. For later evaluation the fair value is booked. The corresponding obligations from finance leasing are posted as liabilities.

Goodwill

Goodwill is measured as the difference between the sum of the fair value of consideration transferred plus the recognised amount of any non-controlling interests in the acquiree and the recognised amount of the identifiable assets acquired and liabilities assumed.

In accordance with IFRS 3, goodwill is carried as an asset and allocated to the corresponding cash-generating unit (CGU). It is subject to an impairment test at least annually or more often if there are indications of a potential decrease in value.

For this purpose, the carrying amount of the CGU to which goodwill was allocated is compared with its recoverable amount. The recoverable amount is the higher of the fair value of the CGU less costs to sell and its value in use.

Fair value less costs to sell is the amount that could be realised by the sale of a CGU in a transaction at market conditions between knowledgeable, willing parties after deduction of the sales costs.

The value in use is the present value of future cash flows a CGU is expected to generate. Should the carrying amount of the CGU exceed the recoverable amount, a goodwill adjustment charge is recognised in the income statement.

Provisions

A provision is recognised if as a result of past events the Group has a current liability on the balance sheet date that is likely to result in the outflow of resources, and the amount of which can be reliably estimated. If the liability cannot be sufficiently reliably estimated, it is shown as a contingent liability.

Taxes and deferred taxes

Income taxes are based on the tax laws of each tax authority where a Group company has its domicile and are expensed in the period in which the related profits are made. Capital taxes are included in office and business expense. The effective tax rate is applied to net profit.

Deferred income taxes arising from temporal differences between the stated values of assets and liabilities in the consolidated balance sheet and their corresponding tax values are recognised as deferred tax assets or deferred tax liabilities. Deferred taxes are capitalised if there is likely to be enough taxable profit to offset these differences. In order to calculate deferred income taxes, the Group applies the tax rates expected to be applicable in the period in which the assets will be realised or the liabilities settled. Deferred taxes are recognised only to the extent it is likely they will arise in the future. Tax claims and tax liabilities are offset against each other if they apply to the same tax subject and the same tax authority, and if there is an enforceable right to their offsetting. Changes in deferred taxes are reported in the income statement under taxes. Deferred taxes related to changes that are recognised directly in shareholders' equity are directly charged or credited to shareholders' equity.

Operating Leasing

In the case of operating leases, the Group does not recognise leased assets in its books because ownership rights and duties from the object of the lease contract remain with the lessor. Expenses for operating leases are charged to the position General expense on a straight-line basis over the contractual period.

Treasury shares

Shares in Valartis Group AG held by the Group (treasury shares) are deducted from equity at weighted average acquisition cost. Changes in fair value are not recorded. The difference between the sales proceeds from treasury shares and the corresponding acquisition cost is recognised under Capital reserves.

Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured and recorded on an undiscounted basis as soon as the employees render the related service and the obligation can be reliably estimated.

Pension plans

Valartis Group makes contributions for its employees to a pension plan that provides benefits in the event of death, disability, retirement, or termination of employment. There is only one plan for Swiss employees. In the case of defined benefit plans, the period costs are determined by an independent recognised actuary. The benefits provided by these plans are generally based on the years of insurance, age, and pensionable salary. The net liability or net asset for each defined benefit plan is measured on the basis of the present value of the pension obligations determined using the projected unit credit method and the present value of the plan asset and reported in the balance sheet. These calculations are carried out annually by the actuary on the basis of the estimated future benefits based on the years of service. If the calculation shows an over-funding, the net asset to be recorded is limited to the present value of the economic benefit.

Remeasurement resulting from actuarial gains and losses, the effect of the asset ceiling, or the return on plan assets (excluding net interest), are recorded in other comprehensive income with a corresponding debit or credit to retained earnings. All expenses related to defined benefit plans are recorded through the consolidated income statement as employee benefits.

Valartis Group does not exercise the option to recognise contributions from employees or third parties as a reduction in the service cost in the period in which the related service is rendered.

Share-based payment

Valartis Group does not have any share-based payments in relation to a performance-related remuneration. The last such plan expired on 1 April 2017.

ESTIMATES, ASSUMPTIONS, AND EXERCISE OF DISCRETION BY MANAGEMENT

Basic principle

In applying the accounting principles, management is required to make numerous estimates and assumptions which can influence the disclosures made in the consolidated income statement, consolidated balance sheet and notes to the consolidated financial statements. The actual results can deviate from these estimates.

Valartis Group is confident that the consolidated financial statements present a true and fair view of the assets, financial position, and income situation. Management reviews the estimates and assumptions on a continuous basis and adapts them to new knowledge and circumstances. This can have an effect on aspects of the consolidated financial statements including the following:

Fair value of financial instruments

If the determination of the fair value of financial assets and liabilities is not based on quoted market prices or price quotes by brokers, the fair value is calculated by means of valuation methods, e.g., discounted cash flow models. As far as possible, input parameters for modelling are based on observable market data. If there are no observable market data available, discretionary decisions and estimates are used taking into account parameters such as liquidity risk, default risk, and volatility risk. Changes in these estimates may have an effect on the fair value of such financial instruments. For further details see General principles, Determination of fair value on page 53.

Measurement of ECL (Expected Credit Losses) impairment allowance

Allowance for financial assets measured at amortised costs are based on key assumptions in determining the weighted-average loss rate.

Fair value of contingent purchase price consideration
Valartis Group sold its strategic stake of around 40 per cent in Eastern Property Holdings Ltd. (EPH) on 19 December 2012. Valartis Group received part of the sales consideration in cash in 2012. Another part is linked to the successful completion of a development project of EPH. The determination of the fair value of the deferred contingent purchase price consideration of the EPH transaction is still to a large extent based on a semi-annual project evaluation based on the expected cash flows and the resultant net asset value (NAV). If these parameters change due to changes in the economic situation or new market conditions, future results may deviate from the calculated NAV. Such deviations may impact the valuation of the contingent purchase price consideration. The contingent purchase price payment is currently valued at CHF 0.4 million.

Value adjustments on credit positions
Various factors can influence the value adjustment estimates for credit positions. These factors include changes in borrowers' credit ratings, loan collateral valuations and the expected scale of loss. Management determines how high the value adjustment needs to be based on the present value of the expected future cash flows. In order to estimate the expected cash flows, management must make assumptions regarding the financial situation of the counterparty and the estimated recoverable amount of collateral.

Investment properties
The fair value of investment properties was calculated by an independent, accredited surveyor. Evaluation was carried out in accordance with the standards of the Royal Institution of Chartered Surveyors (RICS). The discounted cash flow model used in the evaluation takes into consideration the present value of net cash flows from a property, i.e. anticipated trends in rental income, vacancy rate, rent-free periods, other costs not borne by tenants, maintenance costs and investment plans. The anticipated net cash flows are discounted using risk-adjusted discount rates. Location and property-specific criteria are factored into the discount rate.

Evaluation of the investment property held by Valartis Group in St. Petersburg in Russia is influenced by the economic and political risks inherent in the Russian national economy. For Valartis Group management, investments in property presuppose a long investment horizon. By means of this approach, risks from short-term value fluctuations can be minimised.

For the purpose of obtaining all necessary authorisations to construct a new asset, some related service costs have been capitalised. In doing so, Management assesses the feasibility of the project and is of the opinion that it will be realised.

Goodwill
Among other factors, the value of goodwill is largely determined by the cash flow forecasts, the discount factor (weighted average cost of capital, WACC), and long-term client retention and AuM multiplicators (Assets under Management). All material assumptions are disclosed in the notes to the financial statements. The principal assumptions are listed in the notes to the consolidated financial statements. A change in assumptions can lead to disclosure of impairment in the subsequent year.

Provisions
Valartis Group recognises provisions for imminent threats if in the opinion of the responsible experts the probability that losses will occur is greater than the probability that they will not occur and if their amount can be reliably estimated. In judging whether the creation of a provision and its amount are reasonable, the best-possible estimates and assumptions as of the balance sheet date are applied. If necessary, these will be adjusted to reflect new knowledge and circumstances at a later date. New knowledge may have a significant effect on the income statement.

Actuarial assumptions
For the defined benefit plans, statistical assumptions have been made to estimate future trends. These include assumptions and estimates with regard to discount rates and expected rates of salary increases. The actuaries also use statistical information such as mortality tables and turnover probabilities in their actuarial calculations to determine the pension liabilities.

If these parameters change due to demographic developments, changes in the economic situation, or new market conditions, future results may deviate significantly from the actuarial reports and calculations. In the medium term, such deviations can have an influence on the expenses and revenue arising from the employee pension plans.

Associated companies
Associated companies are accounted for using the equity method. Norinvest Holding SA publishes its financial figures after Valartis Group. Valartis Group estimates the share in the result of Norinvest Holding SA for the accounting of the associated participation taking into account publicly available information. Differences between the actual results and these estimates are corrected if available in the Valartis Group's consolidated financial statements for the following year. For the valuation of the associated companies in the 2018 financial year, see the additional explanations in Note 20 Associated companies.

Restrictions on capital outflows

As reported on 4 April 2017, Valartis Group sold its shareholding in a shopping, leisure and business centre in Algeria to another existing investor under a share purchase agreement (SPA). The contract was executed on 26 September 2017 with the transfer of the purchase amount. Via a subgroup – the Darsi Group – Valartis Group held a minority stake in Société des Centres Commerciaux d'Algérie SPA (SCCA) in Algeria. Subsequent negotiations are currently still being held with the buyers on an additional and contractually agreed purchase price claim in favour of Valartis arising from currency developments. As at 31 December 2018, Valartis Group therefore still reported various receivables – from services and additional purchase price claim – from buyers and SCCA. There are legal requirements which only allow capital exports from Algeria under certain conditions. As a result of these conditions, there are many uncertainties regarding the transfer of funds from Algeria. In the opinion of management, the conditions for the export of capital can be met by submission of appropriate contractual documents – which has already been proven once with the transfer of the sales price for the shareholding as per 26 September 2017.

Income taxes

The current tax obligations reported as of the balance sheet date and the current tax expenses resulting for the reporting period are based in part on estimates and assumptions and can therefore deviate from the amounts determined in the future by the tax authorities. Deferred taxes are calculated at the tax rates which are expected to be applicable in the accounting period in which the assets will be realised or the liabilities settled. Changes in the expected tax rates and any unexpected reductions in the value of goodwill can have a significant effect on the income statement.

NOTES ON RISK MANAGEMENT

STRUCTURE OF RISK MANAGEMENT

Overview

Risk management for the risks on assets is based on the principles of value-oriented corporate management which includes the targeted assumption of risks and their professional management. Taking into account the basic principle of risk-bearing capacity, return-oriented risk assumption is thus the focus of risk management.

Organisation of risk management

The Board of Directors is responsible for the overall risk management of Valartis Group and determines the risk policy. It is responsible for setting the annual risk budget, setting limits and the maximum risk tolerance (quantitative and qualitative) in relation to the Group's overall risk capacity. Operational management is responsible for implementing risk management and control principles and assures that set limits are always adhered to, see Management Report, page 5 ff.

Valartis Group's activities currently comprise the following types of risks:

- Market risks (changes in market prices and exchange rates on investment assets, interest rate changes and foreign currency risks)
- Liquidity risks
- Credit risks (risk of default on bonds)
- Non-counterparty-related risks (e.g. real estate project risk)

The foreign currency risk is currently assessed as the main risk.

MARKET RISK

Market risk refers to the risk of a loss of value due to detrimental changes in the market prices of interest rate products, equities, currencies, and other equity instruments, as well as derivative positions.

Market price fluctuations on equity holdings

The method for measuring market price fluctuations is based on a sensitivity analysis using historical volatility. Equity investments are usually characterised by a high level of liquidity. That means that the market risks can be managed in a timely manner and, when necessary, quickly and efficiently reduced. The risk calculation method which is applied takes this factor into consideration and the choice of parameters are regularly reviewed based on market conditions and adjusted as required.

Less liquid products may have longer term holding periods, amongst other things, because market liquidity does not permit rapid expansion or reduction of positions. For this reason, risk assessments are made based on a sensitivity analysis which takes into consideration significant markdowns, with simultaneous changes in other market parameters such as volatility or a sudden drop in product trading volumes.

Valartis Group is subjected to these types of risk via its investments. In 2018, these risks mainly arose in connection with the financial investments at fair value through OCI and the trading portfolio comprising investments in Russian equities.

Table 1: Sensitivity analysis for market price fluctuations on equity holdings

in CHF 1,000	2018	2017
Volume of FVOCI	26,590	23,462
Sensitivity 15% based on SIX volatility p.a.	+/-3,989	+/-3,519
Volume trading position equities	6,249	6,108
Sensitivity 30% based on RTX volatility p.a.	+/-1,875	+/-1,832

Interest rate risks

Following divestment of its banking operations, Valartis Group is subject to only low levels of interest rate risks. There is a certain interest rate risk by building up a bond portfolio in order to generate additional financial income from interest income.

Table 2: Sensitivity analysis of interest rate risks

in CHF 1,000	2018	2017
Volume trading positions debt instruments	32,073	31,712
Sensitivity +/-1%	+/-321	+/-317

Currency risks

Currency risks relating to trading book positions and financial investments are pooled for control and management purposes. Valartis Group tries to maintain low currency risks. The Group's business activities expose it to the Euro (EUR), US dollar (USD) and Ruble (RUB) which are restricted by means of defined limits.

The sensitivity to move in exchange rates is shown for all currency risks in table 3. Sensitivities are based on monthly volatility against the Swiss franc (CHF).

Table 3: Sensitivity analysis of currency risks

in CHF 1,000	2018	2017
Net currency position in EUR	5,284	24,988
Sensitivity +/- 4% EUR	211	1,000
Net currency position in USD	21,168	41,581
Sensitivity +/- 4% USD	847	1,663
Net currency position in RUB	38,956	5,921
Sensitivity +/- 7% RUB	2,727	414

Net currency positions are disclosed in Note 31, Consolidated Statement of Financial Positions by Currency.

LIQUIDITY RISK

Liquidity risk is the risk of the Group not having sufficient liquid funds available to meet its short-term payment obligations.

The table Maturity structure of assets and liabilities (Note 32) shows future cash flows based on the earliest contractual maturity, disregarding assumptions about the probability of individual cash flows.

Changes in liquidity are shown in the cash flow statement on pages 44 and 45.

CREDIT RISK

Credit risk reflects the risk of loss arising from the failure of a counterparty to fulfil its contractual obligations. It includes default risks from any direct lending business, the invested bond portfolio, concluded transactions (such as money market transactions, derivative transactions, etc.), and settlement risks.

Management of credit risk

Credit exposure comprises receivables from banks, receivables from services provided, loans to minority holdings, financial instruments, and other assets.

Table 4: Credit risk – total credit risk/geographical credit risk

in CHF 1,000	Switzerland	Europe	Other	Total
Geographical credit risk 2018				
Cash and cash equivalents	4,406	747	898	6,051
Trading portfolio assets	9,179	26,218	5,051	40,448
Derivative financial instruments	51	-	-	51
Other financial assets at fair value	1,250	-	385	1,635
Due from third parties	3,895	3,780	11,379	19,054
Accrued and deferred assets	332	448	1,468	2,248
Financial assets at fair value through OCI	26,590	-	-	26,590
Non-current receivables	687	-	3,524	4,211
Deferred tax assets	-	-	767	767
Total at 31 December 2018	**46,390**	**31,193**	**23,472**	**101,055**
Geographical credit risk 2017				
Cash and cash equivalents	23,808	1,219	718	25,745
Trading portfolio assets	921	8,271	28,810	38,002
Derivative financial instruments	109	-	-	109
Other financial assets at fair value	1,250	-	446	1,696
Due from third parties	-	6,371	7,460	13,831
Accrued and deferred assets	1,983	1,324	85	3,392
Financial assets at fair value through OCI	23,462	-	-	23,462
Non-current receivables	1,287	-	4,278	5,565
Deferred tax assets	-	-	-	-
Total at 31 December 2017	**52,820**	**17,185**	**41,797**	**111,802**

The classification of due from third parties is based on the underlying country risk and, therefore, may differ compared with an allocation based purely on the domicile of the borrower.

Table 5: Credit risk – total credit risk/breakdown by counterparty

in CHF 1,000	Banks	Public sector entities	Other	Total
Breakdown by counterparty 2018				
Cash and cash equivalents	5,607	-	444	6,051
Trading portfolio assets	5,362	9,508	25,578	40,448
Derivative financial instruments	51	-	-	51
Other financial assets at fair value	-	-	1,635	1,635
Due from third parties	-	1,133	17,921	19,054
Accrued and deferred assets	86	177	1,985	2,248
Financial assets at fair value through OCI	-	-	26,590	26,590
Non-current receivables	687	-	3,524	4,211
Deferred tax assets	-	-	767	767
Total at 31 December 2018	**11,793**	**10,818**	**78,444**	**101,055**
Breakdown by counterparty 2017				
Cash and cash equivalents	25,745	-	-	25,745
Trading portfolio assets	9,519	28	28,455	38,002
Derivative financial instruments	-	-	109	109
Other financial assets at fair value	-	-	1,696	1,696
Due from third parties	-	-	13,831	13,831
Accrued and deferred assets	-	-	3,392	3,392
Financial assets at fair value through OCI	-	-	23,462	23,462
Non-current receivables	1,288	413	3,864	5,565
Deferred tax assets	-	-	-	-
Total at 31 December 2017	**36,552**	**441**	**74,809**	**111,802**

Table 6: Credit risk – quality of assets

in CHF 1,000	AAA to AA-	A+ to BBB-	BB+ or lower	No external rating	Total
Quality of assets 2018					
Cash and cash equivalents	-	1,174	-	4,877	6,051
Trading portfolio assets	451	15,695	10,507	13,795	40,448
Derivative financial instruments	-	-	-	51	51
Other financial assets at fair value	-	-	-	1,635	1,635
Due from third parties	1,137	-	-	17,917	19,054
Accrued and deferred assets	82	145	120	1,901	2,248
Financial assets at fair value through OCI	-	-	-	26,590	26,590
Non-current receivables	-	-	-	4,211	4,211
Deferred tax assets	-	-	-	767	767
Total at 31 December 2018	**1,670**	**17,014**	**10,627**	**71,744**	**101,055**
Quality of assets 2017					
Cash and cash equivalents	-	844	-	24,901	25,745
Trading portfolio assets	1,210	19,481	3,255	14,056	38,002
Derivative financial instruments	-	-	-	109	109
Other financial assets at fair value	-	-	-	1,696	1,696
Due from third parties	1,098	-	-	12,733	13,831
Accrued and deferred assets	-	-	-	3,392	3,392
Financial assets at fair value through OCI	-	-	-	23,462	23,462
Non-current receivables	-	413	-	5,152	5,565
Deferred tax assets	-	-	-	-	-
Total at 31 December 2017	**2,308**	**20,738**	**3,255**	**85,501**	**111,802**

As in the previous year, there are no overdue receivables without value adjustments for the 2018 financial year.

OPERATIONAL RISK

Operational risk is the risk of losses due to faulty internal processes, procedures and systems, inappropriate behaviour by employees or by external influences. The definition includes all legal risks as well as reputational risks. However, it excludes strategic risks.

Management of operational risk

Identification of operational risks is one of the permanent responsibilities of management and is carried out when introducing new operational activities, processes and products and also periodically for those which have already been established. In the case of critical operational processes, key risk monitoring processes and indicators are used.

Treatment of risks which have been identified is always processed by the operational unit within the framework conditions which have been stipulated. A decision as to whether risk avoidance, risk reduction or risk transfer is most appropriate, or whether the risk should be accepted, is based mainly on a cost-benefit analysis.

Regular monitoring of operational risks is embedded in operational processes, as far as possible. Separation of functions and a four-eye principle are central elements of monitoring. The Board of Directors has the overall control of management of operational risks based on standardised reporting and regular ad-hoc information.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. INCOME FROM MANAGEMENT SERVICES

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017
Revenue from management services	2,714	3,660
Revenue from management services	**2,714**	**3,660**

2. INCOME FROM INVESTMENT PROPERTY

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017
Rental income	4,139	4,677
Impact of embedded derivatives in rental contracts	1,638	1,898
Gross rental income	**5,777**	**6,575**
Net result from fair value adjustment and foreign currency effect on investment property	**-2,823**	**259**
Total income from investment property [1)]	**2,954**	**6,834**
Income from fair value adjustment and foreign currency effects on investment property		
Fair value adjustment on investment property, including effects from foreign currency translation	3,154	915
Fair value adjustment on embedded derivatives	-1,751	-103
Subtotal	1,403	812
Result from foreign exchange translation on loan for investment property, including embedded derivatives	-4,226	-553
Subtotal	-4,226	-553
Net result from fair value adjustment and foreign currency effect on investment property	**-2,823**	**259**

1) As of 31 December 2017, the total income from investment property included was presented net of related expenses. As of the 31 December 2018, those related expenses are presented separately under General expenses (see details under Note 6). Comparative figures for the 31 December 2017 have been reclassified accordingly.

Valartis Group – with functional currency CHF – holds through one of its subsidiaries an investment property in St. Petersburg, Russia. In 2017, the rental income of the property was contractually linked to the USD/Ruble exchange rate. According to IFRS, the result from foreign currency translation was booked together with the fair value valuation of the property at the balance sheet date. In 2018, most of the rental contracts were renewed and not linked to the USD/Ruble exchange rate anymore. Therefore, the fair value adjustment of the investment property does not include any effect from foreign currency translation.

The debt financing for this investment property is a loan in EUR (31 December 2017: USD). The net effect from the foreign currency translation of the investment property is zero (previous year: CHF 0.8 million) and the foreign currency translation of the financing is CHF -4.2 million (previous year: CHF -0.6 million). The fluctuations in value in the current financial year were significantly higher than in the previous year, due in particular to the higher volatility of the Russian Ruble against the CHF.

By year-end 2018, as it was no long necessary to recognise embedded derivatives on the Consolidated statement of financial position, those embedded derivatives were derecognised by decreasing simultaneously the carrying value of the Investment property and the Derivative financial instruments by CHF 1,751 million with a net effect of CHF 0 on the Consolidated income statement.

For further information on the Petrovsky Fort investment property, see Note 18.

3. SHARE OF RESULTS OF ASSOCIATED COMPANIES

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017
Share in net profit [1)]	3,002	428
Impairment	-	-81
Result from associated companies	**3,002**	**347**

1) The share in net profit increases due to the April 2018 sale of the subsidiary Private Investment Bank Limited, Bahamas by Banque Cramer & Cie SA, a fully consolidated group company of Norinvest Holding SA.

The associated companies have contributed a pro rata profit: Norinvest Holding SA in the amount of CHF 2.9 million (2017: CHF 0.3 million) and Société des Carrières SA in the amount of CHF 0.1 million (2017: CHF 0.1 million).

The impairment in 2017 concerned Panariello Enterprises Ltd. which was sold in 2017 to a third party.

4. OTHER INCOME

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017
Income from the sale of financial assets at fair value through OCI [1)]	-	572
Other income	1,162	833
Other expenses	-89	-230
Total other ordinary income	**1,073**	**1,175**
Details of income from financial assets at fair value through OCI [1)]		
Sale of equity instruments	-	572
Income from the sale of financial assets at fair value through OCI	**-**	**572**

1) Financial assets available for sale have been moved to Financial assets at fair value through OCI upon adoption of IFRS 9.

The other income includes CHF 0.394 million various consulting fees, of which CHF 0.283 million relate to the appraisal of a tax matter and CHF 0.153 million to the interest received on a reimbursement by the tax authorities for one Group subsidiary.

In the previous period, other income included CHF 0.220 million compensation from a legal dispute from a third party for expenses in previous years and income of around CHF 0.400 million from the settlement of the remaining balances taken over from Valartis Bank (Austria) AG sold in 2016. The buyer of the banking assets and liabilities of Valartis Bank (Austria) AG did not want to assume certain receivables and liabilities at that time.

5. PERSONNEL EXPENSE

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017
Salaries and bonuses	-3,998	-4,667
Social security benefits	-603	-693
Contributions to occupational pension plans	-201	-319
Share-based payments	-	-25
Other personnel expense	-429	-423
Total	**-5,231**	**-6,127**

6. GENERAL EXPENSE

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017 [1]
Occupancy expense	-1,229	-1,455
IT and information expense	-306	-511
Consultancy, audit, corporate communication and representation expense	-2,210	-3,309
Land lease expense of investment property [1]	-207	-219
Operating expense of investment property [1]	-989	-833
Other expenses relating to the investment property [1]	-	-322
Investment property tax and non-recoverable VAT [1]	-422	-457
Other general expense	-750	-580
Total	**-6,113**	**-7,686**

1) See comment no. 1 in Note 2 Income from investment property

7. DEPRECIATION

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017
Depreciation of property, plant and equipment	-54	-84
Total	**-54**	**-84**

8. VALUE ADJUSTMENTS, PROVISIONS AND LOSSES

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017
Other impairments	-2,780	-2,091
Impairment reversals	117	544
Change in provisions	143	-137
Total	**-2,520**	**-1,684**

The other impairment losses relate to an impairment of CHF 2.48 million on an asset under development and CHF 0.3 million on a loan provided to Vestive Ltd., an associated company (see Note 39 Acquisition of Group Companies). In 2017, the same loan was subject to a reversal of an impairment.

In 2017, other impairment losses related to impairment losses on loans and receivables from the divested Darsi subgroup. The impairment losses corresponded to the interest accrued in 2017, additional transaction costs and foreign currency differences.

9. FINANCIAL RESULT

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017
Interest and dividend income from trading portfolios	2,210	1,633
Other interest income third parties	377	1,564
Total interest income	**2,587**	**3,197**
Total financial income	**2,587**	**3,197**
Interest expense for loans	-108	-
Interest expenses for financial liabilities due to banks	-1,119	-1,674
Total interest expense	**-1,227**	**-1,674**
Net losses on trading portfolio assets	-5,272	-417
Total financial expenses	**-6,499**	**-2,091**
Total financial result, net	**-3,912**	**1,106**

10. INCOME TAXES

in CHF 1,000	1.1.–31.12.2018	1.1.–31.12.2017
Current income taxes	-94	-905
Change in deferred taxes	1,283	61
Total income taxes	**1,189**	**-844**
Analysis of income tax charges		
Net loss from continued operations before tax	-8,087	-2,459
Net loss from discontinued operations before tax	-47	1,517
Net loss before tax	-8,134	-942
Expected income tax rate [1)]	19.9%	14.5%
Expected income taxes	1,615	136
Reconciliation from expected to effective income taxes		
Difference between expected and actual tax rate	1,856	-1,466
Prior-year adjustments	-	-10
Tax-exempted income (including income from investments)	-1,861	1,290
Not recognised tax loss carry-forwards	-235	-2,179
Use of not recognised tax loss carry-forwards	83	1,414
Non-tax-deductible expenses	-123	-47
Other effects	-146	18
Effective income taxes	**1,189**	**-844**
Income tax as disclosed in the consolidated income statement	1,189	-287
Income tax attributable to discontinued operations	-	-557
Effective income taxes	**1,189**	**-844**

1) The expected income tax rate is based on the ordinary income tax rate at the domicile of the parent company – Valartis Group AG – in Fribourg, Switzerland (2017: Baar, Switzerland).

Deferred taxes

in CHF 1,000	2018	2017
Development of deferred tax (assets)/liabilities, net		
Position at 1 January	553	625
Changes affecting the income statement	-1,283	-60
Changes not affecting the income statement	-	-
Foreign exchange translation differences	-15	-12
Position at 31 December tax liabilities/(assets), net	**-745**	**553**
Expiry of non-capitalised tax allowances for losses		
Within 1 year	44	1,454
From 1 to 5 years	147,135	151,123
After 5 years	3,077	9,341
Total	**150,256**	**161,918**
Expiry of non-capitalised tax allowances for losses from continued operations	-1,329	-3,378
Disposal of non-capitalised tax allowances for losses from discontinued operations	-	-
Reconciliation deferred taxes		
Deferred tax assets		
Tax loss carry-forwards	5,816	4,530
Others	12	-
Netting	-5,061	-4,530
Total deferred tax assets	**767**	**-**
Deferred tax liabilities		
Contingent purchase consideration for Eastern Property Holdings Ltd. (Note 13)	22	15
Property, plant and equipment and investment properties	5,061	5,068
Netting	-5,061	-4,530
Total deferred tax liabilities	**22**	**553**

11. TRADING PORTFOLIO ASSETS

in CHF 1,000	31.12.2018	31.12.2017
Debt instruments	32,073	31,712
Equity instruments	6,249	6,108
Investment fund units	2,126	182
Total trading portfolio assets	**40,448**	**38,002**

12. DERIVATIVE FINANCIAL INSTRUMENTS

in CHF 1,000	Positive replacement values	Negative replacement values	Contract volume
Currencies			
Forward contracts	51	-	9,821
Options (OTC)	-	-	-
Total at 31 December 2018	**51**	**-**	**9,821**
Forward contracts	109	-	9,795
Options (OTC)	-	1,751	6,504
Total at 31 December 2017	**109**	**1,751**	**16,299**
Total open derivative financial instruments at 31 December 2018	**51**	**-**	**9,821**
Total open derivative financial instruments at 31 December 2017	**109**	**1,751**	**16,299**

13. OTHER FINANCIAL ASSETS AT FAIR VALUE

in CHF 1,000	31.12.2018	31.12.2017
Debt instruments	385	446
Equity instruments	1,250	1,250
Total other financial assets at fair value	**1,635**	**1,696**

The debt instruments of companies relate primarily to the contingent purchase price considerations from the sale of Eastern Property Holdings Ltd. (EPH) on 19 December 2012. Amounts to be paid depend on the successful completion and sale of development projects of EPH.

The contract which initially ran until 1 January 2019 was extended until 2020 and governs a real estate project in Moscow which is due to be sold by the end of the contract.

The equity instruments relate to an investment amounting to 5 per cent of the share capital of Whitebox Services AG, a second stage start-up company in the field of online asset management.

14. DUE FROM THIRD PARTIES AND ASSOCIATED COMPANIES

in CHF 1,000	31.12.2018	31.12.2017
Due from third parties and associated companies	26,421	21,092
Total due from third parties and associated companies gross	**26,421**	**21,092**
Valuation adjustments for default risk	-7,367	-7,261
Total due from third parties and associated companies net	**19,054**	**13,831**

Receivables from third parties include loans and receivables from the associated companies Darsi Investment Ltd. and Société des Carrières SA as well as a loan to Tidesea Ltd. (see Note 35).

In the previous year, some of the value of receivables from associated companies had to be value adjusted. As part of negotiations for a sale transaction, receivables in the amount of CHF 4.9 million were classified as impaired and written down in the previous year. Another receivable in the amount of CHF 0.6 million was impaired in the previous year because its recoverability was assessed as difficult.

15. ASSETS UNDER DEVELOPMENT

in CHF 1,000	31.12.2018	31.12.2017
Assets under development	2,480	5,921
Total assets under development	**2,480**	**5,921**

Valartis Group through ENR Group is involved in a real estate project in the Moscow agglomeration. In this project, residential houses with condominiums are being built. In previous years, ENR Group has made payments of Ruble 350 million to the project developer which corresponds to a book value after impairment of CHF 2.5 million as of 31 December 2018 (31 December 2017: CHF 5.9 million). ENR Group will acquire ownership of the apartments upon completion and subsequently sell them. The project was stopped in 2016 because new construction specifications had to be agreed with local authorities. The revised plans for the project have not yet been approved, and the new building permit is not yet available. Negotiations are currently underway between the project developer and ENR Group in respect to the new project milestones and the required investment steps. Until completion, ENR Group will invest a total of around Ruble 615 million or CHF 8.7 million (based on the Ruble/CHF exchange rate of 31 December 2018).

An impairment test on the net realisable value was carried out as of 31 December 2018 and showed a need for impairment of CHF 2.5 million which was then applied to the carrying value of assets under development.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

in CHF 1,000	31.12.2018	31.12.2017
Equity instruments	26,590	23,462
Total financial assets at fair value through OCI	**26,590**	**23,462**

17. PROPERTY, PLANT AND EQUIPMENT

in CHF 1,000	Fixtures in third-party properties	IT and telecom-munications	Other property, plant and equipment	Property	Total
Acquisition costs					
Carrying amount at 31 December 2016	274	1	475	175	925
Investments	-	66	3	-	69
Reclassification to investment properties	-	-	-	-175	-175
Foreign exchange translation differences	3	-	4	-	7
Carrying amount at 31 December 2017	**277**	**67**	**482**	**-**	**826**
Investments	415	8	3	-	426
Reclassification to investment properties	-	-	-	-	-
Other movements	-255	-	-	-	-255
Foreign exchange translation differences	-44	-	-54	-	-98
Carrying amount at 31 December 2018	**393**	**75**	**431**	**-**	**899**
Cumulative depreciation					
Carrying amount at 31 December 2016	-217	-1	-415	-	-633
Depreciation	-28	-7	-49	-	-84
Foreign exchange translation differences	-4	-	-2	-	-6
Carrying amount at 31 December 2017	**-249**	**-8**	**-466**	**-**	**-723**
Depreciation	-25	-17	-12	-	-54
Foreign exchange translation differences	40	-	52	-	92
Carrying amount at 31 December 2018	**-231**	**-25**	**-426**	**-**	**-682**
Net carrying amount at 31 December 2018	**162**	**50**	**5**	**-**	**217**
Net carrying amount at 31 December 2017	**28**	**59**	**16**	**-**	**103**

Future liabilities from operating leases

in CHF 1,000	31.12.2018	31.12.2017
Future liabilities from operating leases		
Remaining term up to 1 year	193	1,188
Remaining term from 1 to 5 years	771	1,562
Remaining term over 5 years	5,348	-
Total	**6,312**	**2,750**
Future receivables from operating leases		
Remaining term up to 1 year	1,075	1,316
Remaining term from 1 to 5 years	537	168
Remaining term over 5 years	-	-
Total	**1,612**	**1,484**

Operating Leases

As of 31 December 2018, there were various operating leases for real estate and other property, plant and equipment, used for business activities. The most important leases have extension options and termination clauses.

The expense for operating leases is recorded in general expense and amounts to CHF 1.0 million (prior year: CHF 1.3 million).

The rental income from operating leases of about CHF 5.8 million (prior year: CHF 6.6 million) is part of other income (see Note 2) and is related to the investment property Petrovsky Fort (see Note 18).

18. INVESTMENT PROPERTY

in CHF 1,000	Investment property building	Embedded derivatives	Investment property financial leasing	Investment property under construction	Total
Carrying amount at 31 December 2016	32,006	1,838	1,799	-	35,643
Investments	67	-	-	136	203
Transfer from property, plant and equipment	-	-		175	175
Disposals	-	-	-	-	-
Fair value adjustments including foreign currency effects	915	-103	-	-	812
Foreign exchange translation differences	287	16	15	-	318
Carrying amount at 31 December 2017	**33,275**	**1,751**	**1,814**	**311**	**37,151**
Carrying amount at 31 December 2017	33,275	1,751	1,814	311	37,151
Investments	1,063	-	52	127	1,242
Transfer from property, plant and equipment	-	-	-	-	-
Disposals	-	-	-	-	-
Fair value adjustments	1,393	-1,751	10	-	-348
Foreign exchange translation differences	-4,127	-	-299	-	-4,426
Carrying amount at 31 December 2018	**31,604**	**-**	**1,577**	**438**	**33,619**

Valuation

Valartis Group, through one of its subsidiaries, holds the business centre real estate Petrovsky Fort in St. Petersburg, Russia. The fair value of real estate investment property is determined by independent real estate valuation experts using recognised valuation techniques on an annual basis. Based on the input parameters of the valuation method used, the measurement of fair value is categorised under level 3 instruments.

As of 31 December 2018, the fair value based on the external valuation report has increased by CHF 1.4 million on a Ruble basis. This increase has nevertheless been compensated by a negative development of the CHF/Ruble foreign currency rate during 2018.

Embedded derivatives

By year-end 2018, it was no longer necessary to recognise embedded derivatives on the balance sheet (as had to be done in prior periods) because the operating lease contracts were renewed and/or newly concluded in Ruble (as opposed to USD) to align them with the functional currency of the subsidiary holding Petrovsky Fort. The remaining USD-based contracts were immaterial by year-end 2018. In former periods, those lease contracts used to contain a corridor for the USD/Ruble rate which governed the level of rents which were paid in Ruble. The inherent put and call options on the purchase and sale of foreign currency were classified as embedded derivatives because USD was not the functional currency of the subsidiary or of the tenants. The anticipated income used to value the real estate did not include the effects of these embedded derivatives which is why they were incorporated as separate components in the overall value of the real estate. At the same time, the derivatives were reported as a derivative financial instrument with negative replacement value on the liabilities side.

Investment property under construction

Investment property under construction is a parking garage project in Geneva.

19. GOODWILL

in CHF 1,000	Goodwill	Total
Acquisition costs		
Carrying amount at 31 December 2016	**2,292**	**2,292**
Investments	-	-
Foreign exchange translation differences	21	21
Carrying amount at 31 December 2017	**2,313**	**2,313**
Investments	-	-
Foreign exchange translation differences	-374	-374
Carrying amount at 31 December 2018	**1,939**	**1,939**
Cumulative amortisation/impairment		
Carrying amount at 31 December 2016	**-**	**-**
Carrying amount at 31 December 2017	**-**	**-**
Carrying amount at 31 December 2018	**-**	**-**
Net carrying amount at 31 December 2018	**1,939**	**1,939**
Net carrying amount at 31 December 2017	**2,313**	**2,313**

Allocation and carrying amounts of goodwill

As of 31 December 2018, the carrying amounts of goodwill for continued operations are allocated to the corresponding cash-generating units (CGU) as follows:

2018 in CHF 1,000	Goodwill	Total	Approach for determining the recoverable amount
CGU Petrovsky Fort (Investment property)	1,939	1,939	Fair Value less cost of disposal
Total	**1,939**	**1,939**	

2017 in CHF 1,000	Goodwill	Total	Approach for determining the recoverable amount
CGU Petrovsky Fort (Investment property)	2,313	2,313	Fair Value less cost of disposal
Total	**2,313**	**2,313**	

Goodwill impairment testing

The cash-generating units are measured at least twice a year (i.e. as of 30 June and as of 31 December) and are subjected to an impairment test. The carrying amount of the cash-generating unit to which the goodwill were allocated is compared with the recoverable amount. If the carrying amount of the cash-generating unit exceeds the recoverable amount, an impairment loss is recognised.

Measurement at fair value was determined as fair value based on the input factors of the valuation technique used for level 3 instruments.

The goodwill was tested for impairment as of 31 December 2018 and is explained following.

CGU Petrovsky Fort

The acquisition of Romsay Properties Ltd and Stainfield Ltd. by ENR Group in 2014 resulted in a goodwill position (goodwill Petrovsky Fort). The goodwill as of 31 December 2018 amounts to CHF 1,939 million (previous year: CHF 2,313 million). The decrease of CHF 0.374 million compared to the prior year is due to exchange-rate differences arising from the development of the Russian Ruble.

Recognised goodwill is based on the structure of the three entities acquired which hold the investment property Petrovsky Fort. Goodwill can primarily be attributed to recognised deferred taxes which are linked with the investment property and its company holding structure. Impairment testing of goodwill is based on a comparison between the market value of deferred taxes and their book value. In 2018 as well as for prior years, there was no need for impairment.

20. ASSOCIATED COMPANIES

in CHF 1,000	31.12.2018	31.12.2017
Position at 1 January	17,381	17,054
Additions	1,628	-
Disposals	-	-20
Share in result	3,002	428
Currency translation effects	-3	-
Impairment	-	-81
Position at 31 December	**22,008**	**17,381**

Norinvest Group

Following the completed sale of the two Swiss subsidiaries Valartis Bank AG and Valartis Wealth Management SA to Banque Cramer & Cie SA in August 2014, Valartis Group AG acquired a 25 per cent stake in Norinvest Holding SA, the parent company of Banque Cramer & Cie SA, in September 2014.

Vestive Limited.

On 6 July 2017 Valartis Group acquired all shares in Eastern Property Partners II LP (EPP II) from Eastern Property Holdings Ltd. EPPII holds a 50 per cent stake in Vestive Limited (Vestive) which owns and operates a parking garage in Moscow via the Russian company Inkonika LLC (Inkonika).

EPP II Ltd. has been fully consolidated since 6 July 2017. Since this date, Vestive and Inkonika have been accounted for as associated companies in the form of a sub-consolidated unit (see Note 39).

Société des Carrières SA

Valartis Group holds a 33.3 per cent stake in Société des Carrières SA, Luxembourg. This company has acquired various interests which extract volcanic rock (Pozzolanic earth) in France and use it to produce products for the construction industry. This associated company was previously reported together with the investment in Panariello Ltd. under other associated participations. Following the sale of the Panariello stake, the associated company is now shown separately.

Briese Schiffahrts GmbH & CO KG MS

On 12 December 2018, Valartis Group invested in Briese Schiffahrts GmbH & Co. KG MS, a limited partnership, by way of a contribution as a limited partner of EUR 1,445 million representing CHF 1,628 million or 49.8 per cent of the capital contributions of the company as of year-end 2018. Briese Schiffahrts GmbH & Co. KG MS operates a mid-size freight cargo and is located in Leer, Germany. (see also Note 39).

Detailed information on the associated companies can be found in the table on the following page.

Details on associated companies

in CHF 1,000	Norinvest Group 1) 4)		Vestive Ltd		Société des Carrières SA		Briese Schiff-fahrts GmbH & Co. KG MS 2)
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Revenue	24,668	23,934	512	326	5,833	4,213	-
Income from operations	5,802	-896	-1,285	284	1,060	-312	-
Other comprehensive income	3,765	-3,104	-7,690	-1,299	-5	-1	-
Total comprehensive income	9,567	-4,000	-8,975	-1,015	1,055	-313	-
Current assets	1,056,571	1,437,687	239	164	4,139	3,090	-
Non-current assets	228,888	327,794	8,234	8,661	11,516	12,723	-
Current liabilities	1,200,330	1,697,219	42,539	39,802	152	13	-
Non-current liabilities	7,545	6,942	74		14,826	15,301	-
Shareholder's equity as of 31 December 3)	77,584	61,320	-34,066	-30,977	677	499	3,267
Non-controlling interests	-	-	-	-	31	-66	-
Total shareholders' equity (excluding non-controlling interests)	**77,584**	**61,320**	**-34,066**	**-30,977**	**708**	**433**	**3,267**
Share of the Group	25.0%	26.9%	50.0%	50.0%	33.3%	33.3%	49.8%
Total carrying amount of associated companies	19,412	16,488	-	-	234	142	1,628
Goodwill	751	751	-		-	-	-
Impairment	-	-	-	-	-	-	-
Net carrying amount	20,163	17,239	-	-	234	142	1,628

1) Norinvest Holding SA is reporting its financial results after Valartis Group. Therefore, Valartis Group estimates its share on the result of Norinvest Group for the equity accounting of this associated company, based on publicly available information. Any differences between these estimates and actual results will be adjusted in the Group's 2019 consolidated financial statements when available.
2) On 12 December 2018, a contribution as a limited partner of EUR 1,445,000 was done in Briese Schiffahrts GmbH & Co. KG MS which is a limited partnership.
3) The shareholder's equity in Briese Schiffahrts GmbH & Co. KG MS corresponds to the total of capital contributions done by all partners.
4) In 2018, as Norinvest Holding SA sold its treasury shares, the share of the Group decreased from 26.9 per cent to 25.0 per cent.

For details on the purchase of the associated interest in Vestive Ltd. and Briese Schiffahrts GmbH & CO KG MS, please refer to Note 39.

The assets of Vestive Ltd. mainly consist of the Turgenevskaya parking garage in Moscow, valued at USD 8.3 million as of 31 December 2018 (31 December 2017: USD 8.9 million). Liabilities consist almost exclusively of loans from shareholders and clearly exceed Vestive's assets, resulting in negative equity. As there is no obligation for shareholders to make additional contributions, the negative equity and its change are not included in the consolidated financial statements. The carrying amount of the associated company Vestive is therefore zero as of 31 December 2018 (31 December 2017: zero).

21. NON-CURRENT RECEIVABLES

in CHF 1,000	31.12.2018	31.12.2017
Tax receivables	5	429
Other receivables	4,206	5,136
whereof escrow accounts	4,206	4,772
Total non-current receivables	**4,211**	**5,565**

Escrow accounts relate to a residual purchase prices payment due from the buyer of Valartis Bank AG, Switzerland of approximately CHF 0.7 million (as of 31 December 2017: CHF 1.7 million) and from the sale of the investment in Eastern Property Holdings Ltd. of around CHF 3.5 million (31 December 2017: CHF 3.7 million). The claim of CHF 0.7 million will be settled in several payments until 2020. The receivable from the buyers of Eastern Property Holdings Ltd. relates to a third party. The development of this position has not affected Valartis Group since 2015.

22. CURRENT FINANCIAL LIABILITIES

in CHF 1,000	31.12.2018	31.12.2017
Due to banks	8,180	21,841
Other current liabilities	9,062	7,075
Current financial liabilities	**17,242**	**28,916**

Liabilities to banks include the principal repayment part (CHF 0.4 million) of a loan of CHF 14.3 million (31 December 2017: CHF 14.4 million) from UniCredit Bank to finance the Petrovsky Fort investment property. The remaining CHF 13.8 million are disclosed under Non-current financial liabilities (31 December 2017: zero). The loan from UniCredit Bank has been refinanced in EUR as of 14 December 2018 until 31 December 2023 with an interest rate of 4 per cent plus 3 month EUR Libor per year. In addition, an amortisation of the principle by EUR 94,000 will be done on a quarterly basis. Before refinancing, the loan amounted to USD 15 million with an interest rate of 5.90 per cent and per year.

23. OTHER CURRENT LIABILITIES

in CHF 1,000	31.12.2018	31.12.2017
Value added tax and other indirect tax liabilities	217	828
Accrued and deferred liabilities	3,398	4,245
Total other current liabilities	**3,615**	**5,073**

24. NON-CURRENT FINANCIAL LIABILITIES

in CHF 1,000	31.12.2018	31.12.2017
Liabilities from financial leasing	1,578	1,826
Non-current financial liabilities	13,862	233
Total non-current financial liabilities	**15,440**	**2,059**

Non-current financial liabilities include the partial principal repayment (CHF 13.8 million) of a loan of CHF 14.3 million (31 December 2017: zero) from UniCredit Bank to finance the Petrovsky Fort investment property.

Details on liabilities from finance leases

Liabilities from finance leases are repaid over the term of the contract and are due as follows as of balance sheet date:

in CHF 1,000	31.12.2018	31.12.2017
Sum of future leasing payments (nominal value)		
Up to 1 year	193	222
More than 1 and up to 5 years	771	890
More than 5 years	5,348	6,451
Total	**6,312**	**7,563**
Sum of future leasing payments (present value)		
Up to 1 year	4	4
More than 1 and up to 5 years	22	23
More than 5 years	1,552	1,799
Total	**1,578**	**1,826**

The finance leases originate from the building lease on the Petrovsky Fort investment property in St. Petersburg, Russia.

25. DEFINED BENEFIT OBLIGATIONS

Although contributions are paid by the employer and employees in the case of Swiss pension plans, they are considered to be defined benefit plans owing to the guaranteed interest rate and the prescribed conversion rate. The employee pension plan in Switzerland is covered by an insurance contract with Axa Winterthur which has been transferred to Swiss Life as per 1 January 2019.

There are no pension plans in place for the Valartis Group employees in Russia. The last actuarial calculation for performance-related plans took place on 31 December 2018, with the following results:

in CHF 1,000	31.12.2018	31.12.2017
Other provision, including provision for pension funds	1,306	1,458
Total defined benefit obligations	**1,306**	**1,458**

Statement of balance sheet item

in CHF 1,000	31.12.2018	31.12.2017
Present value of pension liabilities	8,882	10,025
Market value of plan assets	7,576	8,567
Pension liabilities/(pension assets)	**1,306**	**1,458**
Impact of the limitation as per IAS 19.64 b)	-	-
Total pension liabilities/(pension assets)	**1,306**	**1,458**

Change in net liabilities/(assets) on the balance sheet

in CHF 1,000	2018	2017
Net liabilities/(assets) at 1 January	1,458	2,248
Defined benefit cost recognised in personnel expense	201	319
Defined benefit cost recognised in other comprehensive income	-119	-831
Employer contributions	-234	-278
Paid out benefits	-	-
Net liabilities/(assets) at 31 December	**1,306**	**1,458**

Costs and remeasurement for employee pension plan in income statement and comprehensive income

in CHF 1,000	2018	2017
Components of pension costs in personnel expense		
Service costs	204	305
Past service costs	-13	-
Curtailment	-	-
Net interest expense/(income)	10	14
Pension costs for defined benefit plans	**201**	**319**
Employer's pension expense for defined contribution plans	-	-
Total pension costs	**201**	**319**
whereof discontinued operations	-	-
Total pension costs recognised in personnel expense	**201**	**319**
Defined benefit cost recognised in other comprehensive income		
Actuarial (gain)/loss on liabilities	-126	-783
Actuarial (gain)/loss on assets	7	-48
Total remeasurement recognised in other comprehensive income	**-119**	**-831**

Change in pension liabilities

in CHF 1,000	2018	2017
Present value of pension liabilities at 1 January	10,025	13,401
Service costs	204	305
Employee contributions	157	186
Interest on pension liabilities	66	83
Paid (out)/in benefits and vested benefits	-1,431	-3,167
Actuarial (gains)/losses	-126	-783
of which from adjustment to financial assumptions	-	-
of which from adjustment to demographic assumptions	-	-
of which from adjustment to experience-based assumptions	-126	-783
Past service-costs	-13	-
Present value of pension liabilities at 31 December	**8,882**	**10,025**

Change in pension assets

in CHF 1,000	2018	2017
Market value of available pension assets at 1 January	8,567	11,153
Employee contributions	157	186
Employer contributions	234	278
Paid (out)/in benefits and vested benefits	-1,431	-3,167
Expected return on plan assets	56	69
Actuarial loss/(gain)	-7	48
Market value of available pension assets at 31 December	**7,576**	**8,567**

Main groups of the pension fund assets

in per cent	31.12.2018	31.12.2017
Liquidity	4.3	4.3
Bonds	65.1	65.0
Real estate	18.1	18.0
Shares and convertibles [1]	2.7	2.5
Others [2]	9.8	10.2

1) There are no treasury shares of Valartis Group AG in the pension fund assets.
2) Assets named Others are consisting of assets invested by group insurance foundation AXA at AXA Life Insurance Ltd. based on limitation of BVG/LLP regulations.

Actuarial assumptions

in per cent	31.12.2018	31.12.2017
Discount rate (Switzerland)	0.7	0.7
Expected rate of salary increases (Switzerland)	1.5	1.5
Pension adjustments (Switzerland)	0.0	0.0

Demographic assumptions (e. g. probabilities of death, disability and turnover) are based on the BVG/LLP 2015 actuarial tables (prior year on BVG/LLP 2015 actuarial tables). These generational tables are based on observations of large pools of insured persons in Switzerland over several years.

Estimate of contributions for the following year

in CHF 1,000	2018	2017
Employee contributions	159	143
Employer contributions	238	213

Sensitivity

The table below shows the change in the present value of the defined benefit obligation if one of the key assumptions for the actuarial calculation is reduced or increased ceteris paribus by 50 basis points.

	31.12.2018	Proportion in per cent
Current actuarial calculation of the defined benefit obligation	8,882	100
Discount rate		
Increase of 50 basis points	-306	-3.4
Reduction of 50 basis points	343	3.9
Salary trend		
Increase of 50 basis points	77	0.9
Reduction of 50 basis points	-74	-0.8

There were no pension obligations following the change in Group insurance for employee benefits as of 1 January 2019 to Swiss Life. If Valartis Group would terminate the contract with the Group insurance for employee benefits and sign a new contract with another provider, these current pension obligations would stay with Swiss Life. Therefore, no sensitivity analysis for changes in longevity is disclosed.

26. PROVISIONS

in CHF 1,000	Provision for other business risks	Total according to balance sheet 2018	Total according to balance sheet 2017
Position at 1 January	694	694	731
Utilised/released in accordance with designated purpose	-164	-164	-32
Newly formed and charged to income statement	-	-	137
Released and credited to income statement	-143	-143	-165
Foreign exchange translation differences	-65	-65	23
Position at 31 December	**322**	**322**	**694**
Maturity of the provisions			
Within 1 year	76	76	245
More than 1 year	246	246	449

As part of its normal business activities, Valartis Group is exposed to a wide range of legal risks. These include in particular risks relating to litigation and tax law. Valartis Group recognises provisions for such litigation and tax risks if the Group's management and its legal advisers are of the opinion that an out-flow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount

The amount of the provisions and their timing are by their nature subject to uncertainty. However, these uncertainties are evaluated as being low since it was possible to reliably estimate the individual amounts.

In 2018, there were no contingent liabilities as set down in IAS 37 (prior year: zero).

The net reduction of provisions can mainly be attributed to the specific use of the provision for costs in connection with the planned liquidation of a company no longer required.

27. SHARE CAPITAL AND TREASURY SHARES

Share capital

in CHF	31.12.2018	31.12.2017
Share capital, fully paid-in	5,000,000	5,000,000
Number of registered shares	5,000,000	5,000,000
Nominal value per share	1	1
Equity per share (attributable to shareholders of Valartis Group AG, before appropriation of profit)	24.8	24.8

For the financial year 2018, the Board of Directors proposes to the Shareholders' Meeting 2019 to pay a dividend of CHF 0.10 per share (previous year: CHF 0.20 per share).

Treasury shares

	Number of shares
Position at 1 January 2017	**264,488**
Purchases (at an average price of CHF 9.14 each)	51,780
Sales (at an average price of CHF 7.96 with a historical average price of CHF 21.65 each)	-15,102
Position at 31 December 2017	**301,166**
Purchases	
of which for the purpose of cancellation (at an average price of CHF 11.30 each)	175,125
of which for other purposes (at an average price of CHF 8.83 each)	161,712
Sales	-
Position at 31 December 2018	**638,003**
of which for the purpose of cancellation	175,125
of which for other purposes	462,878

Historical cost value at 31 December 2017 in CHF	5,872,173
of which held for the purpose of cancellation	-
of which held for other purposes	5,872,173
Historical average rate at 31 December 2017 in CHF	
of which held for the purpose of cancellation	-
of which held for other purposes	19.50

Historical cost value at 31 December 2018 in CHF	9,278,679
of which held for the purpose of cancellation	1,978,409
of which held for other purposes	7,300,270
Historical average rate at 31 December 2018 in CHF	
of which held for the purpose of cancellation	11.30
of which held for other purposes	15.77

At its meeting on 15 May 2018, the Annual General Meeting approved the repurchase of treasury shares up to a maximum of 400,000 shares up to the 2019 Annual General Meeting by means of a public share buyback program aimed at cancelling the shares. The shares acquired as part of the public share buyback programme are to be cancelled and therefore do not fall within the 10 per cent limit of Art. 659 of the Swiss Code of Obligations which restricts the acquisition of treasury shares by the company. The amendment to the Articles of Association (capital reduction, article 3) with regard to the actual number of repurchased shares will be submitted to the 2019 Annual General Meeting for approval.

As part of the buyback programme, a second line for registered shares was established on SIX Swiss Exchange Ltd in accordance with the International Reporting Standard (SIX listing). Ordinary trading in Valartis registered shares under security number 36 742 768 is not affected by this measure and continues normally. The maximum buy-back volume per day is 4,314 shares, calculated in accordance with Article 123 paragraph 1 letter c of the Swiss Ordinance on Financial Market Infrastructure and Market Behaviour in Securities and Derivatives Trading (Financial Market Infrastructure Ordinance, FMIO) of 25 November 2015. The share buy-back program ends in April 2019.

28. EARNINGS PER SHARE

	2018	2017
Net loss attributable to the shareholders of Valartis Group AG in CHF 1,000	-5,026	-2,383
Net loss from continued operations attributable to the shareholders of Valartis Group AG, in CHF 1,000	-4,980	-3,343
Net gain/(loss) from discontinued operations attributable to the shareholders of Valartis Group AG, in CHF 1,000	-46	960
Weighted average number of shares	5,000,000	5,000,000
less weighted average number of treasury shares	-454,490	-281,551
Undiluted weighted average number of shares	4,545,510	4,718,449
Diluted weighted average number of shares	4,545,510	4,718,449

Earnings per share	in CHF	in CHF
Undiluted, attributable to shareholders of Valartis Group AG	-1.11	-0.51
Diluted, attributable to shareholders of Valartis Group AG	-1.11	-0.51

Earnings per share from continued operations		
Undiluted, attributable to shareholders of Valartis Group AG	-1.10	-0.71
Diluted, attributable to shareholders of Valartis Group AG	-1.10	-0.71

Earnings per share from discontinued operations		
Undiluted, attributable to shareholders of Valartis Group AG	-0.01	0.20
Diluted, attributable to shareholders of Valartis Group AG	-0.01	0.20

29. SHAREHOLDER STRUCTURE

The share capital has been divided into registered shares (previously bearer shares) since 18 May 2017. According to the Swiss Financial Market Infrastructure Act (FinfraG), anyone holding shares in a company listed on the SIX is obliged to notify the company concerned and SIX as soon as their voting rights exceed or fall below certain thresholds. Under the Swiss Code of Obligations, the company is obliged to disclose the identity of all shareholders holding more than 5 per cent of the shares in the notes to the annual financial statements.

The following is a summary of the holders of 3 or more per cent in Valartis Group AG, based on the published reports:

in per cent	31.12.2018	31.12.2017
MCG Holding SA, Baar ZG	50.2	50.2
Nebag AG, Zurich (according to their reporting of 2 September 2016)	3.2	3.2
Gustav Stenbolt	0.9	0.9
Philipp LeibundGut	0.3	0.5

As per 31 December 2018 the beneficial owners of MCG Holding SA are Gustav Stenbolt, Geneva, Tidesea Ltd., Fribourg (100 per cent controlled by Gustav Stenbolt, Geneva) and Philipp LeibundGut, Zurich. The following are deemed to be holders of qualified participations: a) Gustav Stenbolt, who holds 85.1 per cent of the voting rights (80.2 per cent of the share capital) of MCG Holding SA (partly held through Tidesea Ltd.) and b) Philipp LeibundGut, who holds 14.9 per cent of the voting rights (19.8 per cent of the share capital) of MCG Holding SA. Tudor Private Portfolio LLC disposed of its shares of MCG Holding SA consisting of 12.3 per cent of the voting rights (16.3 per cent of the share capital) which were acquired by Tidesea Ltd by way of a loan of CHF 3.5 million provided by Valartis Group and granted at market conditions.

The shares held directly by Gustav Stenbolt and Philipp LeibundGut originate from bonus plans of previous years run by Valartis companies for the Executive Board and employees on the basis of their respective functions they held at the time.

30. SHARE-BASED PAYMENT

Number	2018	2017
Holdings of rights at 1 January	-	14,568
Granted during the year (reduction)	-	-14,568
Holdings of rights at 31 December	**-**	**-**
Fair value of the outstanding rights in CHF 1,000 1)	-	-
Average price of shares upon allotment, in CHF	-	-

in CHF 1,000		
Charged as personnel expense in the year under review	-	-25
of which continued operations	-	-25
of which discontinued operations	-	-

1) The fair value is based on the market value of the Valartis Group AG share as per 31 December.

The content and procedures for determining the remuneration and the participation programs are described in the compensation report. As of 31 December 2018, there were no ongoing employee share-based payment programs.

31. CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS BY CURRENCY

2018 in CHF 1,000	CHF	EUR	USD	RUB	Total currencies
Assets					
Cash and cash equivalents	2,421	1,006	2,018	606	6,051
Trading portfolio assets	3,948	6,594	27,843	2,063	40,448
Derivative financial instruments	51	-	-	-	51
Other assets at fair value	1,250	-	385	-	1,635
Due from third parties	4,816	9,776	3,801	661	19,054
Accrued and deferred assets	418	1,482	304	44	2,248
Total current assets	**12,904**	**18,858**	**34,351**	**3,374**	**69,487**
Assets under development	-	-	-	2,480	2,480
Financial assets at fair value through OCI	26,590	-	-	-	26,590
Property, plant and equipment	211	-	-	6	217
Investment property	438	-	-	33,181	33,619
Goodwill and other intangible assets	-	-	-	1,939	1,939
Associated companies	20,380	1,628	-	-	22,008
Non-current receivables	638	-	3,568	5	4,211
Deferred tax claims	-	-	-	767	767
Total non-current assets	**48,257**	**1,628**	**3,568**	**38,378**	**91,831**
Total current and non-current assets	**61,161**	**20,486**	**37,919**	**41,752**	**161,318**
Non-current assets classified as held for sale	-	2,660	-	-	2,660
Total assets					**163,978**
Claims arising from forex spot and forward trans.	9,821	-	-	-	9,821
Total at 31 December 2018	**70,982**	**23,146**	**37,919**	**41,752**	**173,799**
Liabilities and shareholders' equity					
Accounts payables	738	290	83	91	1,202
Current financial liabilities	7,752	2,643	6,847	-	17,242
Derivative financial instruments	-	-	-	-	-
Current tax liabilities	40	700	-	95	835
Other current liabilities	2,508	321	-	786	3,615
Current provisions	-	76	-	-	76
Total current liabilities	**11,038**	**4,030**	**6,930**	**972**	**22,970**
Non-current financial liabilities	30	13,832	-	1,578	15,440
Defined benefit obligation	1,306	-	-	-	1,306
Deferred tax liabilities	22	-	-	-	22
Provisions	-	-	-	246	246
Total non-current liabilities	**1,358**	**13,832**	**-**	**1,824**	**17,014**
Shareholders' equity	123,994	-	-	-	123,994
On-balance-sheet liabilities	**136,390**	**17,862**	**6,930**	**2,796**	**163,978**
Total liabilities					**163,978**
Oblig. arising from forex spot and forward trans.	-	-	9,821	-	9,821
Total at 31 December 2018	**136,390**	**17,862**	**16,751**	**2,796**	**173,799**
Net position per currency 31 December 2018	**-65,408**	**5,284**	**21,168**	**38,956**	

2017 in CHF 1,000	CHF	EUR	USD	Others	Total currencies
Assets					
Cash and cash equivalents	11,647	12,040	1,339	719	25,745
Trading portfolio assets	4,587	3,312	28,816	1,287	38,002
Derivative financial instruments	109	-	-	-	109
Other assets at fair value	1,250	65	381	-	1,696
Due from third parties	960	8,930	3,687	254	13,831
Accrued and deferred assets	693	2,315	299	85	3,392
Total current assets	**19,246**	**26,662**	**34,522**	**2,345**	**82,775**
Assets under development	-	-	-	5,921	5,921
Financial assets available for sale	23,462	-	-	-	23,462
Property, plant and equipment	60	-	-	43	103
Investment property	310	-	35,026	1,815	37,151
Goodwill and other intangible assets	-	-	-	2,313	2,313
Associated companies	17,239	142	-	-	17,381
Non-current receivables	1,240	6	3,477	842	5,565
Total non-current assets	**42,311**	**148**	**38,503**	**10,934**	**91,896**
Total current and non-current assets	**61,557**	**26,810**	**73,025**	**13,279**	**174,671**
Non-current assets classified as held for sale					2,735
Total assets					**177,406**
Claims arising from forex spot and forward trans.	-	-	-	-	-
Total at 31 December 2017	**61,557**	**26,810**	**73,025**	**13,279**	**177,406**
Liabilities and shareholders' equity					
Accounts payables	397	53	-	364	814
Current financial liabilities	7,265	5	21,646	-	28,916
Derivative financial instruments	-	-	-	1,751	1,751
Current tax liabilities	35	849	-	-	884
Other current liabilities	3,542	490	3	1,038	5,073
Current provisions	-	245	-	-	245
Total current liabilities	**11,239**	**1,642**	**21,649**	**3,153**	**37,683**
Non-current financial liabilities	-	180	-	1,879	2,059
Defined benefit obligation	1,458	-	-	-	1,458
Deferred tax liabilities	16	-	-	537	553
Provisions	-	-	-	449	449
Total non-current liabilities	**1,474**	**180**	**-**	**2,865**	**4,519**
Shareholders' equity	135,204	-	-	-	135,204
On-balance-sheet liabilities	**147,917**	**1,822**	**21,649**	**6,018**	**177,406**
Total liabilities					**177,406**
Oblig. arising from forex spot and forward trans.	-	-	9,795	-	9,795
Total at 31 December 2017	**147,917**	**1,822**	**31,444**	**6,018**	**187,201**
Net position per currency 31 December 2017	**-86,360**	**24,988**	**41,581**	**7,261**	

32. MATURITY STRUCTURE OF ASSETS, LIABILITIES AND OFF-BALANCE-SHEET ITEMS

2018 in CHF 1,000	Demand	Subject to notice	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after 5 years	Total
Assets							
Cash and cash equivalents	4,500	1,464	87	-	-	-	6,051
Trading portfolio assets	40,448	-	-	-	-	-	40,448
Derivative financial instruments	-	-	51	-	-	-	51
Other assets at fair value	-	-	-	1,250	385	-	1,635
Due from third parties	256	-	16,086	1,936	776	-	19,054
Accrued and deferred assets	21	-	1,682	239	306	-	2,248
Total current assets	**45,225**	**1,464**	**17,906**	**3,425**	**1,467**	**-**	**69,487**
Assets under development	-	-	-	-	2,480	-	2,480
Financial assets at fair value through OCI	-	-	1,712	-	24,878	-	26,590
Property, plant and equipment	-	-	-	-	56	161	217
Investment property	-	-	-	-	-	33,619	33,619
Goodwill and other intangible assets	-	-	-	-	-	1,939	1,939
Associated companies	-	-	-	-	-	22,008	22,008
Non-current receivables	-	-	-	-	4,211	-	4,211
Deferred tax claims	-	-	-	-	-	767	767
Total non-current assets	**-**	**-**	**1,712**	**-**	**31,625**	**58,494**	**91,831**
Total current and non-current assets	**45,225**	**1,464**	**19,618**	**3,425**	**33,092**	**58,494**	**161,318**
Non-current assets classified as held for sale							2,660
Total at 31 December 2018	**45,225**	**1,464**	**19,618**	**3,425**	**33,092**	**58,494**	**163,978**
Liabilities and shareholders' equity							
Accounts payables	-	-	1,141	61	-	-	1,202
Current financial liabilities	3,196	-	214	13,832	-	-	17,242
Derivative financial instruments	-	-	-	-	-	-	-
Current tax liabilities	-	-	17	818	-	-	835
Other current liabilities	54	-	788	2,773	-	-	3,615
Current provisions	-	-	-	76	-	-	76
Total current liabilities	**3,250**	**-**	**2,160**	**17,560**	**-**	**-**	**22,970**
Non-current financial liabilities	-	-	-	-	13,890	1,550	15,440
Defined benefit obligation	-	-	-	-	-	1,306	1,306
Deferred tax liabilities	-	-	-	-	22	-	22
Provisions	-	-	-	-	246	-	246
Total non-current liabilities	**-**	**-**	**-**	**-**	**14,158**	**2,856**	**17,014**
Total liabilities							**39,984**
Contingent liabilities	-	-	-	-	-	-	-
Total at 31 December 2018	**3,250**	**-**	**2,160**	**17,560**	**14,158**	**2,856**	**39,984**

2017 in CHF 1,000	Demand	Subject to notice	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after 5 years	Total
Assets							
Cash and cash equivalents	25,745	-	-	-	-	-	25,745
Trading portfolio assets	38,002	-	-	-	-	-	38,002
Derivative financial instruments	-	-	109	-	-	-	109
Other assets at fair value	-	-	-	1,315	381	-	1,696
Due from third parties	275	-	11,700	1,856	-	-	13,831
Accrued and deferred assets	140	-	230	3,022	-	-	3,392
Total current assets	**64,162**	**-**	**12,039**	**6,193**	**381**	**-**	**82,775**
Assets under development	-	-	-	-	5,921	-	5,921
Financial assets available for sale	-	-	-	-	23,462	-	23,462
Property, plant and equipment	-	-	-	10	93	-	103
Investment property	-	-	-	-	-	37,151	37,151
Goodwill and other intangible assets	-	-	-	-	-	2,313	2,313
Associated companies	-	-	-	-	-	17,381	17,381
Non-current receivables	-	-	-	-	5,565	-	5,565
Total non-current assets	**-**	**-**	**-**	**10**	**35,041**	**56,845**	**91,896**
Total current and non-current assets	**64,162**	**-**	**12,039**	**6,203**	**35,422**	**56,845**	**174,671**
Non-current assets classified as held for sale							2,735
Total at 31 December 2017	**64,162**	**-**	**12,039**	**6,203**	**35,422**	**56,845**	**177,406**
Liabilities and shareholders' equity							
Accounts payables	-	-	-	814	-	-	814
Current financial liabilities	-	3,257	47	25,612	-	-	28,916
Derivative financial instruments	-	-	-	1,751	-	-	1,751
Current tax liabilities	-	-	18	866	-	-	884
Other current liabilities	-	-	25	5,048	-	-	5,073
Current provisions	-	-	-	245	-	-	245
Total current liabilities	**-**	**3,257**	**90**	**34,336**	**-**	**-**	**37,683**
Non-current financial liabilities	-	-	-	-	233	1,826	2,059
Defined benefit obligation	-	-	-	-	-	1,458	1,458
Deferred tax liabilities	-	-	-	-	16	537	553
Provisions	-	-	-	-	449	-	449
Total non-current liabilities	**-**	**-**	**-**	**-**	**698**	**3,821**	**4,519**
Total liabilities							**42,202**
Contingent liabilities	-	-	-	-	-	-	-
Total at 31 December 2017	**-**	**3,257**	**90**	**34,336**	**698**	**3,821**	**42,202**

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of financial assets and financial liabilities:

in CHF 1,000	31.12.2018			31.12.2017		
	Book value	Fair value	Variation	Book value	Fair value	Variation
Assets						
Cash and cash equivalents	6,051	6,051	-	25,745	25,745	-
Due from third parties	19,054	19,054	-	13,831	13,831	-
Accrued and deferred assets	2,248	2,248	-	3,392	3,392	-
Non-current receivables	4,211	4,211	-	5,565	5,565	-
Financial assets at amortised costs	**31,564**	**31,564**	**-**	**48,533**	**48,533**	**-**
Trading portfolio assets	40,448	40,448	-	38,002	38,002	-
Derivative financial instruments	51	51	-	109	109	-
Other financial assets at fair value	1,635	1,635	-	1,696	1,696	-
Financial assets at fair value through OCI	26,590	26,590	-	23,462	23,462	-
Financial assets at fair value	**68,724**	**68,724**	**-**	**63,269**	**63,269**	**-**
Liabilities						
Trade payables	1,202	1,202	-	814	814	-
Current financial liabilities	17,242	17,242	-	28,916	28,916	-
Current income taxes	835	835	-	884	884	-
Other current liabilities	3,615	3,615	-	5,073	5,073	-
Non-current financial liabilities	15,440	15,440	-	2,059	2,059	-
Financial liabilities at amortised costs	**38,334**	**38,334**	**-**	**37,746**	**37,746**	**-**
Derivative financial instruments	-	-	-	1,751	1,751	-
Financial liabilities at fair value	**-**	**-**	**-**	**1,751**	**1,751**	**-**

The following table shows the assets and financial liabilities measured at fair value, classified by a fair value hierarchy of three levels. For an explanation of the levels, please refer to the accounting principles, page 53.

2018 in CHF 1,000	Quoted market prices (level 1)	Valuation method based on market data (level 2)	Valuation method not based on market data (level 3)	31.12.2018
Assets				
Trading portfolio assets	35,811	-	4,637	40,448
Derivative financial instruments	-	51	-	51
Other financial assets at fair value	-	-	1,635	1,635
Financial assets at fair value through OCI	-	26,590	-	26,590
Investment property	-	-	33,619	33,619
Embedded derivatives on investment property	-	-	-	-
Total investment property	-	-	33,619	33,619
Assets at fair value	**35,811**	**26,641**	**39,891**	**102,343**
Liabilities				
Derivative financial instruments	-	-	-	-
Total financial liabilities at fair value	**-**	**-**	**-**	**-**

2017 in CHF 1,000	Quoted market prices (level 1)	Valuation method based on market data (level 2)	Valuation method not based on market data (level 3)	31.12.2017
Assets				
Trading portfolio assets	34,375	-	3,627	38,002
Derivative financial instruments	-	109	-	109
Other financial assets at fair value	-	-	1,696	1,696
Financial assets available for sale [1)]	-	-	23,462	23,462
Investment property	-	-	35,400	35,400
Embedded derivatives on investment property	-	-	1,751	1,751
Total investment property	-	-	37,151	37,151
Assets at fair value	**34,375**	**109**	**65,936**	**100,420**
Liabilities				
Derivative financial instruments	-	-	1,751	1,751
Total financial liabilities at fair value	**-**	**-**	**1,751**	**1,751**

1) Financial assets available for sale have been moved to Financial assets at fair value through OCI upon adoption of IFRS 9.

2018 in CHF 1,000	01.01.2018	Recognised in the income statement	Net income recognised in OCI	Transfer from/to level 1 and level 2	Purchase	Sales	31.12.2018
Trading portfolio assets	3,627	34	-	-	976	-	4,637
Financial assets at fair value through OCI	23,462	-	3,128	-26,590	-	-	-
Other financial assets at fair value	1,696	-61	-	-	-	-	1,635
Investment property (excl. embedded derivatives)	35,400	1,403	-4,426	-	1,242	-	33,619
Embedded derivatives on investment property	1,751	-1,751	-	-	-	-	-
Total assets at fair value (level 3)	**65,936**	**-375**	**-1,298**	**-26,590**	**2,218**	**-**	**39,891**
Derivative financial instruments	1,751	-1,751	-	-	-	-	-
Total financial liabilities at fair value (level 3)	**1,751**	**-1,751**	**-**	**-**	**-**	**-**	**-**

2017 in CHF 1,000	01.01.2017	Recognised in the income statement	Net income recognised in OCI	Transfer from level 1 and level 2	Purchase	Sales	31.12.2017
Trading portfolio assets	5,139	1	-	-	-	-1,513	3,627
Financial assets available for sale [1)]	19,458	572	2,686	-	1,511	-765	23,462
Other financial assets at fair value	462	-16		-	1,250	-	1,696
Investment property (excl. embedded derivatives)	33,805	915	302	-	378	-	35,400
Embedded derivatives on investment property	1,838	-103	16	-	-	-	1,751
Total assets at fair value (level 3)	**60,702**	**1,369**	**3,004**	**-**	**3,139**	**-2,278**	**65,936**
Derivative financial instruments	1,838	-103	16	-	-	-	1,751
Total financial liabilities at fair value (level 3)	**1,838**	**-103**	**16**	**-**	**-**	**-**	**1,751**

1) As of 1 January 2018 Financial assets at fair value through OCI

Explanation of significant unobservable input parameters

The valuation of trading positions and financial assets available for sale classified as level 3 is based on the annual financial statements of the corresponding securities and individual transactions observable on the market.

In 2018, the following item was reclassified from level 3 to level 2 due to a change in the availability of market prices and liquidity: the previous financial instruments available for sale (until 31 December 2017) consisted on the balance sheet date of the investment in Athris Holding AG, whose shares were traded sporadically on the OTC platform of Berner Kantonalbank (the book value as of 31 December 2017 amounted to CHF 23.5 million; prior year: CHF 19.3 million). Athris Holding AG was renamed Athris AG at the 2018 Annual General Meeting and the nominal share capital was increased. In addition, the company has been listed on the BX Swiss since 15 June 2018. As a result, the equities of this company are no longer traded on an over-the-counter trading platform, but on a regulated trading market. Accordingly, the company publishes its NAV on a quarterly basis shortly after the end of each quarter. As the prices of these equity instruments are directly observable on the market but still have a low trading volume, the previous available for sale financial instruments were reclassified from level 3 instruments to level 2 instruments. Since May 2018, trading volumes in Athris AG shares have increased and are higher than in the previous year. The share price also rose from CHF 1,525 at the beginning of May to CHF 1,700 on end 2018, an increase of more than 11 per cent. According to the company, the aim of the listing is in particular to improve the liquidity of Athris AG shares. The very rarely traded bearer shares with a nominal value of CHF 1.00 were traded at CHF 340.

Other financial assets at fair value includes the existing contingent purchase price payment from the sale of Eastern Property Holdings Ltd. (EPH) of CHF 0.385 million (prior year: CHF 0.381 million) is reported under Level 3. The amount of this remaining purchase price receivable depends on the completion and sale of an EPH real estate project. The valuation of the remaining purchase price receivable is based on an estimate of the real estate project by an external independent expert and a supplementary management assessment.

An increase or a decrease of 1 per cent in the underlying used would lead to an increase (or a decrease) of the remaining purchase price receivable of CHF 3,000.

Significant unobservable input parameters for the valuation of investment property and embedded derivatives are the following:

Significant, unobservable inputs in the evaluation of the investment property Petrovsky Fort	31.12.2018	31.12.2017
Fair value of Petrovsky Fort (investment property)		
in RUB	2,228,884,000	n.a.
in USD	n.a.	34,117,000
in CHF	31,603,970	33,275,000
Capitalisation rate for income capitalisation	11.3%	11.5%
Discount rate for discounted cash flow	14.8%	14.5%
Embedded derivatives on investment property; Black-Scholes		
Fair value of embedded derivatives in CHF	-	1,751,000
Range of USD/Ruble exchange rate corridor in lease contracts 1)	-	USD/Ruble 51.84–63.36

1) Disclosed USD/Ruble corridor represents the maximum range of the corridors individually included in the leasing contracts.

During 2018 and especially in the last 6 months of this year, operating lease contracts were renewed and/or concluded in Ruble (as opposed to USD) to align them with the functional currency of Petrovsky Fort (i.e. Ruble). Consequently, by year end 2018, only a small number of operating lease contracts (both in number and value) were based in USD, most of which are short-term, i.e. expiring in early 2019. Thus by year end 2018, it was no longer necessary to recognise these embedded derivatives on the balance sheet (as done in previous years).

Effects of changes in input parameters on fair value

The fair values of the investment property was determined using a 5.8 per cent vacancy rate for 2018 year end valuation. Should this rate be increased by 5 per cent, the valuation of the property would decrease by RUB 30,961,000 from RUB 2,228,884,000 to RUB 2,197,923,000. The previous year valuation used a 10 per cent vacancy rate and had this rate increased by 5 per cent, the 2017 year end valuation would have reduced by USD 2.06 million from USD 34.18 million to USD 32.12 million (stated in USD in 2017 as the majority of operating lease contracts were concluded in USD).

If the ERV (Estimated Rental Value) decreased by 5 per cent then the value of the investment property would decrease by RUB 104,442,000 from RUB 2,228,884,000 to RUB 2,124,442,000 for the 2018 year end valuation.

34. NETTING-AGREEMENTS

In order to reduce credit risks in connection with derivatives transactions, Valartis Group concludes global netting agreements or similar agreements with its counterparties (netting agreements). These include clearing agreements for derivatives.

Netting agreements enable Valartis Group to protect itself against losses from possible insolvency proceedings or other circumstances in which the counterparty is unable to meet its obligations. In such cases, netting agreements provide for the immediate offsetting or settlement of all financial instruments covered by the corresponding agreement. A claim to set-off exists only if there is a delay in payment or other circumstances which are not to be expected in the normal course of business. As a result, the financial instruments covered by a netting agreement do not meet the requirements for balance sheet offsetting which is why the book values of the corresponding financial instruments are not offset in the balance sheet.

Financial assets with netting agreements

in CHF 1,000	Amount before balance sheet off-setting	Balance sheet off-setting	Book value	Financial instruments not off-set	Collateral received	Net exposure
Derivative financial instruments	51		51			51
Total 31 December 2018	**51**	**-**	**51**	**-**	**-**	**51**
Derivative financial instruments	109		109			109
Total 31 December 2017	**109**	**-**	**109**	**-**	**-**	**109**

Financial liabilities with netting agreements

in CHF 1,000	Amount before balance sheet off-setting	Balance sheet off-setting	Book value	Financial instruments not off-set	Collateral provided	Net exposure
Derivative financial instruments			-			-
Total 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments	-		-		-	-
Total 31 December 2017	**-**	**-**	**-**	**-**	**-**	**-**

35. RELATED PARTIES AND COMPANIES

Persons and companies are considered related parties if they have the ability to control the Group or can exert a significant influence on operational and financial decisions.

The following table provides an overview of transactions with related parties and companies:

in CHF 1,000	31.12.2018	31.12.2017
Assets		
Key management and relatives	-	-
Associated companies	13,909	15,961
Other related entities	3,506	159
Total	**17,415**	**16,120**
Liabilities		
Key management and relatives	133	108
Associated companies	2,255	1
Other related entities	81	270
Total	**2,469**	**379**
Expenses		
Key management and relatives	-208	-
Associated companies	-	-6,149
Other related entities	-300	-271
Total	**-508**	**-6,420**
Income		
Key management and relatives	-	-
Associated companies	323	2,434
Other related entities	250	3,102
Total	**573**	**5,536**

Assets associated companies comprise CHF 3.6 million loan toward Vestive Ltd., a receivable of CHF 5.2 million from Darsi Investment Ltd. and a loan of CHF 2.8 million to Société des Carrières SA.

Assets other related entities comprises the loan of CHF 3.5 million granted to a company privately held by the Chairman of the Board of Directors (see Note 29).

Liabilities associated companies are mainly due to a loan from Darsi Investments Ltd.

Expenses for and liabilities to other related parties include an amount of CHF 0.3 million which is attributable to the following circumstances: after the additional time burden for a Chairman of the Board of Directors and Delegate of the Board of Directors due to the very large reduction of staff in the Group service organisation has increased significantly and since 2017 included tasks which traditionally are not directly performed by these two functions, a consulting agreement was concluded between a Valartis Group company and a Swiss stock corporation privately held by the Chairman of the Board of Directors at arm's length terms. This agreement provides for the provision of national and international advisory services in the areas of the Group's investment policy and strategy and asset management, in particular short-term cash management, business development and project development. The contract was concluded with Valartis International Ltd. because this company uses most of these consulting and management services. The fee from the consulting contract amounts to CHF 0.3 million plus VAT per year. CHF 0.27 million was expensed for the previous financial year (for the period from 1 March 2017 to 31 December 2017). The fee is included in the total remuneration of the Chairman of the Board of Directors and the Delegate of the Board of Directors and is disclosed in the compensation report on page 30.

36. LOANS AND SHARE HOLDINGS BY MEMBERS OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

2018

Members of the Board of Directors	Gustav Stenbolt, Chairman & Delegate of the BoD	Christoph N. Meister, Vice Chairman [1]	Philipp LeibundGut, Vice Chairman [1]	Olivier Brunisholz, Member [1]	Total
Numbers of shares	2,183,787	4,821	384,333	-	2,572,941
Loans and advances in CHF	-	-	-	-	-
Loans and advances in CHF to related parties	3,500,000	-	-	-	3,500,000

2018

Executive Management	Gustav Stenbolt, Chairman & Delegate of the BoD	George M. Isliker, CFO/CRO			Total
Numbers of shares	-	15,285			15,285
Loans and advances in CHF	-	-			-
Loans and advances in CHF to related parties	-	-			-

1) Olivier Brunisholz was elected by the General Shareholder's Meeting on 15 May 2018 as member of the Board of Directors. At the same time, Philipp LeibundGut was elected as Vice Chairman of the Board of Directors. This function was held by Christoph N.Meister until that date.

2017

Members of the Board of Directors	Gustav Stenbolt, Chairman & Delegate of BoD [1]	Christoph N. Meister, Vice Chairman	Philipp LeibundGut, Member [3]	Total
Numbers of shares	1,874,601	4,821	398,333	2,277,755
Loans and advances in CHF	-	-	-	-
Loans and advances in CHF to related parties	-	-	-	-

2017

Executive Management	Stefan Häberle CEO [1]	George M. Isliker, CFO/CRO		Total
Numbers of shares	-	15,285		15,285
Loans and advances in CHF	-	-		-
Loans and advances in CHF to related parties	-	-		-

1) Gustav Stenbolt had served as Group CEO since 2007 until his election as Chairman of the Board of Directors by the Annual General Meeting on 2 June 2015. Stephan Häberle was CEO of Valartis Group from 3 June 2015 until he left the Group in February 2017, and Gustav Stenbolt took over as Delegate of the Board of Directors in March 2017.

37. BUSINESS SEGMENTS

In the current organisational structure, there is only one management level in the sense of a leading decision-maker (Delegate of the Board of Directors). Valartis Group now only has one single segment and, in accordance with IFRS 8, reporting is only for one component of the company.

Valartis Group's external segment reporting is based on the internal reporting as of 31 December 2018.

Valartis Group prepares a monthly management report containing consolidated financial information for the Executive Board and quarterly for the Board of Directors. The same principles apply to the valuation as to the consolidated financial statements. Management reviews the consolidated financial information and uses it in its management decisions to implement the overall strategy.

The Executive Board of Valartis Group consists of the Delegate of the Board of Directors and the Chief Financial & Risk Officer.

Information on geographical areas by the domicile of the reporting unit is shown below. This geographical information does not reflect the Group's management structure.

Information on regions

in CHF 1,000	1.1.–31.12.2018			1.1.–31.12.2017		
	Domestic	Non-domestic	Total	Domestic	Non-domestic	Total
Operating income [1)]	4,247	5,449	9,743	1,348	10,668	12,016
Total assets	69,075	92,243	161,318	64,354	110,317	174,671

1) 2017 figures have been retreated in order to reflect operating income related to investment property before deduction of general expense. See also comment 1) in Note 2 – Income from investment property

Reporting is based on operating locations.

38. GROUP COMPANIES

In addition to the financials of Valartis Group AG, Fribourg, the consolidated financial statements include the financial statements of the following fully consolidated companies and associated companies:

Fully consolidated entities	Domicile	Purpose	Currency	Share capital	Participation in per cent 31.12.2018	Participation in per cent 31.12.2017
Valartis International Ltd.	Tortola, BVI	Investment Advisor	USD	20,000,000	100.00	100.00
VLR Property Management Ltd.	Moscow, RU	Investment Advisor	RUB	100,000	99.99	99.99
ENR Russia Invest SA (Group)	Geneva, CH	Investment Company	CHF	32,790,585	63.22	63.22
ENR Investment Ltd.	Limassol, CY	Investment Company	EUR	6,576,660	63.22	63.22
ENR Private Equity Ltd.	Grand Cayman, CYM	Investment Company	USD	500	63.22	63.22
Stainfield Ltd.	Limassol, CY	Holding Company	EUR	3,420	63.22	63.22
ENR Development LLC	Moscow, RU	Real estate project Company	RUB	15,535,100	63.22	63.22
Petrovsky Fort LLC	Moscow, RU	Real estate Company	RUB	18,000	63.22	63.22
Romsay Properties Ltd.	Limassol, CY	Holding Company	EUR	1,710	63.22	63.22
Eastern Property Partners II LP	Grand Cayman, CYM	Holding Company	USD	67,831,133	100.00	100.00
EPP GP Ltd.	Grand Cayman, CYM	Holding Company	USD	50,000	100.00	100.00
Parking Clé de Rive SA	Geneva, CH	Real estate project Company	CHF	148,500	50.98	50.98
Valartis Finance Holding AG	Vaduz, FL	Holding Company	CHF	100,000	100.00	100.00
Valartis AG	Fribourg, CH	Holding Company	CHF	100,000	100.00	100.00
Vaba1 Holding GmbH in liquidation (formerly Valartis (Austria) GmbH)	Vienna, AT	Holding Company	EUR	35,000	100.00	100.00
MCT Luxembourg Management S.à.r.l.	Luxembourg, L	Investment Advisor	EUR	12,085	100.00	100.00
Valartis Advisory Services SA	Geneva, CH	Investment-Advisory- and Corporate-Centre-functions	CHF	1,896,210	100.00	100.00
Valartis Immobilier AG	Fribourg, CH	Real estate Company	CHF	100,000	100.00	100.00
Valartis Group Foundation	Vaduz, FL	Foundation	CHF	30,000	100.00	100.00

Associated companies	Domicile	Purpose	Currency	Share capital	Participation in per cent 31 December 2018	Participation in per cent 31 December 2017
Norinvest Holding SA	Geneva, CH	Holding Company	CHF	25,689,000	25.02	26.90
Darsi Investment Ltd.	Tortola, BVI	Real estate project Company	EUR	7,476,190	38.81	38.81
Société des Carrières SA	Luxembourg, L	Holding Company	EUR	33,000	33.33	33.33
Vestive Limited	Nicosia, CY	Holding Company	EUR	5,000	50.00	50.00
Briese Schiffahrts GmbH & Co. KG MS	Leer, DE	Holding Company	EUR	2,900,000	49.83	0.00
Inkonika LLC	Moscow, RU	Real estate Company	RUB	16,510,836	50.00	50.00

39. ACQUISITION OF ASSOCIATED COMPANIES

Acquisition during the financial year

On 12 December 2018, Valartis Group invested in Briese Schiffahrts GmbH & Co. KG MS. As the company is a German KG (Kommanditgesellschaft) i.e. a limited partnership, it is characterised by the fact that at least one personally liable partner is present, who is indefinitely liable for the company's liabilities with his entire assets. The KG is the only mixed form among the partnerships in which, in addition to this or these personally liable partners, there are also partners who are only liable with their capital contribution.

Valartis Group values this capital contribution as a limited partner at cost. Any differences between this estimate and actual results will be adjusted in the Group's 2019 consolidated financial statements when available.

Capital contribution in Briese Schiffahrts GmbH & Co. KG MS

in CHF 1,000	20.12.2018 Briese Schiffahrts GmbH & Co. KG MS 1)
Current assets, including cash & cash equivalents	n/a
Non-current assets, including investment property	n/a
Total assets	**n/a**
Current liabilities	n/a
Non-current liabilities	n/a
Total liabilities	**n/a**
Equity	**3,285**
Proportion of the Group's ownership in per cent	49.83
Group's share of equity	1,637
Unrecognized Group's share of equity	n/a
Carrying amount of the investment in associated company	1,637
Purchase price paid cash	1,637
Goodwill	-
Net cash outflow	**-1,637**

1) Since Briese Schiffahrts GmbH & CO. KG MS was incorporated mid-December 2018, financial statements are not available, yet.

Acquisition in the same period of the previous year

On 6 July 2017, Valartis Group acquired all shares in Eastern Property Partners II LP (EPP II) from Eastern Property Holdings Ltd. via its Group company ENR Russia Invest SA. This company holds a 50 per cent stake in Vestive Limited (Vestive) which owns and operates a parking garage in Moscow via the Russian company Inkonika LLC (Inkonika). All shares were acquired from EPH for the purchase price of CHF 2,133 million (USD 2,225 million) as part of this transaction. In addition to the purchase of the shares, Valartis Group also assumed liabilities of the acquired units towards the seller and paid EPH a price of CHF 1,366 million (USD 1,425 million) in return. The total purchase price for the transaction thus amounts to CHF 3.5 million (USD 3.65 million).

EPP II Ltd. has been fully consolidated since 6 July 2017. Since this date, Vestive and Inkonika have been accounted for as subconsolidated units as associated companies.

50 per cent of Vestive is held by two other investors. According to the provisions of the shareholders' agreement between the three shareholders, at least one of the two shareholders must vote together with Valartis Group for decisions to be taken. Due to this constellation, Valartis Group does not have control and Vestive is therefore classified as an associated company.

The fair value of the acquired assets and liabilities as of 6 July 2017 is shown in the table below:

Acquisition of shares in Eastern Property Partners II LP and Vestive Limited

in CHF 1,000	06.07.2017 EPP II Ltd.	06.07.2017 Vestive Ltd.
Current assets, including cash & cash equivalents	2,133	525
Non-current assets, including investment property	-	7,861
Total assets	**2,133**	**8,385**
Current liabilities		38,347
Non-current liabilities		-
Total liabilities	**-**	**38,347**
Equity	**2,133**	**-29,962**
Portion of the Group's ownership in per cent	100	50
Group's share of equity	2,133	-14,981
Unrecognized Group's share of equity	n/a	-14,981
Carrying amount of the investment in associated company	n/a	-
Purchase price paid cash	2,133	
Goodwill		
Net cash outflow	**-2,133**	**n/a**

Acquisition of loans due from Inkonika LLC, a 100 per cent subsidiary of Vestive Limited, from Eastern Property Holdings Group as of		06.07.2017
Loans due from Inkonika LLC (fair value)		1,366
Purchase price paid cash		1,366
Net cash outflow		**-1,366**

Income and expenses from the operation of the car park and changes in the fair value of the building are recorded in the associated company. The fully consolidated company EPP II only generates financial income from loans and administration expenses. The loans taken over were recognized at acquisition cost and are carried at amortized cost. The impairment test is based on the development in value of the parking garage building included in Vestive.

In 2018, EPP II has generated financial income of zero and a loss of CHF 22,000 (in 2017, since its inclusion in the scope of Valartis Group on July 2017 until 31 December 2017, a financial income of zero and a profit of CHF 39,000). Financial income consists exclusively of intercompany interest income and is therefore eliminated in the consolidated financial statements. The profit achieved is attributable to the reversal of write-downs on a loan to the associated company.

EPP II has been fully consolidated into Valartis Group in 2018. In 2017, if EPP II had already been included in the scope of consolidation of Valartis Group at the beginning of the business year, Valartis Group would have reported financial income of zero and a profit of CHF 39,000.

The transaction costs for the acquisition amounted to CHF 70,000 and were charged to other operating expenses in the 2017 result.

40. SALE TRANSACTIONS AND DISCONTINUED OPERATIONS

Disposals during the financial year

There was no disposal during the financial year.

Disposal in the same period of the previous year

Sale of the associated company Gebäudebesitz Rathausstrasse 20 GmbH, Austria, 2 January 2017

The property in Vienna held by Valartis Bank (Austria) AG was sold to a previously established real estate company, Gebäudebesitz Rathausstrasse 20 GmbH (RHS GmbH) (asset deal). Valartis Bank (Austria) AG held 49.9 per cent and Wiener Privatbank SE 51.1 per cent of this company. All shares were sold to a third party on 2 January 2017.

Sale of associated company Gebäudebesitz Rathausstrasse 20 GmbH

in CHF 1,000	02.01.2017
Disposal of net assets	
Sales price	**5,369**
Gain from sale of subsidiary before currency translation differences and income tax	5,369
Transfer of cumulated foreign currency translation difference from equity to income statement	
Income tax on sale	-557
Gain from sale of associated company	**4,812**
Sales price received in cash and cash equivalents	5,369
Net inflow of funds	**5,369**

Sale of the associated company Société des Centres Commerciaux d'Algérie SPA, Algeria, 26 September 2017

The sale of the shares in Société des Centres Commerciaux d'Algérie SPA (SCCA) in Algeria to another existing investor was agreed on 4 April 2017 and completed on 26 September 2017. Valartis Group held a minority stake in SCCA via a subgroup, the Darsi Group. Subsequent negotiations are currently still being conducted with the buyers on an additional purchase price claim in favour of Valartis Group arising from currency developments.

Sale of associated company Société des Centres Commerciaux d'Algérie SPA, Alger

in CHF 1,000	Darsi Investment Ltd.	SCCA SPA	Total
Disposal of net assets	**3,136**	**8,549**	**11,685**
Sales price	**9,028**	**8,638**	**17,665**
Repayment of liabilities	-6,294	-	-6,294
Net gain from sale	**2,734**	**8,638**	**11,372**
Gain from sale of associated company before currency translation differences	-	89	89
Loss from associated company before currency translation differences	-402	-	-402
Transfer of cumulated foreign currency translation difference from equity to income statement	-3,539	-	-3,539
Loss from associated company/Gain from sale of associated company	**-3,941**	**89**	**-3,853**
Net gain from sale	2,734	8,638	11,372
whereof already received in cash by Valartis Group	-	7,801	7,801
thereof still recognised as receivable from the buyer	2,734	836	3,570
Net inflow of funds as per 31.12.2017			**7,801**

The shares in SCCA SPA were held by Valartis International Ltd., a wholly owned subsidiary of Valartis Group AG, and in part by the associated companies Darsi Investment Ltd. and Darsi Property Holdings Ltd., a subsidiary of Darsi Investment Ltd. and sold on 26 September 2017. These companies form the Darsi Group.

The purchase price payments, excluding the additional purchase price claims arising from currency developments, were transferred by the buyers to the three selling parties. The two Darsi companies will repay existing liabilities with the proceeds of the sale and return the remaining funds to the shareholders. For this reason, as of 31 December 2017, Valartis Group still held an interest in the associated Darsi Group to the extent of the proceeds from the sale transaction still due to Valartis Group.

Darsi Group

As of 31 December 2018 (as in the previous year), the investment in the Darsi Group is allocated to discontinued operations. Following the disposal of the shareholding in the shopping, leisure and business centre in Algeria subsequent negotiations are currently being held with the purchasers on an additional purchase price receivable in favour of Valartis Group due to currency developments. Those receivables will be collected in Darsi Group which is intended to be disposed once Valartis Group will settle the negotiations.

Sale of the associated company Panariello Enterprises Ltd, Cyprus, on 18 December 2017

In December 2017, all shares in the associated company Panariello Enterprises Ltd. were sold for CHF 20,000 to Kolianco Holdings Ltd., the existing majority shareholder. This sale resulted in a loss of CHF 81,000 at the expense of the 2017 result.

Sale of associated company Panariello Enterprises Ltd.

in CHF 1,000	18.12.2017
Disposal of net assets	**100**
Sales price	**20**
Loss from sale of associated company before currency translation differences and income tax	**-80**
Transfer of cumulated foreign currency translation difference from equity to income statement	-1
Income tax on sale	-
Loss from sale of associated company	**-81**
Sales price recognised as receivables as per 31 December 2017	20
Sales price received in cash and cash equivalents	
Net inflow of funds	**20**

Results of discontinued operations

The discontinued operations break down as follows:

Fiscal year 2018

In 2018, the sole result from discontinued operations is related to the foreign exchange effect of the translation of the non-current asset held for sale.

Fiscal year 2017

In fiscal year 2017, the results of the discontinued operations include the associated companies Gebäudebesitz Rathausstrasse GmbH (RHS GmbH) and the Darsi Group.

Associated company Building ownership Rathausstrasse GmbH (RHS GmbH)

In the course of the sale of the banking business of Valartis Bank (Austria) AG, the banking property in Vienna was transferred to a company founded together with Wiener Privatbank SE. Valartis Group held 49.9 per cent of RHS GmbH. It was the intention of both parties to sell the property or the shares in RHS GmbH to a third party. RHS GmbH was therefore already allocated to discontinued operations in 2016.

On 16 December 2016, an agreement was signed to sell the shares in RHS-GmbH held by Valartis Group to a third party and completed on 2 January 2017.

Following the sale of the banking property by Valartis Bank (Austria) AG to RHS GmbH, the book value of the associated company RHS GmbH had to be fully written down in the 2016 business year. The reason for this are the accounting regulations IFRS, according to which the unrealised book profit from the sale of the property of Valartis Bank (Austria) AG to the associated company RHS GmbH must be eliminated. This entry was reversed after the sale to a third party in January 2017.

Darsi Group

Through its associated company Darsi Group, Valartis Group held a minority interest in Société des Centres Commerciaux d'Algérie SPA (SCCA) in Algeria. The sale of the shares in SCCA to another existing investor was agreed on 4 April 2017 and completed on 26 September 2017. The associated company Darsi Group was already classified as a discontinued operation in 2016.

Income statement, statement of comprehensive income and cash flow of discontinued operations

in CHF 1,000		2018			2017
Income statement of discontinued operations	Darsi Group	Total	Darsi Group	RHS GmbH	Total
Operating income	-	-	-314	5,369	5,056
Administrative expense	-	-	-	-	-
Gross income	**-**	**-**	**-314**	**5,369**	**5,056**
Valuation adjustments, provisions and losses					
Impairment loss recognised on the revaluation to fair value less costs to disposal	-	-	-	-	-
Earnings before interest and taxes (EBIT)	-	-	-314	5,369	5,056
(Loss) from reclass of cumulated foreign currency translation differences formerly booked in equity	-46	-46	-3,539	-	-3,539
Net profit/(loss) from discontinued operations before tax	**-46**	**-46**	**-3,853**	**5,369**	**1,517**
Income taxes	-	-	-	-557	-557
Net profit/(loss) from discontinued operations	**-46**	**-46**	**-3,853**	**4,812**	**960**
whereof (loss) from reclass of cumulated foreign currency translation differences formerly booked in equity	-46	-46	-3,539	-	-3,539
whereof result of discontinued operations before reclass of cumulated foreign currency differences	-	-	-314	4,812	4,499
Other comprehensive income of discontinued operations	**-**	**-**	**-**	**-**	**-**
Foreign exchange translation difference	-29	-29	3,539	-	3,539
Total recognised in other comprehensive income	**-29**	**-29**	**3,539**		**3,539**
Cash flow from discontinued operations	**-**		**-**	**-**	
From operating activities	-	-	-	-	-
From investment activities	-	-	7,801	5,369	13,170
From financing activities	-	-	-	-	-
Net cash flow	**-**	**-**	**7,801**	**5,369**	**13,170**

The Valartis Group has held a stake in SCCA SPA through the Darsi Group since 2008 until 2017. Until the sale of the investment in SCCA SPA which included the operating business of operating the shopping, leisure and business centre in Algeria, the translation of the book value of the associated company from Algerian Dinar and EUR into the Group currency CHF was recorded as a reduction in the Group equity level in the currency translation adjustments due to falling exchange rates. IFRS requires these cumulative currency differences to be reclassified from the Group's equity to its income statement upon sale.

Non-current assets and liabilities classified as held for sale

in CHF 1,000	31.12.2018		31.12.2017	
Balance Sheet	Darsi Group	Total 2018	Darsi Group	Total 2017
Associated companies	2,660	2,660	2,735	2,735
Total non-current assets classified as held for sale	**2,660**	**2,660**	**2,735**	**2,735**
Liabilities directly associated with the non-current assets classified as held for sale				
Total liabilities directly associated with the non-current assets classified as held for sale	**-**	**-**	**-**	**-**
Net assets/(liabilities)	**2,660**	**2,660**	**2,735**	**2,735**

41. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

The following table shows the information on each subsidiary of the Group with significant non-controlling interests. Figures refer to the figures before intra-group elimination:

in CHF 1,000	Parking Clé de Rive SA		ENR Russia Invest SA	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Share of non-controlling interests in per cent				
Participation	49.02%	49.02%	36.78%	36.78%
Voting rights	49.02%	49.02%	36.78%	36.78%
Total asset	962	366	61,245	72,987
Total liabilities	823	148	20,773	24,588
Net asset	139	218	40,472	48,399
Carrying amount of non-controlling interests	**68**	**107**	**15,554**	**18,470**
Operating income	-561	-560	2,211	4,236
Profit/loss	-583	-581	-4,439	2,395
Other comprehensive income	-	-	-3,490	-144
Total comprehensive income	**-583**	**-581**	**-7,929**	**2,251**
(Loss)/profit allocated to non-controlling interests	-286	-283	-1,633	880
Other comprehensive income allocated to non-controlling interests	-	-	-1,283	-36
Cash flow from operating activities	106	-461	286	5,937
Cash flow investing from investment activities	-127	-136	64	-2,133
Cash flow from financing activity	245	-	-1,294	-8,157
Foreign currency translation effects	-	-	116	-132
Net cash flow	**224**	**-597**	**-828**	**-4,485**
Paid dividends to non-controlling interests				

Changes in non-controlling interests

The following table shows the effects of the change in the shareholding quota on non-controlling interests (minorities):

in CHF 1,000	Parking Clé de Rive SA 2017	ENR Russia Invest SA 2017
Non-controlling interests at 1 January	**390**	**18,085**
Gains/losses from financial assets available for sale	-	-
Foreign exchange translation differences	-	-36
Other comprehensive income	**-**	**-36**
Net (loss)/profit	-283	880
Total comprehensive income	**-283**	**844**
Transaction with non-controlling interests	-	-459
Increase in capital	-	-
Owner-related changes	**-**	**-459**
Total non-controlling interests at 31 December	**107**	**18,470**

	Parking Clé de Rive SA 2018	ENR Russia Invest SA 2018
Non-controlling interests at 1 January	**107**	**18,470**
Gains/losses from financial assets at fair value through OCI	-	-
Foreign exchange translation differences	-	-1,283
Other comprehensive income	**-**	**-1,283**
Net (loss)/profit	-286	-1,633
Total comprehensive income	**-286**	**-2,916**
Transaction with non-controlling interests	-	-
Increase in capital	245	-
Other movements	2	-
Owner-related changes	**247**	**-**
Total non-controlling interests at 31 December	**68**	**15,554**

42. STRUCTURED ENTITIES

Valartis Group acts as an investment advisor to a collective investment instrument that meets the definition of IFRS 12 for structured entities. As Valartis Group acted as an agent in the interests of investors, this investment instrument was not consolidated. As of 31 December 2018, there was no contractual or constructive obligations to provide financial or other support to the investment fund. Valartis Group took on various administrative tasks for the collective investment instrument. For these services, it was compensated with customary market fees.

Gross income from services for the collective investment instrument amounted to CHF 0.2 million for the 2018 financial year (2017: CHF 0.2 million). Shares in own investment funds held by Valartis Group were treated as financial instruments.

The following table shows the development of the book value of the units in the collective investment instruments held by Valartis Group. The carrying amount corresponds to the maximum risk of loss.

in CHF 1,000	Trading portfolio assets [1] 2018	Trading portfolio assets [1] 2017
Carrying amount 1 January	**-**	**268**
Purchase	989	-
Sales	-	-48
Recognised in the income statement	-13	-220
Total as of 31 December	**976**	**-**

1) The amount Recognised in income statement is disclosed as a loss.

43. ASSETS PLEDGED OR ASSIGNED TO SECURE OWN LIABILITIES AND ASSETS UNDER RESERVATION OF OWNERSHIP

in CHF 1,000	31.12.2018		31.12.2017	
	Market value	Effective commitment	Market value	Effective commitment
Cash and cash equivalents	907	873	-	-
Trading portfolio assets	13,690	7,000	-	-
Financial assets at fair value through OCI	8,404	-	13,848	7,000
Investment property	31,604	14,260	33,275	14,622
Total	**54,605**	**22,133**	**47,123**	**21,622**

44. ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

The following table shows a reconciliation of the changes in current and non-current financial assets and liabilities in the consolidated financial statements. The consolidated statement of cash flows shows the liabilities as cash flow from financing activities.

in CHF 1,000	2017	Non-Cash changes				2018
	Movements in financial liabilities	Cash flows	Changes in scope of consolidation	Translations differences	Changes of fair value	
Current financial liabilities	28,916	-13,802	-	2,128	-	17,242
Non-current financial liabilities	2,059	13,913	-	-532	-	15,440
Total	**30,975**	**111**	**-**	**1,596**	**-**	**32,682**

45. EVENTS AFTER THE BALANCE SHEET DATE

None.

Phone +41 22 322 24 24
Fax +41 22 322 24 00
www.bdo.ch

BDO Ltd
Rte de Meyrin 123
Case postale 150
1215 Genève 15

STATUTORY AUDITOR'S REPORT

To the General Meeting of Valartis Group AG, Fribourg

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Valartis Group AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 38 to 116) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Valuation of the investment property "Petrovsky Fort"	
As of 31 December 2018, the investment property "Petrovsky Fort" is valued at KCHF 33'180 in the consolidated financial statements. This corresponds to 20 percent of the total assets as of 31 December 2018. On initial recognition (30 September 2014), investment properties are recognised at cost. For subsequent measurement, they are recorded at fair value and changes are recognised in profit or loss. The fair value is determined on the basis of an independent third party valuation. In our view, this key position was of particular importance due to the associated discretionary powers and estimates of the management and external experts. Valartis Group AG explains the accounting principles applied on page 59 of the annual report. Please also refer to notes 2, 18 and 33 to the consolidated financial statements.	We have examined the valuation on the basis of the report from a real estate expert. We assessed the objectivity, independence and expertise of the valuation specialist. With the support of our own internal specialists, we have verified the appropriateness of the valuation method and the underlying assumptions used. We also assessed the adequacy of the input factors used on the basis of externally available data. These input factors included rent, vacancy rate, interest rates and expected maintenance costs. We also focused on the adequacy of disclosures in the annual report in connection with this investment property.

Key Audit Matter	How our audit addressed the key audit matter
Valuation of assets under development	
The Valartis Group is involved in a real estate project in the agglomeration of Moscow, which as at 31 December 2018 is presented as assets under development with a total value of KCHF 2'480 in the consolidated financial statements. This corresponds to 1.5 percent of total assets as of 31 December 2018. In the financial year 2016, the project was suspended because the local authorities had to agree on new building specifications for the project. Although agreement was reached at the end of 2016, the planned construction activities were not continued in 2018 because the whole construction project has to be relaunched. After completion of the building, the group plans to sell the apartments. The management has determined the net realisable value of the balance sheet position as part of an impairment test. In our opinion, this significant position was of particular importance due to the complexity of the management's assumptions and estimates used to determine the net realisable value. Management has performed an impairment test and based on the reduced sqm and the uncertainties in timely completion of the project recognized an impairment of KCHF 2'480 in financial year 2018. Details of the Company's assets under development are described in note 15 of the consolidated financial statements.	We have assessed the underlying information and assumptions based on externally available data and have examined the valuation method chosen by management and the calculations made. Internal specialists have supported us with this work. We have also assessed the adequacy of disclosures and classification in relation with the valuation of assets under development.

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, remuneration report and our auditor’s reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Geneva, 8 April 2019

BDO Ltd

Nigel Le Masurier	Markus Schenkel
Auditor in Charge Licensed Audit Expert	Licensed Audit Expert

INCOME STATEMENT OF VALARTIS GROUP AG

Income

in CHF	Note	1.1.–31.12.2018	1.1.–31.12.2017
Dividend income	3.1	17,413,270	67,681,565
Other financial income	3.2	542,996	2,151,136
Other operating income	3.3	37,800	20,950
Total income		**17,994,066**	**69,853,651**

Expenses

Personnel expenditure	3.4	-	-11,348
Other operating expenses	3.5	-3,108,649	-3,150,671
(Impairment)/reversal of impairment losses on financial assets and securities shareholdings	3.6	-14,075,365	-61,137,780
Financial expenditure	3.7	-756,374	-491,060
Result for the year before extraordinary and off-period income and taxes		**53,678**	**5,062,792**
Extraordinary and out-of-period income	3.8	23,566	1,132
Extraordinary and out-of-period expenses	3.9	-4,045	-
Profit before tax		**73,199**	**5,063,924**
Direct Taxes		-2,907	-
Annual profit		**70,292**	**5,063,924**

STATEMENT OF FINANCIAL POSITION OF VALARTIS GROUP AG

Assets			
in CHF	Note	1.1.–31.12.2018	1.1.–31.12.2017
Current assets			
Due from banks		573,396	2,767,489
Shares		4,540,174	3,115,638
Other short-term receivables	4.1	895,275	1,067,174
Prepaid expenses and accrued income		58,512	93,656
Total current assets		**6,067,357**	**7,043,957**
Non-current assets			
Financial assets	4.2	4,803,382	4,066,404
Participations	4.3	92,520,377	97,105,757
Total non-current assets		**97,323,759**	**101,172,161**
Total assets		**103,391,116**	**108,216,118**
Liabilities and Shareholders' equity			
Short-term liabilities			
Bank overdraft		727,045	-
Trade accounts payable	4.4	12,748	140,381
Other short-term liabilities	4.5	5,816	2,146,079
Accrued expenses and deferred income		308,337	186,728
Total short-term liabilities		**1,053,946**	**2,473,188**
Long-term liabilities			
Total long-term liabilities		**-**	**-**
Shareholders' equity			
Share capital	4.6	5,000,000	5,000,000
Legal retained earnings			
General legal retained earnings		1,000,000	1,000,000
Reserve for treasury shares	4.7	6,207,713	5,369,842
Voluntary retained earnings			
General voluntary retained earnings		25,647,230	26,485,101
Profit brought forward		67,482,901	63,326,394
Profit/(loss) for the year		70,292	5,063,924
Treasury shares	4.7	-3,070,966	-502,331
Total shareholders' equity		**102,337,170**	**105,742,930**
Total liabilities and shareholders' equity		**103,391,116**	**108,216,118**

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Company/name, domicile

Valartis Group AG, rue de Romont 29/31, Fribourg. Swiss company identification number (UID) CHE-101.833.144.

Number of full-time employees

The company had no employees in the year under review (previous year: none).

2. ACCOUNTING PRINCIPLES

General information on the accounting principles

The financial statements were prepared according to the provisions of the Swiss Code of Obligations (Art. 959 ff.). All amounts are disclosed in CHF unless expressed otherwise. The main valuation principles, other than required by law are explained below:

Securities

Investments are carried at cost less any necessary write-downs.

Share-based payment

In 2018, there were no shares allocated to members or former members of the Executive Board as part of a bonus payment.

In 2017, the expense for Valartis Group AG shares allocated as part of a bonus payment was charged pro rata temporis to personnel expenses over the term. Until the 31 March 2017, when the shares were transferred to these members of the Executive Committee, the obligation under these programs were recognised at fair value under deferred income and accrued expenses. Details of the remuneration system are shown in the compensation report (see page 26 ff.).

Following the sale of Valartis Group's private banks between 2014 and 2016 and the associated transformation to the current business model and the current size of the Group, the Compensation Committee decided to replace the bonus programme with a new employee participation programme.

Information on exchange rates

The financial statements are kept and accounted for in Swiss francs. For foreign currency translations, closing rates are used for the balance sheet items, average rates are used for transactions during the year and the income statement.

	31.12.2018	31.12.2017
USD balance-sheet date rate	0.9850	0.9753
USD average rate	0.9760	0.9827
EUR balance-sheet date rate	1.1265	1.1691
EUR average rate	1.1511	1.1159

Treasury shares

Treasury shares are held for the purpose of servicing employee participation programs. Treasury shares held directly are recognised at cost as a negative item in equity at the time of acquisition.

On subsequent resale, the gain or loss is recognised in the income statement as financial income or expense. For indirect Valartis Group AG shares held by other Group companies, a reserve for treasury shares is created in equity.

In addition, the shareholder's meeting of 15 May 2018 approved a share buyback programme starting on 11 June 2018 until April 2019 (for the ordinary shareholders' meeting on 14 May 2019) whereby a maximum amount of 400,000 shares could be bought back for the purpose of cancellation. As of 31 December 2018, 175,125 shares or 44 per cent of the maximum share buyback programme had been bought back for said purpose.

Long-term interest-bearing liability

Loans in foreign currencies are valued at the current closing rate, whereby unrealised losses are posted but unrealised gains are not booked (imparity principle).

No cash flow statement and additional disclosures in the appendix

Since Valartis Group AG prepares consolidated financial statements in accordance with a recognised accounting standard (IFRS), it has waived the disclosures in the notes on interest-bearing liabilities and auditing fees as well as the presentation of a cash flow statement in these annual financial statements in accordance with statutory provisions.

3. INCOME STATEMENT

in CHF	2018	2017
3.1 Dividend income		
Dividend of Valartis International Ltd.	-	6,543,785
Dividend of Valartis Finance Holding AG	17,391,273	61,137,780
Dividend from shares held for trading purposes	21,997	-
Total	**17,413,270**	**67,681,565**
3.2 Other financial income		
Income from cash and marketable securities	542,996	141,561
Income from translation differences and other financial income	-	2,009,575
Total	**542,996**	**2,151,136**
3.3 Other operating income		
Other operating income	37,800	20,950
Total	**37,800**	**20,950**
3.4 Personnel expenses		
Personnel expenses from bonus stock programs	-	-11,348
Total	**-**	**-11,348**

Valartis Group AG did not employ any staff either in the reporting year or in the previous year. Personnel expense in 2017 related to bonus shares programmes dating back the 2013 fiscal year for which the exercise date had not been reached, yet. As of 1 April 2017, all remaining programs have reached the exercise date and are therefore closed.

in CHF	2018	2017
3.5 Other operating expenses		
Consulting and auditing expenses	-268,186	-319,914
IT and telecommunications expenses	-12,291	-28,262
Other operating expenses	-2,828,172	-2,802,495
Total	**-3,108,649**	**-3,150,671**

Other operating expenses include intercompany cost allocations based on a service level agreement (transfer pricing) of CHF 2.6 million (previous year CHF 2.6 million).

3. INCOME STATEMENT (CONTINUED)

in CHF	2018	2017
3.6 Reversal of impairment losses/(value adjustments) on financial assets and investments		
Allowances for investments	-14,075,365	-61,137,780
Total	**-14,075,365**	**-61,137,780**

In 2018, the impairments relate to the impairment of the participation in Valartis Finance Holding AG (CHF 13.8 million) following the dividend-in-kind received in June 2018. In addition, an impairment of CHF 0.3 million was done on the participation Parking Clé de Rive SA.

In 2017, the impairments related to Valartis Finance Holding AG following a dividend-in-kind received in June 2017.

in CHF	2018	2017
3.7 Financial expenditure		
Interest expense from interest-bearing liabilities to participating interests	-10,469	-367,528
Losses from marketable securities	-739,386	-79,008
Other financial expenses (incl. losses from foreign currencies)	-6,519	-44,524
Total	**-756,374**	**-491,060**
3.8 Extraordinary and out-of-period income		
Income relating to other periods	23,566	1,132
Total	**23,566**	**1,132**
3.9 Extraordinary and out-of-period expenses		
Extraordinary expenses		
Expenses relating to other periods	-4,045	-
Total	**-4,045**	**-**

The extraordinary income in 2018 relates to the release of a prior period provision unused (CHF 9,000) and revenue related to previous periods.

4. BALANCE SHEET

in CHF	31.12.2018	31.12.2017
4.1 Other current receivables		
Third parties	296,572	359,250
Group companies	598,703	707,924
Total	**895,275**	**1,067,174**
4.2 Financial assets		
Securities	4,604,873	3,379,373
Long-term receivables from companies in which the entities holds an investment	198,509	687,031
Total	**4,803,382**	**4,066,404**

Long-term receivables from participating interests also include a residual purchase price receivable from Banque Cramer & Cie SA from the sale of Valartis Bank AG and Valartis Wealth Management SA as short-term receivables of CHF 0.6 million (previous year: CHF 0.7 million) and as long-term receivables from participations of CHF 0.2 million (previous year: CHF 0.7 million). The periodic payments will be made in accordance with an agreed phased schedule running until 2020.

4.3 Participations

Name and domicile	Capital/ participation quote 2018	Capital/ participation quote 2017	Share capital
Valartis AG, Fribourg, Switzerland	100%/100%	100%/100%	CHF 100,000
Valartis Finance Holding AG, Vaduz, Liechtenstein	100%/100%	100%/100%	CHF 100,000
Valartis Advisory Services SA, Geneva & Zurich, Switzerland	100%/100%	100%/100%	CHF 1,896,210
Valartis International Ltd., Tortola, BVI	100%/100%	100%/100%	CHF 20,504,000
Valartis Immobilier AG, Fribourg, Switzerland	100%/100%	100%/100%	CHF 100,000
Parking Clé de Rive SA, Geneva, Switzerland	51%/51%	51%/51%	CHF 148,500
MCT Luxembourg Management S.à.r.l., Luxembourg	100%/100%	100%/100%	EUR 12,085
ENR Russia Invest SA, Geneva, Switzerland	23.43%/23.43%	0.96%/0.96%	CHF 32,790,585
Vaba1 Holding GmbH in Liquidation, Vienna, Austria (formerly Valartis [Austria] GmbH)	100%/100%	-	EUR 35,000

Significant changes

In June 2018, all shares and securities held by Valartis Finance Holding AG were transferred by way of a dividend-in-kind to the Company. Those shares included a participation of 22.5 per cent in ENR Russia Invest SA and 100 per cent in Vaba1 Holding GmbH in Liquidation.

Significant indirect investments

Name and domicile	Parent company	Capital/ participation quote 2018	Capital/ participation quote 2017	Share capital/ Nominal capital
Vaba1 Holding GmbH in Liquidation, Vienna, Austria (formerly Valartis [Austria] GmbH)	Valartis Finance Holding AG	0%/0%	100%/100%	EUR 35,000
ENR Russia Invest SA, Geneva, Switzerland	Valartis AG	38.11%/38.11%	38.11%/38.11%	CHF 32,790,585
ENR Russia Invest SA, Geneva, Switzerland	Valartis Finance Holding AG	0%/0%	25.11%/25.11%	CHF 32,790,585
Norinvest Holding SA, Geneva, Switzerland	Valartis AG	25.02%/25.02%[1)]	26.9%/26.9%2)	CHF 25,689,000
Darsi Investment Ltd., Tortola, BVI	Valartis International Ltd.	38.81%/38.81%	38.81%/38.81%	EUR 7,476,190

1) In 2018, as Norinvest Holding SA has disposed treasury shares, Valartis Group AG's share in the issued shares has decreased to 25.02%.

2) In 2017, as Norinvest Holding SA has acquired treasury shares, Valartis Group AG's share in the issued shares has increased to 26.9%.

in CHF	31.12.2018	31.12.2017
4.4 Trade accounts payable		
Trade accounts payable to third parties	12,748	89,891
Trade accounts payable to governing bodies (auditors)	-	50,490
Total	**12,748**	**140,381**
4.5 Other current liabilities		
Other current liabilities to third parties	5,816	12,043
Other current liabilities to participations	-	2,134,036
Total	**5,816**	**2,146,079**
4.6 Share capital		
Share capital (CHF)	5,000,000	5,000,000
Number of registered shares	5,000,000	5,000,000
Nominal value per share (CHF)	1	1

4.7 Treasury shares

	Quantity 2018	Quantity 2017	in CHF 2018	in CHF 2017
Balance at 1 January	301,166	264,488	5,872,173	5,726,007
Purchases	336,837	51,780	3,406,506	473,269
Divestments	-	-15,102	-	-327,103
Balance at 31 December	638,003	301,166	9,278,679	5,872,173
thereof held directly by Valartis Group AG	87,305	23,203	1,092,557	502,331
thereof held directly by Valartis Group AG for purpose of cancelation	175,125	-	1,978,409	-
thereof held by participations	375,573	277,963	6,207,713	5,369,842

			2018	2017
Average purchase price per share in the reporting period			10.11	9.14
Average selling price per share in the reporting period			-	7.96
Average acquisition price per share as of balance sheet date			14.54	19.50

At its meeting on 15 May 2018, the Annual General Meeting approved the repurchase of treasury shares up to a maximum of 400,000 shares by the 2019 Annual General Meeting by means of a public share buyback program aimed at cancelling the shares.

The shares acquired as part of the public share buyback programme are to be cancelled and therefore do not fall within the 10 per cent limit of Art. 659 of the Swiss Code of Obligations which restricts the acqui-sition of treasury shares by the company.

The amendment to the Articles of Association (capital reduction, article 3) with regard to the actual number of repurchased shares will be submitted to the 2019 Annual General Meeting for approval.

As part of the buyback programme, a second line for registered shares was established on SIX Swiss Exchange Ltd in accordance with the International Reporting Standard (SIX listing). Ordinary trading in Valartis registered shares under security number 36 742 768 was not affected by this measure and continued normally. The maximum buy-back volume per day is 4,314 shares per day; calculated in accordance with Article 123 paragraph 1 letter c of the Swiss Ordinance on Financial Market Infrastructure and Market Behaviour in Securities and Derivatives Trading (Financial Market Infrastructure Ordinance, FMIO) of 25 November 2015. The share buy-back program ends in April 2019.

in CHF	31.12.2018	31.12.2017
Presentation in equity		
Deduction from equity for treasury shares held directly	-3,070,966	-502,331
Reserve for treasury shares of Valartis Group AG held by participations	6,207,713	5,369,842

5. ADDITIONAL INFORMATION

in CHF	31.12.2018	31.12.2017
Total amount of collateral provided for third-party liabilities		
Total amount of collateral provided for third-party liabilities	-	-
Total amount of assets used to secure own liabilities		
Total amount of assets used to secure own liabilities	727,044	-
Total assets under restricted control		
Total assets under restricted control	727,044	-

Shareholders

The share capital has been divided into registered shares (previously bearer shares) since 18 May 2017. According to the Swiss Financial Market Infrastructure Act (FinfraG), anyone holding shares in a company listed on the SIX is obliged to notify the company concerned and SIX as soon as their voting rights exceed or fall below certain thresholds. Under the Swiss Code of Obligations, the company is obliged to disclose the identity of all shareholders holding more than 3 per cent of the shares in the notes to the annual financial statements.

The following is a summary based on published reports:

in per cent	31.12.2018	31.12.2017
MCG Holding SA, Baar ZG	50.2	50.2
Nebag AG, Zurich	3.2	3.2
Gustav Stenbolt	0.9	0.9
Philipp LeibundGut	0.3	0.5

As per 31 December 2018 the beneficial owners of MCG Holding SA are Gustav Stenbolt, Geneva, Tidesea Ltd., Baar (100 per cent controlled by Gustav Stenbolt, Geneva) and Philipp LeibundGut, Zurich. The following are deemed to be holders of qualified participations: a) Gustav Stenbolt, who holds 85.1 per cent of the voting rights (80.2 per cent of the share capital) of MCG Holding SA (partly held through Tidesea Ltd., Fribourg) and b) Philipp LeibundGut, who holds 14.9 per cent of the voting rights (19.8 per cent of the share capital) of MCG Holding SA. On 21 December 2018, Tudor Private Portfolio LLC disposed its shares of MCG Holding SA consisting in 12.3 per cent of the voting rights (16.3 per cent of the share capital) which were acquired by Tidesea Ltd.

The shares held directly by Gustav Stenbolt and Philipp LeibundGut originated from bonus plans of previous years run by Valartis companies for the Executive Board and employees on the basis of their respective functions they held at the time.

Loans and equity holdings of the members of the board of directors and executive management at year end

2018	Gustav Stenbolt, Chairman & Delegate of the BoD 2) 3)	Christoph N. Meister, Vice Chairman 1)	Philipp LeibundGut, Vice Chairman 1)	Olivier Brunisholz, Member 1)	Total
Shareholdings held by and Loans/loans to Directors					
Number of shares held	2,183,787	4,821	384,333	-	2,572,941
Number of shares (entitlements) 1)	-	-	-	-	-
Loans and credits directly in CHF	-	-	-	-	-
Loans and credits to related parties in CHF	-	-	-	-	-

1) Olivier Brunisholz was elected by the General Shareholder's Meeting on 15 May 2018 as member of the Board of Directors. At the same time, Philippe LeibundGut was elected as Vice Chairman of the Board of Directors. This function was held by Christoph N. Meister until that date.

2017	Gustav Stenbolt, Chairman and Delegate of the BoD 2) 3)	Christoph N. Meister Vice Chairman	Philipp LeibundGut, Member 3)	Total
Shareholdings held by and Loans/loans to Directors				
Number of shares held	1,874,601	4,821	398,333	2,277,755
Number of shares (entitlements) 1)	-	-	-	-
Loans and credits directly in CHF	-	-	-	-
Loans and credits to related parties in CHF	-	-	-	-

1) Shares which were allocated to members of the Board of Directors in their former function as members of the executive boards of Valartis Group companies as a bonus component of previous years (but which have not yet been transferred as ownership) are shown as vested rights.
2) Gustav Stenbolt had served as Group CEO since 2007 until his election as Chairman of the Board of Directors by the Annual General Meeting on June 2, 2015. Stephan Häberle was CEO of Valartis Group from 3 June 2015 until his departure in February 2017. From March 2017 Gustav Stenbolt took over the function of Delegate of the Board of Directors (CEO).
3) 4,179 shares for Gustav Stenbolt and 1,174 shares for Philipp LeibundGut originate from a bonus plan based on the result for the 2013 financial year. The remaining additions are attributable to changes in the ownership structure of MCG Holding SA.

2018	Gustav Stenbolt, Chairman & Delegate of the BoD	George M. Isliker, CFO/CRO	Total
Shareholdings held by and loans/loans to members of the Executive Board			
Number of shares held	-	15,285	15,285
Number of shares (entitlements)	-	-	-
Loans and credits directly in CHF	-	-	-
Loans and credits to related parties in CHF	-	-	-

2017	Stephan Häberle, CEO [1]	George M. Isliker, CFO/CRO	Total
Shareholdings held by and loans/loans to members of the Executive Board			
Number of shares held	-	15,285	15,285
Number of shares (entitlements) [2]	-	-	-
Loans and credits directly in CHF	-	-	-
Loans and credits to related parties in CHF	-	-	-

1) Stephan Häberle was CEO of Valartis Group from 3 June 2015 until his departure in February 2017.

2) The entitlements are shares allocated to members of the Executive Board as a bonus component in previous years but which have not yet been transferred as ownership.

EVENTS AFTER THE BALANCE SHEET DATE

None.

PROPOSAL OF THE BOARD OF DIRECTORS TO THE GENERAL MEETING OF SHAREHOLDERS

The Board of Directors will submit the following proposal to the Ordinary General Meeting of Shareholders on 14 May 2019 in respect of the distribution of retained earnings:

in CHF	2018
Profit brought forward from previous year	67,482,901
Net profit	70,292
Retained earnings available for the general meeting of shareholders	67,553,193
Dividend on capital entitled to dividend payments [1)]	-436,200
Profit to be carried forward	67,116,993

1) Dividend of CHF 0.10 per share for 4,361,997 dividend entitled shares as of 31 December 2018 (excluding treasury shares). Previous year: Dividend of CHF 0.20 per share for 4,698,834 dividend entitled shares as of 31 December 2017 (excluding treasury shares)

Dividend payments

The Board of Directors proposes a dividend of CHF 0.10 per for the 2018 financial year (previous year: dividend of CHF 0.20 per share).

Phone +41 22 322 24 24
Fax +41 22 322 24 00
www.bdo.ch

BDO Ltd
Rte de Meyrin 123
Case postale 150
1215 Genève 15

STATUTORY AUDITOR'S REPORT

To the General Meeting of Valartis Group AG, Fribourg

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Valartis Group AG (pages 123 to 134), which comprise the balance sheet as at 31 December 2018 and the income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion the financial statements as at 31 December 2018 comply with Swiss law and the company’s articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Existence and valuation of participations	
As at 31 December 2018, the company shows participations in its financial statements with a total value of KCHF 92'520. Participations are accounted for at the higher of acquisition costs and net realisable value according to the principle of individual valuation. A potential impairment loss is determined by comparing the book value with the net asset value. This position represents 89 percent of total assets as of the balance sheet date and was therefore, in our opinion, of particular importance. Details of the Company's participations are described in Notes 2 and 4.3 to the financial statements of Valartis Group AG as at 31 December 2018.	We tested the existence of the participations recognized as of the balance sheet date by matching them with the shareholders registers of the respective companies. We assessed the valuation based on a net asset value analysis of the most recent audited annual financial statements of the respective companies. We analysed whether the net asset value was lower than the cost of acquisition. In the event of any changes in the value of the participations, we have also examined whether these changes are correctly reflected in the income statement. We also assessed the presentation and disclosures in the statutory financial statements of Valartis Group AG as at 31 December 2018.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company’s articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor’s report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Geneva, 8 April 2019

BDO Ltd

Nigel Le Masurier	Markus Schenkel
Auditor in Charge Licensed Audit Expert	Licensed Audit Expert

VALARTIS GROUP AG REGISTERED SHARE

in CHF	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018
Share capital Valartis Group AG	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Number of VLRT shares issued	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Number of outstanding VLRT shares, entitled to dividends	4,644,275	4,716,842	4,735,512	4,698,834	4,361,997
Nominal value of VLRT share	1.00	1.00	1.00	1.00	1.00
Closing price VLRT share	15.40	8.45	6.80	9.56	10.30
High for the year VLRT share	23.00	17.25	8.20	10.10	13.20
Low for the year VLRT share	15.35	6.40	6.10	6.67	7.45
Market capitalization	77,000,000	42,225,000	34,000,000	47,800,000	51,500,000
Dividend per share	0.00	0.00	0.20	0.20	0.10
Dividend yield	n/a	n/a	2.9%	2.1%	1.0%
Price-to-book ratio	0.33	0.26	0.26	0.35	0.42

ADDRESSES AND IMPRINT

Group Office
Valartis Group AG
rue de Romont 29/31
CH-1700 Fribourg FR
Tel. +41 58 501 62 20
Fax +41 58 501 62 22

Office Geneva
Valartis Advisory Services SA
rue du Rhône 118
CH-1204 Geneva
Tel. +41 22 716 10 00
Fax +41 22 716 10 01

Office Zurich
Valartis Advisory Services SA
St. Annagasse 18
CH-8001 Zürich
Tel. +41 44 503 54 00
Fax +41 44 503 54 49

Asset Management Luxemburg
MCT Luxembourg Management S.à.r.l.
5, avenue Monterey
L-2163 Luxemburg
Tel. +352 26 20 25 94
Fax +352 26 20 25 84

Asset Management Russia
Valartis International Ltd.
Petrovka Street 5
RU-107031 Moscow
Tel. +7495 730 35 25
Fax +7495 730 35 26

Investor & Media Relations
Valartis Group AG
Corporate Communications
rue de Romont 29/31
CH-1700 Fribourg FR
Tel. +41 44 503 54 10
corporate.communications@valartis.ch

Valartis Market Information
Stock exchange listing: SIX Swiss Exchange
Securities symbol: VLRT
Reuters: VLRT.S
Bloomberg: VLRT SW
ISIN: CH0367427686
www.valartisgroup.ch

Valartis Group AG
Corporate Communications
rue de Romont 29/31
CH-1700 Fribourg FR

Tel. +41 44 503 54 10
corporate.communications@valartis.ch

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ISIN:	CH0001840450

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