ANNUAL REPORT 2019

EASTERN PROPERTY HOLDINGS

EPH EASTERN PROPERTY HOLDINGS

DEAR SHAREHOLDERS

During the course of 2019, Eastern Property Holdings Group ("EPH" or "the Company") continued to focus on strengthening its portfolio through the acquisition of premium assets in Western Europe. The quality of EPH's real estate portfolio is defined by the location of its properties, the high profile of tenants and the quality of construction and architectural design. This is the key to the Company's continued development and stable growth, resulting in increasing returns for our investors.

As part of the expansion the Company completed the acquisition of the newly constructed office property QBC4 (the BDO Austria headquarters) in the attractive Quartier Belvedere in Vienna, as highlighted in the 2019 half year report. The Company has successfully integrated the new property into its structure and streamlined operations and processes, which together with the promising market and the premium tenants already confirm the long-term expectations of the Board.

This transaction was followed by the acquisition of further office and retail complexes in August. QBC 1, 2&7, which are currently under construction, are adjacent to QBC4 and offer over 38,000 sqm of gross leasable area and approx. 580 parking lots. The closing of this transaction is expected to occur in Q1 2021, upon completion of construction and after fulfilment of other customary closing conditions.

In April 2020, the Company further signalled its intent to grow its Western European asset portfolio through the share acquisition of an 89.9% interest in the Nhow Hotel in Berlin. The hotel comprises approximately 20,160 sqm in the upcoming area of Friedrichshain, an attractive area for investment due to its growing economy and popularity. The Board is very satisfied with this first investment into the hotel industry. The property located at the trendy Mediaspree is rented for more than 15 years (with the option to extend by a further 10 years) to NH Group, the third largest business hotel group in Europe, which is a strong partner for the future development of the asset.

Despite the recent hit of the Western European economies and, especially, the tourist and hotel sector by the global coronavirus pandemic (COVID-19), it continues to be the Board's long-term view that the addition of such an attractive, income-producing asset in the stable European real estate market is the best way to create sustained value for EPH's shareholders. Furthermore, this acquisition is opening opportunities for the Company in this specific real estate industry.

Germany and Austria remain two of the most stable and secure real estate markets in Europe, benefitting from strong underlying economies, a positive outlook on private consumption and comparatively low levels of unemployment. In 2019, both countries experienced continued economic growth, a trend that has been evident for a number of years in succession.

Despite the current Covid-19 crises and declines on the markets a gradual recovery is expected for Austrian and Germany after initial restrictions are lifted. The Board monitors the situation closely and its impact on the business and takes appropriate measures.

All of the above makes us believe that these countries should remain the most important target markets for EPH's expansion. At the same EPH is considering the possibility to extend its investment horizon in the coming years to other most prominent European markets, including Scandinavia's capitals. In addition, also the Russian economy saw a year-on-year economic growth which was largely attributed to growing retail sales and an increased industrial output.

The Company's current portfolio demonstrates stable results – net rental income increased to US$ 71.30 million compared to US$ 68.21 million reported in 2018. Also, based on the positive developments of economies but also due to successful management efforts to improve operational efficiency and tenant portfolios of the properties in Western Europe and Russia the valuation movements in 2019 in US equivalent led to a net gain of US$ 53.51 million.

This contributed to the Company's strong performance in 2019 and we are pleased to report a profit of US$ 41.00 million compared to US$ 30.23 million in 2018 and a growth in total asset value to US$ 1,268.56 million with net assets of US$ 407.33 million.

Among other factors outside our control that impact the Company's operations, EPH continues to closely monitor the impact of COVID-19. Any associated risks have been factored into our on-going investment outlook and any acquisitions that are under consideration.

We are very satisfied with the successful acquisitions and the year 2019 for EPH Group and intend to further invest in the Western European real estate market in order to add long-term value to the business and grow future returns for investors. The strategy of investing in office, hotel or mixed-use properties with trophy potential in proven or upcoming locations in Germany's larger cities and Vienna has already proven its potential to us. We are positive to be able to add additional completed income-generating assets as well as forward transaction or development/refurbishment projects in our target markets.

Sincerely,
The Board of Directors
April 2020

MANAGEMENT REPORT

The following is a discussion of the key factors influencing our 2019 results and our financial condition at the end of the year.

KEY PERFORMANCE INDICATORS

	for the period ended		
in US$	31.12.2019	31.12.2018	31.12.2017
Net rental income	71,297,392	68,214,163	70,871,392
Administrative and selling expenses	−8,392,224	−5,200,748	−6,726,493
Net gain arising from the sales of properties	3,122,728	–	
Net other operating income/(expenses)	−196,838	2,495,279	1,667,969
Operating Income	**65,831,058**	**65,508,694**	**65,812,868**
Finance costs	−32,646,854	−31,386,106	−30,169,465
Current tax expense	−8,969,375	−7,453,339	−20,834,629
Earnings from operational activity	**24,214,829**	**26,669,249**	**14,808,774**
Valuation movements	−17,063,153	81,677,977	−41,870,976
Deferred tax (expense)/benefit	−3,904,577	−16,681,201	−1,731,273
Other extraordinary items	−605,959	−2,465,422	−12,333,441
Total before foreign exchange movements	**2,641,140**	**89,200,603**	**−41,126,916**
Net foreign exchange (loss)/gain	38,361,015	−58,969,127	30,270,544
Net Profit/(Loss) for period	**41,002,155**	**30,231,476**	**−10,856,372**
Earnings from operational activity per share	**2.44**	**2.69**	**1.49**
Number of investment properties	10	9	8
Investment properties at FV	1,007,516,128	841,451,779	874,828,138
Passing rents as of 31 December of the reporting year	60,846,415	68,139,590	69,939,413
Yield	**6.04%**	**8.10%**	**7.99%**
Total Assets	1,268,555,787	1,073,143,730	1,143,230,806
Borrowings	659,359,016	553,507,629	559,748,328
Loan-to-value	**52%**	**52%**	**49%**
Cash from operating activity	54,310,893	54,335,761	45,389,345
Market capitalization, million	289.25	279.27	264.31
Cash yield	**19%**	**19%**	**17%**




OVERVIEW

Eastern Property Holdings Limited ("EPH", the "Company") is a real estate investment and development company with focus on Russia and Europe. Prior to 2016, the Company's operating activities were concentrated in Russia. Since that the Company diversified its portfolio by acquiring two commercial properties in Germany in 2016 and 2017, as well as the office property (QBC 4) in Vienna in February 2019. In August 2019 the Company signed the share purchase agreement to acquire 100% of ownership interest in the currently under construction office and retail complexes QBC 1&2 as well as the parking garage QBC 7 located next door to the QBC 4 property. The closing of the transaction will occur after finalization of construction and is expected for Q1 2021. In April 2020, as a further step for diversifying the portfolio across European markets, the Company acquired 89.9% of interest in the Nhow Hotel in Berlin.

The Company is managed by Valartis International Ltd., a wholly owned subsidiary of Valartis Group AG. Valartis International employs a team of specialised professionals who are fully dedicated to the business of EPH.

As of 31 December 2019, EPH had total assets of US$ 1,268.56 million (2018: US$ 1,073.14 million) and net assets (calculated as total equity) of US$ 407.33 million (2018: US$ 339.17 million).

In the twelve months ended at 31 December 2019 the Company is reporting a profit of US$ 41.00 million, compared to a profit of US$ 30.23 million for the year ended at 31 December 2018.

The results of the Company's operations are affected by certain factors relating to our business and the markets in which we operate, as well as the political, economic and legal environment. Many of these factors are outside our ability to control or influence.

Similar to the previous years, the principal factors contributing to the volatility of the Company's net earnings in 2018 and 2019 are RUB/USD exchange rate fluctuation and revaluation of investment properties held at fair value. We expect that these factors will continue affecting the Company's financial results further, especially in relation to the Russian assets with RUB-denominated rental steam. Though, from an operating standpoint, the Company's income-generating properties continue to demonstrate stable profitability and generate sufficient cash to cover the Company's operating expenses, including payment of interest on the bonds issued by the Company – also due to the quality and diversification of the portfolio.

RESULTS OF OPERATIONS

Earnings from Operational Activity

The result from the Company's operational activity remains stable: the Company's operating income before finance costs and taxation is US$ 65.83 million in 2019 as compared to US$ 65.51 million in 2018.

Net rental income

The Company's net rental income increased from US$ 68.21 million in 2018 to US$ 71.30 million in 2019 (see note 16) – slight decrease of income in USD equivalent in certain Russian properties is fully overlapped by increase of income of European properties as well as by additional income generated in 2019 by QBC 4 property acquired at the end of February 2019.

Administration expenses

Management fees increased from US$ 1.94 million in 2018 to US$ 2.66 million in 2019 – due to the increased scope of management services provided by Valartis International Ltd. and its subsidiaries. Now these services include some additional financial services as well as management of newly acquired European assets and Arbat properties.

Professional and administration fees, which include legal advice, audit, appraisals and costs for other services for the Company and its subsidiaries increased from US$ 2.48 million in 2018 to US$ 3.99 million in 2019 – mainly due to the professional advisory fees incurred in 2019 with respect to the new acquisitions.

Selling expenses of US$ 1.21 million incurred in 2019 relate to the marketing and sale of Arbat premises.

Net other operating income/(expenses)

Other operating income/(expenses) include interest income generated by cash deposits, as well as other income and expenses from the ordinary cash-generating activity.

Finance costs

Our finance costs slightly increased from US$ 31.39 million in 2018 to US$ 32.65 million in 2019. The increase was caused by the fact that in February 2019 the Company issued interest bearing subordinated notes to finance the acquisition of QBC4.

Current income tax expense

Current income tax expense in 2018 and in 2019 represents mainly the current income tax payable with respect to Berlin House, Geneva House, Polar Lights and Hermitage Plaza. The amount slightly increased from US$ 7.45 million in 2018 to US$9.07 million in 2019.

NON-CASH GENERATING INCOME/(EXPENSES))

Valuation movements

Valuation movements in 2019 represent net gain from fair value adjustment on investment properties in the amount of US$ 53.51 million, as well as negative effect of foreign exchange movements on fair value of investment properties in the amount of US$ 70.58 million, resulting in the net negative valuation movements of US$ 17.06 million, as compared to positive valuation movements of US$ 81.68 million in 2018.

The gain from fair value adjustment is caused by the net increase of the appraised values of the Company's investment properties in US$ equivalent. It reflects the signs of economic stabilisation observed in Russia and in the industry by the end of 2019, as well as successful management efforts to improve operational efficiency and tenant portfolio of the properties in Russia and Western Europe. Also, RUB appreciation during the reporting period positively affects the USD value of the current rental stream denominated in RUB and a higher estimated rental value (ERV) applied by the appraiser after the expiration of the existing leases.

Significant negative effect of foreign exchange movements on fair value of investment properties is caused by the fact that Russian properties of the Group are held via the subsidiary companies which use the RUB as their functional currency and the US$ as its presentation currency. The property is appraised in US$, then converted to RUB. While the US$ fair values of the properties increased during the year, due to the RUB appreciation against US$ in 2019, the RUB fair values of the properties have decreased.

Deferred tax expense

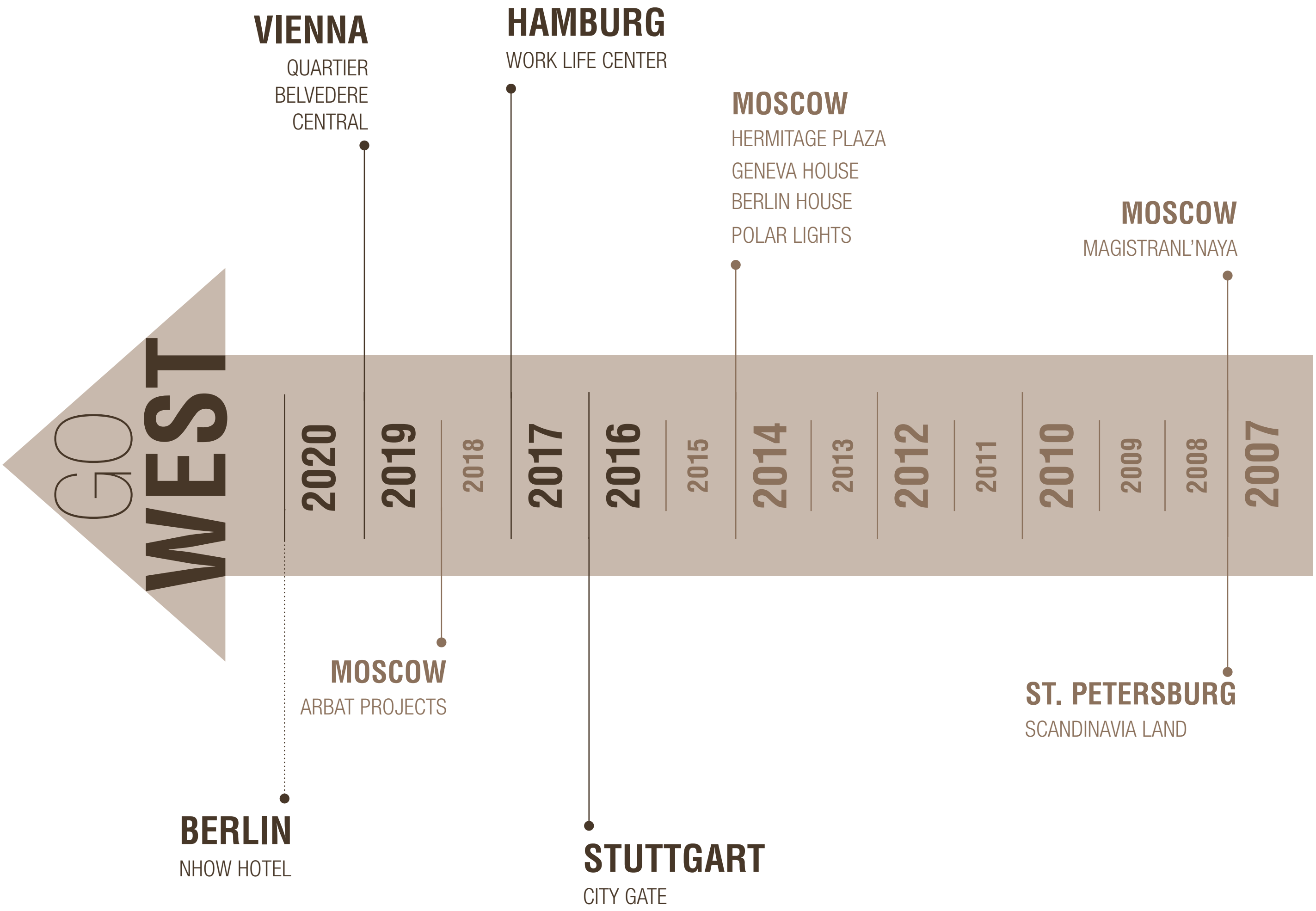
Deferred tax expense is recognized on the difference between fair values and tax values of the Company's investment property. In 2019 deferred tax expense was US$ 3.81 million as compared to US$ 16.68 million in 2018. The decrease is caused by the decrease of RUB equivalent of USD denominated fair values of the Russian properties.

Net foreign exchange gain/loss

The functional currency of each company corresponds to the primary economic environment where the company operates, and is used for accounting purposes. Therefore the Company's subsidiaries holding the assets in Russia keep their accounts in RUB. As a result, US$ denominated monetary assets and liabilities of these subsidiaries create unrealised exchange rate gains or losses against the Russian RUB on income statements.

During 2019 the Russian RUB strengthened against US$. As a result our net gain from foreign currency translation in 2019 was recognized in the amount of US$ 38.36 million, compared to net loss of US$ 58.97 million in 2018 which was caused by significant weakening of Russian RUB against US$ during 2018.

EASTERN PROPERTY HOLDINGS REAL ESTATE



Property Review

As of 31 December 2019 our property holdings consist of:

- 100% of shareholdings in four mixed-use commercial properties: Berlin House, Geneva House, Polar Lights and Magistal'naya in Moscow
- 99.98% shareholding in a mixed-use office and retail building Hermitage Plaza in Moscow
- 94% of two mixed-use office and retail properties: City Gate in Stuttgart (acquired in 2016) and Work Life Center in Hamburg (acquired at the end of 2017)
- 100% shareholding in an office property QBC4 in Vienna (acquired in the 1st quarter of 2019)
- apartments and office/retail premises in two mixed-use properties in Moscow: Arbat Multi-use Complexes
- 100% stake in raw land plot: 55 hectare "Scandinavia" site near St. Petersburg

The Group considers its current portfolio as optimal for the time being – the most of our assets are prime-class properties which are less exposed to sharp movements in the macro economy or the industry and which demonstrate stable profitability.

Recent acquisitions of premium quality income producing commercial properties in Europe diversified the Company's portfolio across major Western European markets and strengthened sustainability of its long-term performance.

Our portfolio will continue to be predominantly focused on income-generating investment properties in Russia and Europe, producing ongoing long-term cash flows.

BERLIN HOUSE

13,381 BUILDING AREA	US$ 141,000,000 APPRAISED VALUE
9,960 RENTABLE AREA*	4.7% VACANCY RATE
100% OWNERSHIP	2002 YEAR OF CONSTRUCTION

*in accordance with BOMA standard

GENEVA HOUSE

16,455 BUILDING AREA	US$ 140,000,000 APPRAISED VALUE
11,970 RENTABLE AREA*	2.2% VACANCY RATE
100% OWNERSHIP	2010 YEAR OF CONSTRUCTION

*in accordance with BOMA standard

Berlin House

Berlin House is a prime class A office/retail property which is exclusively located in the heart of Moscow – approximately 500 meters from the Kremlin, on one of the most prominent shopping streets – and was completed and leased in 2002. In August 2014 EPH re-acquired the 90% stake in Berlin House, becoming its 100% owner.

The vacancy rate as of 31 December 2019 is 4.7%. The major tenants are Richemont Group and Thomson Reuters.

Magistral'naya

EPH's Magistral'naya Class-B office property in Moscow is leased till March 2022 to a single tenant, the Gazprom subsidiary "Gazprom Geotechnologii". The lease agreement is subject to annual indexation and compensation of operating expenses.

Geneva House

Geneva House is a Prime Class A office/retail property located next to Berlin House. It was completed by EPH in 2010. In August 2014 EPH re-acquired the 90% stake in Geneva House, becoming its 100% owner.

The vacancy rate as of 31 December 2019 is 2.2%. The major tenants are S7 Airlines, Chanel, Merrill Lynch and Akin Gump.

Scandinavia Land

Scandinavia land site is located near St. Petersburg, Russia. After the sale of 48 hectares in 2014 the Group still owns 55 hectares, which are intended to be sold.

HERMITAGE PLAZA

40,216 BUILDING AREA	US$ 199,000,000 APPRAISED VALUE
33,400 RENTABLE AREA*	5.3% VACANCY RATE
99.98% OWNERSHIP	1937/2006 YEAR OF CONSTRUCTION

*in accordance with BOMA standard

CITY GATE

26,445 BUILDING AREA	EUR 119,100,000 APPRAISED VALUE
17,300 RENTABLE AREA	0% VACANCY RATE
94% OWNERSHIP	2016 YEAR OF CONSTRUCTION

Hermitage Plaza

Hermitage Plaza is an A-class office building constructed/renovated in 2006. The property is beneficially located in proximity to the Kremlin area and is fronting the Moscow Garden Ring. EPH acquired 99.98% of Hermitage Plaza in December 2014. The anchor tenants are VimpelCom, one of the leading Russian telecommunication companies, and Ingrad.

The vacancy rate as of 31 December 2019 is 3.5%.

City Gate

CityGate is a newly constructed Class A office and retail complex perfectly located in the center of Stuttgart, in close proximity to the main railway station. EPH acquired 94% of CityGate in November 2016.

The major tenants are Land Baden-Württemberg, Rödl&Partner GmbH and DREISS Patentanwälte. As of 31 December 2019 CityGate is fully rented.

WORK LIFE CENTER

19,600 BUILDING AREA	EUR 86,500,000 APPRAISED VALUE
12,100 RENTABLE AREA	0% VACANCY RATE
94% OWNERSHIP	2017 YEAR OF CONSTRUCTION

Work Life Center

Work Life Center is a Class A property complex with office, retail complex and fitness centre premises, located very close to the Hamburg city center and near train station. EPH acquired 94% of Work Life Center at the end of 2017. The major tenants are Performance Media Deutschland, Germany Centre Company No.29 GmbH and Fitness First Germany.

The vacancy rate as of 31 December 2019 is close to 0%.

ARBAT PROJECTS

36,000 BUILDING AREA	US$ 153,100,000 APPRAISED VALUE
14,000 REMAINING RENTABLE / SELLABLE AREA	
160 PARKING LOTS	2016 YEAR OF CONSTRUCTION

Arbat Projects

The Company owns premises in two mixed-use complexes in the historic Arbat district of Moscow, the principal pedestrian street in the historical centre of the city. The first property located at Arbat Street 24, includes office and luxury apartment space. The second property, located near the first at Arbat Street 39 consists of retail space and luxury apartments.

The development is finished in 2018 and now the Company is actively marketing the project. Due to the high profile location, and the design of the projects, which does feature large well-lit living areas and sizeable terraces, the apartment premises in the buildings will be of elite standing.

In 2019 the Group sold several apartments and parking lots to private customers. Also some part of retail premises in Arbat 39 has been leased out.

POLAR LIGHTS

37,815 BUILDING AREA	US$ 95,700,000 APPRAISED VALUE
29,850 RENTABLE AREA*	3% VACANCY RATE
100% OWNERSHIP	2006 YEAR OF CONSTRUCTION

*in accordance with BOMA standard

Polar Lights

Polar Lights, a B+ class business center, has a beneficial location in one of the most developed business districts in the North of Moscow, inside the Third Transport Ring Road, and an efficient tenant mix of international and Russian companies: Setelem bank, Rosagroleasing and active Telecom. The building has been constructed in 2006 with 14 above ground levels and was fully renovated in 2012. The vacancy rate as of 31 December 2018 is 3%. EPH acquired 100% of Polar Lights in September 2014.

QBC 4 – BDO AUSTRIA HQ

20,000 BUILDING AREA	US$ 104,800,000 APPRAISED VALUE
17,400 RENTABLE AREA*	0% VACANCY RATE
100% OWNERSHIP	2019 YEAR OF CONSTRUCTION

QBC4

QBC 4 is a newly constructed Class A office property in the attractive and sought-after Quartier Belvedere in Vienna and in close proximity to the main station of Vienna. EPH acquired 100% of QBC 4 in February 2019. The major tenant is global accounting firm BDO.

The vacancy rate as of 31 December 2019 is 0%.

Olga Melnikova,
born 1968, Russian

Chairman, Executive Member
(since April 2013)

Management Committee Member
(since September 2013)

Mrs. Olga Melnikova is Chairman of the Board of Directors of EPH Ltd. and specializes in strategic planning of legal support through internal legal experts and external advisers in local and international legal environments. Besides, she provides legal support and structuring for real estate transactions in Russia and Europe. Mrs. Melnikova graduated from Moscow State University of Railway Engineering in 1991 with a degree in Engineering and Mathematics.

Hans Messmer,
born 1955, German

Executive Member
(since April 2013)

Management Committee Member
(since April 2015)

Mr. Hans Messmer is an independent director with an excellent expertise in international banking and financing. Until June 2019 he was the CIO of CAIAC Fund Management AG in Liechtenstein. Before joining CAIAC, he held management functions in various asset management companies and acted as head of business development at Baader Bank (Munich) for exchange traded products. Prior to that, he was partner and manager for CK Trading Bank (Frankfurt) and director for several public funds. Mr. Messmer started his career as registered stock broker in New York and gained a license as EUREX trader at Deutsche Börse AG. During his career he qualified as Investment Specialist for Structured Products, Hedge Fund Advisor and Commodity Advisor. He holds an academic degree as MBA of Johann Wolfgang Goethe University Frankfurt specializing in Banking and Insurance.

Gustav Stenbolt,
born 1957, Norwegian

Executive Member
(since March 2003)

Mr. Gustav Stenbolt is Chairman of the Board and CEO of Swiss listed Valartis Group and member of the board of directors of Eastern Property Holdings Ltd., ENR Russia Invest S.A. and Anglo Chinese Group. In 1996 Mr. Stenbolt founded MCT Group, one of the predecessors of Valartis Group, offering institutional asset management services focused on Eastern Europe and the CIS countries. From 2004 to 2007 he was president of the executive committee of Jelmoli Holding AG, by then one of the leading department store and real estate companies in Switzerland. Gustav Stenbolt graduated from the University of Fribourg, Switzerland with a degree in Economics.

Mr. Christodoulos G. Vassiliades is a lawyer and the managing director of the Cyprus law firm Christodoulos G. Vassiliades&Co LLC. He is specialized in corporate and commercial law, international tax planning, shipping, banking and private clients. After graduating from the University of Athens in 1980, Mr. Vassiliades founded the law firm, Christodoulos G. Vassiliades&Co LLC in 1984. Since then, the company has become one of the leading law firms in Cyprus. In 1999 he has been appointed Honorary Consul of Belize in Cyprus.

Christodoulos G. Vassiliades,
born 1957, Cypriot

Executive Member
(since April 2013)

Management Committee
Member
(since April 2015)

Mr. Michael Cuthbert is a member of the board of Reso Garantia, a leading Russian insurance company and a consultant to Discreet Law LLP, a legal services advisory firm in London. Before that Mr. Cuthbert worked for two of the leading law firms in London, Slaughter and May and subsequently Clifford Chance where he was a partner for almost 24 years and was, from 2005 to 2009, the Regional Managing Partner responsible for Russia, the CIS and Central and Eastern Europe and a member of its global management committee.

Michael Cuthbert,
born 1956, English

Non-Executive Member
(since April 2013)

Mr. Tomasz Dukala is an entrepreneur and board member in a number of commercial organizations. Mr. Dukala started his career at PricewaterhouseCoopers Corporate Finance Department in Warsaw. In 2002, he moved to Moscow and worked as Senior Manager in PricewaterhouseCoopers and subsequently as a National Director in Jones Lang LaSalle Capital Markets Department. From 2007 to 2011 he worked at Morgan Stanley, Real Estate Investment Banking Division as a Senior Coverage Officer, responsible for Russia / CIS and CEE markets, based in Moscow. Mr. Dukala is a CFA charter holder.

Tomasz Dukala,
born 1974, Polish

Executive Member
(since April 2013)

Olga Melnikova,
Russian

Management Committee Member
(since September 2013)

Chairman of the Board
(since April 2013)

Mrs. Olga Melnikova is Chairman of the Board of Directors of EPH Ltd. and specializes in the strategic planning of legal support through internal legal experts and external advisers in local and international legal environments. Besides, she provides legal support and structuring for real estate transactions in Russia and Europe. Mrs. Melnikova graduated from Moscow State University of Railway Engineering in 1991 with a degree in Engineering and Mathematics.

Vera Christodoulou,
Cypriot

Management Committee Member
(since April 2015)

Mrs. Vera Christodoulou is the Managing Director and Member of the Board of PNL Media Ltd, Capital Estate Group (C.E.G.) Ltd., EPH Real Estate Ltd. and Lexworth Finance Ltd., all subsidiaries of EPH. She specializes in corporate governance, operation and communications. She has over 20 years of professional experience in client relations, business development, compliance and communications in Cyprus. Mrs. Christodoulou worked in various management positions for Linebrook limited, Eurasia Capital, Mars Capital and DCS Group in Cyprus. Mrs. Christodoulou graduated from the University of Lwivska Polytechnika Ukraine in 1989 with a degree in System Engineering.

Hans Messmer,
German

Management Committee Member
(since April 2015)

Member of the Board
(since April 2013)

Mr. Hans Messmer is an independent director with an excellent expertise in international banking and financing. Until June 2019 he was the CIO of CAIAC Fund Management AG in Liechtenstein. Before joining CAIAC, he held management functions in various asset management companies and acted as head of business development at Baader Bank (Munich) for exchange traded products. Prior to that, he was partner and manager for CK Trading Bank (Frankfurt) and director for several public funds. Mr. Messmer started his career as registered stock broker in New York and gained a license as EUREX trader at Deutsche Börse AG. During his career he qualified as Investment Specialist for Structured Products, Hedge Fund Advisor and Commodity Advisor. He holds an academic degree as MBA of Johann Wolfgang Goethe University Frankfurt specializing in Banking and Insurance.

Alexander Nikolaev is responsible for execution of the Company's projects and acquisitions, and management of the Moscow-based project management and property operation teams. Mr Nikolaev is the President and a member of the board of directors of one of the Russian leading development group INTECO. Mr. Nikolaev is Councilor on Strategic Issues at Valartis International Ltd Moscow branch. After graduating from Moscow State University for Foreign Affairs he was Head of Russian and CIS operations for Smith Management LLC, a U.S. private investment corporation. He has more than 20 years of experience in real estate development and managing investments in private and public equity.

Alexander Nikolaev,
Russian

Management Committee
Member
(since 2003)

Mr. Christodoulos G. Vassiliades is a lawyer and the managing director of the Cyprus law firm Christodoulos G. Vassiliades&Co LLC. He is specialized in corporate and commercial law, international tax planning, shipping, banking and private clients. After graduating from the University of Athens in 1980, Mr. Vassiliades founded the law firm, Christodoulos G. Vassiliades&Co LLC in 1984. Since then, the company has become one of the leading law firms in Cyprus. In 1999 he has been appointed Honorary Consul of Belize in Cyprus.

Christodoulos G. Vassiliades,
Cypriot

Management Committee
Member
(since April 2015)

Member of the Board
(since April 2013)

CORPORATE GOVERNANCE

The Corporate Governance of Eastern Property Holdings Limited is based on the Corporate Governance Guidelines of the SIX Swiss Exchange that entered into force on 1 May 2018.

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1 GROUP STRUCTURE

Eastern Property Holdings Limited ("EPH" or "Company") operates as a real estate holding company which owns its assets directly, through subsidiaries, and through joint ventures or associated companies. An organizational chart showing the Company's subsidiaries and otherwise affiliated companies, percentage ownership, and domiciliation can be found on pages 22&23 of the Annual Report. None of the Company's subsidiaries or holdings are listed companies.

The management of the Company is provided by Valartis International Limited, a wholly owned subsidiary of Valartis Group AG ("Manager"). Details on the management contract can be found on page 27 of the Annual Report. The Company's registered office is located at: Eastern Property Holdings Ltd. c/o Hauteville Trust (BVI) Limited, P.O. Box 3483, Road Town, Tortola, British Virgin Islands.

The shares of EPH are traded on the SIX Swiss Exchange.

As of 31 December 2019, the Company's market capitalization was US$ 289.25 million.

Symbol: EPH
Swiss security number: 1673866
ISIN number: VGG290991014

Significant group companies fully consolidated in the financial statements of the Company are:

Full company name	Registered office	Issued Share Capital	Ownership %
Andorian Beteiligungsverwaltungs GmbH	Am Belvedere 4, 1100 Vienna, Austria	EUR 35,000	100% held by Lexworth Finance Limited
Bluestone Investments Limited	Koumandarias&Spyrou Araouzou, 7th Floor, Tonia Court II 3036 Limassol, Cyprus	EUR 21,375 (10,000 Class A shares, par EUR 1.71; 2,500 Class B non-voting shares, par EUR 1.71)	EPH holds 50% Class A shares and 100% Class B shares
Capital Estate Group (C.E.G.) Limited	Menandrou 12, office 207, Eleona Tower, 1066 Nicosia, Cyprus	US$ 94,000 (94,000 ordinary shares, par US$ 1)	100% held by EPH
City Gate Stuttgart GmbH	Westendstrasse 28 60325 Frankfurt am Main, Germany	EUR 25,000	94% held by Ferran Limited
Connecta Beratungsgesellschaft im Ost-West-Wirtschaftsverkehr mbH	Herzog-Heinrich-Strasse 22, 80336 Munich, Germany	DM 50,000	100% held by EPH
Connecta Beratungsgesellschaft im Ost-West-Wirtschaftsverkehr mbH&Co. Erste Grundstücks KG	Herzog-Heinrich-Strasse 22, 80336 Munich, Germany	EUR 8,757,044.81	100% held by EPH
EPH One, LLC	5 Petrovka St., 107031 Moscow, Russia	RUB 10,000	100% held by EPH Real Estate Limited
EPH Real Estate Limited	Menandrou 12, office 207, Eleona Tower, 1066 Nicosia, Cyprus	EUR 17,100	99.99% held by EPH and 0.01% held by T&A Services Ltd.
Ferran Limited	Menandrou 12, office 207, Eleona Tower, 1066 Nicosia, Cyprus	EUR 21,000 (21,000 ordinary shares of EUR 1 each)	100% held by EPH
Geneva House, LLC	5 Petrovka St., 107031 Moscow, Russia	RUB 10,000	99.85% held by Bluestone Investments Limited, 0.075% held by Whiterock Investments Limited, 0.075% held by a third party
Housefar Limited	Menandrou 12, office 207, Eleona Tower, 1066 Nicosia, Cyprus	EUR 3,420 (1,000 ordinary shares, par EUR 1.71, 1,000 non-voting preferred shares, par EUR 1.71)	EPH holds 100% of ordinary shares and 85% of preferred shares
Idelisa Limited	Alasias, 33 3095 Limassol, Cyprus	EUR 2,000 (2,000 ordinary shares, par EUR 1.00)	100% held by EPH
Inspetsstroy, LLC	11/2 bldg.1, 1st Magistralnaya St., 123290 Moscow, Russia	RUB 50	100% held by Housefar Limited
Investment Society INTRUSTCOM, JSC	11/2 bldg.1 pom. VI, 1st Magistralnaya St., 123290 Moscow, Russia	RUB 500,000 (100 ordinary shares, par RUB 5,000)	100% held by Geneva House LLC
Lexworth Finance Limited	Menandrou 12, office 207, Eleona Tower, 1066 Nicosia, Cyprus	EUR 2,000	99.95% held by EPH and 0.05% held by T&A Services Ltd.
Investment Company Otdelstroy, JSC	6/1/2 str.3 pom.37 Kadashevskaya nab., 119016 Moscow, Russia	RUB 10,000 (1,000 ordinary shares, par RUB 10)	100% held by Geneva House LLC
Philadelphia, LLC	5, Petrovka Street, 107031 Moscow, Russia	RUB 10,000	99.99% held by Idelisa Limited
PNL Media Limited	Menandrou 12, office 207, Eleona Tower, 1066 Nicosia, Cyprus	EUR 2,001 (2,001 ordinary shares, par EUR 1.00)	99.95% held by EPH and 0.05% held by T&A Services Ltd.

Full company name	Registered office	Issued Share Capital	Ownership %
Primary TIZ Limited	Griva Digeni 115, Trident Center, P.C. 3101 Limassol, Cyprus	US$102,540 (102,540 ordinary shares, par US$1)	100% held by TP Invest Ltd.
QBC BT IV Alpha GmbH	Esslinger Hauptstraße 188B/Haus 4 1220 Vienna, Austria	EUR 120,000	100% held by Andorian Beteiligungs verwaltungs GmbH
QBC BT IV Beta GmbH	Esslinger Hauptstraße 188B/Haus 4 1220 Vienna, Austria	EUR 60,000	100% held by Andorian Beteiligungs verwaltungs GmbH
QBC BT IV Epsilon GmbH	Esslinger Hauptstraße 188B/Haus 4 1220 Vienna, Austria	EUR 60,000	100% held by Andorian Beteiligungs verwaltungs GmbH
QBC Immobilien GmbH&Co Delta KG	Esslinger Hauptstraße 188B/Haus 4 1220 Vienna, Austria	Limited Partnership	100% held by QBC BT IV Alpha GmbH, QBC BT IV Beta GmbH (Limited Partners) and QBC BT IV Epsilon GmbH (General Partner)
QBC 1,2,7 Holding GmbH	Esslinger Hauptstraße 188B/Haus 4 1220 Vienna, Austria	EUR 35,000	100% held by Lexworth Finance Ltd.
Redhill Investment Limited	Agiou Andreou, 339 Andrea Chambers Court, Flat/Office M103 3035 Limassol, Cyprus	EUR 8,550 (5,000 ordinary shares, par EUR 1.71)	100% held by EPH
SA3 Media S.a.r.l. (acquired in April 2020)	7, route d'Esche L-1470 Luxembourg, Luxembourg	EUR 3,512,500	89.9% held by Lexworth Finance Limited
Setford Limited	Menandrou 12, office 207, Eleona Tower, 1066 Nicosia, Cyprus	EUR 20,000 (20,000 ordinary shares of EUR 1 each)	100% held by EPH
Silverlake Limited	Koumandarias&Spyrou Araouzou, 7th Floor, Tonia Court II 3036 Limassol, Cyprus	EUR 2,000 (2,000 ordinary shares, par EUR 1.00)	100% held by EPH
T&A Services Limited	171 Main Street, Road Town, Tortola VG 1110, British Virgin Islands	US$ 5	100% held by EPH
Tengri, LLC	Hersonskaya Street, 41A, 117246 Moscow, Russia	RUB 2,019,195,866	100% held by PNL Media Ltd.
Tizpribor, PJSC	Krasnoproletarskaya, 4 127006 Moscow, Russia	RUB 8,787,500	99.98% held by Capital Estate Group (C.E.G.) Ltd.
TP Invest, LLC	Krasnoproletarskaya, 2/4 constr.13 127006 Moscow, Russia	RUB 1,511,710,000	100% held by PJSC Tizpribor
Vakhtangov Place Limited	Koumandarias&Spyrou Araouzou, 7th Floor, Tonia Court II 3036 Limassol, Cyprus	EUR 12,500 (10,000 Class A shares, par EUR 1.00, 2,500 non-voting Class B shares, par EUR 1.00)	EPH holds 50% Class A shares and 100% Class B shares
Whiterock Investments Limited	Koumandarias&Spyrou Araouzou, 7th Floor, Tonia Court II 3036 Limassol, Cyprus	EUR 2,000 (2,000 ordinary shares, par EUR 1.00)	100% held by EPH
WLC Hamburg GmbH	Westendstrasse 28 60325 Frankfurt am Main, Germany	EUR 25,000	94% held by Setford Limited

1.2 SIGNIFICANT SHAREHOLDERS

On 31 December 2019, EPH had 9,974,022 shares in issue, whereof 9,904,959 were outstanding and had voting rights. As per 31 December 2018, the Company held 69,063 treasury shares.

On 31 December 2019, CAIAC Fund Management AG's Aurora Value Fund held 8,548,103 shares in the Company, equaling 85.7% of shares in issue.

On 31 December 2019, Lionshare Opportunities Fund managed by Bendura Fund Management Alpha AG held 913,156 shares in the Company, equaling 9.16% of shares in issue.

When informed by shareholders that their ownership stakes have exceeded or fallen below the levels of 3%, 5%, 10%, 15%, 20%, 25%, 33 1/3%, 50% or 66 2/3% of shares in issue, the Company publishes the disclosure in a press release in accordance with the requirements of SIX Swiss Exchange Regulations. Historical press releases can be found on the Company's website at http://www.easternpropertyholdings.com/investors/news/.

No additional disclosures from significant shareholders have been made during the period under review.

1.3 CROSS-SHAREHOLDINGS

There are no cross-shareholdings.

2. CAPITAL STRUCTURE

2.1 CAPITAL

Art. 5 of the Company's Memorandum of Association, as amended by the resolutions passed at the Extraordinary Shareholders Meetings of 29 June 2004, 19 November 2004 and 7 March 2005, the General Meetings of Shareholders of 16 May 2006, 3 May 2007, 24 June 2008 and 28 July 2011, the Extraordinary Meeting of Shareholders of 15 April 2013 and the Shareholders Meeting of 17 June 2014 and 11 June 2019 provides for an authorised capital which entitles the Board of Directors to issue a total of 21,000,000 registered ordinary shares without par value and 1,000,000 registered Series A preferred shares without par value.

As of 31 December 2019, the Company's issued share capital consists of 9,974,022 ordinary shares.

Note 24 "Shareholders' Equity" to the Company's Financial Statements contains a detailed description of the Company's capital structure.

2.2 AUTHORISED AND CONDITIONAL CAPITAL

2.2.1 Authorised share capital

A change in the Company's authorized capital must be approved by a resolution passed by the General Meeting of Members or by a resolution of directors.

There is neither a maximum to the authorized capital nor a limit to the authorization period to carry out an increase in capital defined by the Company's Memorandum and Articles of Association.

Shares and other Securities may be issued at such times, to such persons, for such consideration and on such terms as the directors may determine by resolution – subject to requirements stated in the Company's Memorandum and Articles of Association. Any shares issued by the Company have to be offered to each holder of shares of the class being offered equal to the proportion in nominal value held by him and subject to the right of any such person to whom the offer is made to apply, (on a pro-rata basis with other holders of Shares of that class who have taken up their entitlement), for any Shares not so taken up and the period during which such offer may be accepted has expired or the Company has received notice of the acceptance or refusal of every offer so made.

The status of the authorized capital is detailed in Note 24 to the Company's Financial Statements.

2.2.2 Conditional share capital

The Company's Memorandum and Articles of Association do not foresee a conditional capital, therefore a capital increase by the exercise of options or conversion of rights must also be covered by authorized capital.

2.3 CHANGES IN CAPITAL

Number of ordinary shares	31.12.2019	31.12.2018	31.12.2017
Authorised	21,000,000	11,000,000	11,000,000
Issued	9,974,022	9,974,022	9,974,022
Treasury shares	69,063	54,005	44,250
Issued and outstanding	9,904,959	9,920,017	9,929,772

On 11 June 2019, the Annual General Meeting of the Company has approved the increase of the authorised capital of the Company to a maximum of 21,000,000 ordinary shares and the amendment of clause 5.1 of the Company's memorandum of association by deleting the current text of clause 5.1 and replacing it by the following:
"The Company is authorised to issue a maximum of 21,000,000 Ordinary Shares without par value and 1,000,000 Series A Preferred Shares without par value."

There have been no further changes to the authorised or conditional capital as described in the latest annual report of the Company as per 31 December 2019.

2.4 SHARES AND PARTICIPATION CERTIFICATES

Number of shares in issue	9,974,022 ordinary shares
Share category	Registered shares
Par value	No par value

Except when held by the Company as treasury shares, each ordinary share has one vote, and is entitled to dividends.

Series A preferred shares have equal economic and dividend rights than ordinary shares, but do not have voting rights. Any such shares in issue at the time of a capital increase of over 10% of the Company's shares outstanding would automatically be converted to ordinary shares on a one-for-one basis.

No series A preferred shares are in issue as of 31 December 2019.

The Company has no participation certificates.

2.5 DIVIDEND-RIGHT CERTIFICATES
The Company has no dividend-right certificates.

2.6 LIMITATIONS ON TRANSFERABILITY AND NOMINEE REGISTRATIONS
There are no limitations on transferability of ordinary shares or the registration of nominee shareholders in the register. Series A preferred shares can only be transferred with the prior written consent of the Company.

2.7 CONVERTIBLE BONDS AND OPTIONS
Neither the Company nor any of its subsidiaries have outstanding convertible bonds and / or options in issue.

3. BOARD OF DIRECTORS

3.1 MEMBERS OF THE BOARD OF DIRECTORS

Members of the Company's Board of Directors are designated as Executive or Non-executive. Board Members who are part of the management committee of EPH, operationally involved in the business of EPH or employees of Valartis Group, which through Valartis International Ltd. provides the Company's daily management, are designated as Executive Board Members. Due to their position within EPH or Valartis Group, they may be informed of, or involved in, company matters which are not necessarily board matters and may not involve the full Board of Directors.

The other Board Members are designated as Non-Executive Board Members. None of the Company's Non-Executive Board Members have significant business connections with, or have served in other roles within the Company, its subsidiaries or affiliated companies, or Valartis Group at any time in the past.

Composition of the Board of Directors as of 31 December 2019, and biographies of the board members can be found in the "Directors and Management" section of the Annual Report, starting on page 14.

3.2 OTHER ACTIVITIES AND VESTED INTERESTS

None of the Company's Board Members serve in governing or supervisory bodies with relevance to the Company, nor do they represent Swiss or foreign interest groups. None of the Company's Board Members hold political posts or serve official governmental or regulatory functions.

3.3 ELECTIONS AND TERMS OF OFFICE

The Board Members are elected individually by the General Meeting of Shareholders. According to the Articles of Association of the Company the maximum term for election is three years. Upon expiration of a Board Member's term re-election is allowed. Except for Gustav Stenbolt, who has been re-elected for three years in June 2017 (first appointment July 2003), all Board Members have been re-elected for a term of three years as per the General Meeting 2019 (first appointment in April 2013).

3.4 INTERNAL ORGANISATIONAL STRUCTURE

3.4.1 Allocation of tasks within the Board of Directors

As of 31 December 2019, the Board of Directors has not formed any committees and specific tasks have not been allocated to individual Board Members.

3.4.2 Members list, tasks and area of responsibility for each committee of the Board of Directors

No committees have been formed.

3.4.3 Work methods of the Board of Directors

Board meetings take place as often as business requires, though generally not less than four times per year, at such place as the Board Members shall decide. Meetings may also take place by conference call. Duration of the meetings depends on the list of items on the agenda. Board meetings may be attended by the Management Committee members or, where requested, representatives of the Manager, who brief the Board of Directors with regards to Company developments within their area of responsibility. In order to support the ordinary course of the daily business, the Board of Directors may also decide on written circular resolutions. Board of Directors meetings took place six times in 2019.

3.5 DEFINITION OF AREAS OF RESPONSIBILITY

The Board of Directors is responsible for the business affairs of the Company in accordance with the Company's Memorandum and Articles of Association. The main function of the Board of Directors is the supervision of the Company's management, including the Management Committee and the Manager, and investments. The Board of Directors has ultimate responsibility for the issue of the necessary directives and regulations and approval of the investment strategy as laid down in the Investment Guidelines. All significant investment proposals are discussed on board level.

All purchases or sales of properties and all investments in other assets in excess of US$ 5 million, with the exception of financial investments for temporary or cash management purpose or intercompany financing have to be approved by the Board of Directors.

The management of the Company has been delegated to the Management Committee and to the Manager, Valartis International Ltd., a wholly owned subsidiary of Valartis Group AG. The Management Committee consists of five persons, one of them being nominated by the Company from the candidate designated by the Manager. The Management Committee is responsible for taking operative decisions and will take such decisions by unanimous vote within its authorities and the guidelines determined by the Board of Directors. The Management Committee is responsible for the supervision and has the authority to conclude defined transactions without consultation of the Board of Directors (including the sale of existing properties with a value not exceeding US$ 5million).

The Manager is responsible for the day-to-day business of EPH, including but not limited to the management of specific properties and other assets of the Company. The Manager also manages the Company's operations and reporting as well as is responsible for investor relations.

The Management Committee and the Manager inform the Board of Directors on a regular basis on the Company's assets and liabilities

3.6 INFORMATION AND CONTROL INSTRUMENTS

EPH's Board of Directors monitors the competencies transferred to the Management Committee and the Manager. At the meetings of the Board of Directors, the Management Committee and the Manager present the most important topics as well as the financial development of the Company and its assets. The Management Committee and the Manager report on the key risks the Company faces, such as the status of projects or that cash flows may not meet development or operational budgets. The Board of Directors may also ask to engage third parties to review transactions and results at any time.

4. MANAGEMENT

4.1 MANAGEMENT COMMITTEE

4.1.1 Members of the Management Committee

In accordance with the Real Estate Management Agreement between the Company and Valartis International Ltd., the current Management Committee was elected by the resolution of the Board of Directors on 21 April 2015. The Management Committee consists of five persons, one of them is nominated by the Company from the candidate designated by the Manager.

The Management Committee shall meet as often as required and may pass resolutions only with the consent of all members attending the meeting of the Management Committee.

Composition of the Management Committee as of 31 December 2019, and biographies of the members can be found in the “Directors and Management” section of the Annual Report, starting on page 16.

4.1.2 Other activities and vested interests

Olga Melnikova, Hans Messmer and Christodoulos Vassiliades, who are members of the Management Committee, also serve as members of the Board of Directors of the Company. Alexander Nikolaev is employed by Valartis Group through its 100% subsidiary Valartis International Ltd. which is acting as is the Manager of the Company. Tomasz Dukala is supporting the Company with advice regarding potential investment opportunities and negotiating the respective potential acquisitions. Except for the mentioned, none of the members of the Management Committee serve in governing or supervisory bodies with relevance to the Company, nor do they represent Swiss or foreign interest groups. None of the Management Committee members hold political posts or serve official governmental or regulatory functions.

4.2 MANAGER

The management agreement with Valartis International Ltd. (“Real Estate Management Agreement”) is effective from 1 January 2013 and concluded for the period expiring on 1 January 2021 with the possibility of prolongation by express written agreement of both Parties.

The Real Estate Management Agreement covers the scope of services and the managed assets and those EPH subsidiaries to which Valartis International Ltd. and its subsidiaries provide regular services. Valartis International Ltd. and its subsidiaries manage Berlin House, Geneva House, Polar Lights, Hermitage Plaza, Arbat Premises, City Gate, Work Life Center and QBC4. In addition to leasing, regular reporting and administration of the Company’s properties, the services provided by the Manager also relate to corporate administrative, financial management and investor relations services.

Under the Real Estate Management Agreement, the Board of Directors and the Management Committee monitor the Manager’s activities closely. The Manager is only authorized to act within agreed budgets of the respective subsidiaries and within the scope of the respective property management agreements. Where the Manager requires approval by the Board of Directors or the Management Committee, the respective resolutions have to be obtained.

The Manager maintains three offices in Germany, two offices in Switzerland and two offices in Moscow where it employs managerial, technical and financial staff for the operations of the Company’s subsidiaries.

5. COMPENSATIONS, SHAREHOLDINGS AND LOANS

5.1 CONTENT AND METHOD OF DETERMINING THE COMPENSATION AND SHAREHOLDING PROGRAMS

The overall management fee under the Real Estate Management Agreement consists of separate payments for each of the specific services provided. Under the Real Estate Management Agreement, in 2019 the management fee in respect to property management, administration investor relations and administrative services amounted to approximately US$ 2,600,000. For 2020 the annual fee is expected to increase to approximately US$ 3,500,000 mainly due to a full year of fees for the property managements in Germany.

In addition to the above described fees, the Manager shall be entitled to receive compensation on the basis of full reimbursement of all reasonable costs and expenses incurred by the Manager on behalf of the Company and its subsidiaries.

Additional services like corporate finance services (e.g. for structuring of financing and acquisition of assets), property management of additional assets and the management of additional development projects is not included in the services under the Real Estate Management Agreement. For such services the Manager received additional fees in the amount of approximately US$ 421,000 in 2019.

Members of the Board of Directors are compensated for serving on the Board of Directors. Starting from April 2018 the annual fee per board member has been reduced to US$ 50,000 (until April 2018: USD 75'000) which is included in professional and administration expenses in the Company's income statement.

In deciding on the level of compensation, the Board of Directors considered compensation paid to board members of other companies. The current compensation level will remain in effect until the Board of Directors votes to amend it.

Gustav Stenbolt does not receive any remuneration as his services are compensated within the Real Estate Management Agreement. Tomasz Dukala received an additional compensation in 2019 of EUR 50k for supporting the process of acquisitions. During 2018, Hans Messmer operationally supported the Company and received an additional remuneration to the board member fee in the amount of USD 25,000. The remaining Management Committee members did not receive any separate payment for their work as Management Committee members.

The Board of Directors and Management Committee do not receive any performance-oriented remuneration. There is no employee benefit program in place. There are no payments in respect to pension or social security. There are no loans granted to members of the Board of Directors or the Management Committee.

Until June 2019 Hans Messmer was Chief Investment Officer at CAIAC Fund Management which is representing the majority shareholder, Aurora Value Fund, in the Company. Apart from that on 31 December 2019, the members of the Board of Directors, the Management Committee, the Manager and parties closely linked to them held no shares in the Company. Please also refer to 1.2 Significant Shareholders of this Corporate Governance section.

Name of Board Member	Function	Cash Remuneration
Olga Melnikova	Executive Member	USD 50,000
Michael Cuthbert	Non-Executive Member	USD 50,000
Tomasz Dukala	Executive Member	USD 105,975
Christodoulos G Vassiliades	Executive Member	USD 50,000
Hans Messmer	Executive Member	USD 50,000
Gustav Stenbolt	Executive Member	0

6. SHAREHOLDERS' PARTICIPATION

6.1 VOTING-RIGHTS AND REPRESENTATION RESTRICTIONS

Ordinary shares entitle the holder to one vote per share. According to the Memorandum and Articles of Association, treasury shares do not confer the right to vote.

There are no voting restrictions or limitations. However, in order to exercise their voting right, or participate in the Meeting of Shareholders, shareholders must be entered into the shareholder register. The shareholder register is maintained and administrated by Computershare Schweiz AG, Baslerstrasse 90, CH-4601 Olten.

At a Meeting of Shareholders a shareholder may either represent his shares in person, or be represented by a proxy who may speak and vote on behalf of the shareholder. The instrument appointing a proxy shall be produced at the place designated for the Meeting of Shareholders before the time for holding the meeting at which the person named in such instrument proposes to vote. The notice of the Meeting of Shareholders may specify an alternative or additional place or time at which the proxy shall be presented.

6.2 STATUTORY QUORUMS

A Meeting of Shareholders is duly constituted if, at the commencement of the meeting, there are present in person or by proxy not less than 10 percent of the votes of the shares (or class or series of shares) entitled to vote on resolutions of shareholders to be considered at the meeting.

Matters are decided by a simple majority of votes, except that approval of at least two thirds of the votes of the shareholders of the ordinary shares that were present at the meeting and are entitled to vote did not abstain is required for:

1. Change of the purpose of the Company
2. The dissolution of the Company followed by liquidation

6.3 CONVOCATION OF THE GENERAL MEETING OF SHAREHOLDERS

As per the Articles of Association, the Annual General Meeting of Shareholders shall be held in any place other than Switzerland, the Russian Federation or the British Virgin Islands. The exact location of the Meeting of Shareholders shall be specified in the notice of the meeting. Any two Board Members of the Company may convene a Meeting of Shareholders.

The directors convening a meeting shall give not less than 20 days' notice of a meeting of Shareholders to those Shareholders whose names on the date the notice is given appear as Shareholders in the register of shareholders of the Company and are entitled to vote at the meeting and to the other directors.

Extraordinary shareholders' meetings may be called by any Director of the Company as well as upon written request of members holding 10% or more of the votes of the outstanding ordinary shares.

6.4 INCLUSION OF ITEMS ON THE AGENDA

Shareholders holding more than 10% of the votes of the outstanding ordinary shares in the Company may request in writing that additional items are added to the proposed agenda.

6.5 INSCRIPTIONS INTO THE SHARE REGISTER

The deadline for the inscription of registered shares into the shareholders' register in view of their participation in the General Meeting of Shareholders is specified in the notice, being a date not earlier than the date of the notice.

7. CHANGES OF CONTROL AND DEFENSE MEASURES

7.1 DUTY TO MAKE AN OFFER

As a foreign entity, the Company is not regulated by Articles 22 or 32 SESTA. The Company's Memorandum and Articles of Association do not provide for rules on take-over. As such, there is no threshold level at which a major shareholder is required to make a full tender offer for the Company.

7.2 CLAUSES ON CHANGES OF CONTROL

Neither the Company's Articles of Association, nor existing agreements between the Company and its joint venture partners include clauses benefiting members of the Board of Directors, Management Committee or the Manager in case of change of control.

7.3 OBLIGATION TO ANNOUNCE SIGNIFICANT SHAREHOLDINGS

Pursuant to Article 20 of the Stock Exchange Act ("SESTA"), if a shareholder or group of shareholders subject to the disclosure obligation attains, falls below or exceeds the threshold of 3, 5, 10, 15, 20, 25, 33 1/3, 50 or 66 2/3 percent of the voting rights, the person or group is obliged to make a notification in writing to the Company and the stock exchange no later than four trading days after the creation of the obligation to notify.

The reporting levels are based on the total number of shares in issue, with no adjustment for treasury shares.

8. AUDITING BODY

8.1 DURATION OF THE MANDATE AND TERM OF OFFICE OF THE LEAD AUDITOR

The Company's auditor is appointed each year at the General Meeting of Shareholders.

Deloitte AG, Zurich has been appointed auditor of the Company in June 2018. The lead auditor is Mr. Marcel Meyer.

From 2010 until 2017, Ernst&Young AG, Zurich was the auditor of the Company.

8.2 AUDITING FEES

Fees (excluding expenses and VAT) paid to Deloitte, which include services both the Zurich and Moscow offices, for audit of the Company's 31 December 2018 financial statements, and audit-related work, totaled US$ 475,000.

Fees (excluding expenses and VAT) paid or to be paid to Deloitte AG for audit of the Company's 31 December 2019 financial statements and review of the 30 June 2019 interim financial statements are estimated at a total of approximately US$ 490,000

8.3 INFORMATIONAL INSTRUMENTS PERTAINING TO AN EXTERNAL AUDIT

The Board of Directors is responsible for the supervision and control of the external audit. Prior to board approval of the Company's audited financial statements, the lead auditor presents the findings of the audit process to the full Board of Directors and addresses any questions and concerns. The audit opinion is signed only after the Board of Directors has formally approved the annual financial statements.

The Board of Directors held two meetings with the external auditor in 2019.

9. INFORMATION POLICY

Audit reports are published on an annual basis for the reporting period ending 31 December. In addition, the Company publishes unaudited interim financial information for the period ended 30 June which are reviewed by the auditor.

Interested parties can request all press releases and other communication from the Company be sent to their email address by visiting http://www.easternpropertyholdings.com/.

Printed financial statements can be requested in writing free of charge from the following address:

Eastern Property Holdings Limited
Investor Relations
c/o Valartis Advisory Services SA
St. Annagasse 18
8001 Zurich, Switzerland
Phone: +41 44 503 5400
Email: contact@easternpropertyholdings.com

All historical financial statements and press releases, and the Company's Memorandum and Articles of Association and Investment Guidelines are available on the Company's website www.easternpropertyholdings.com.

EXTERNAL REPORTS

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INDEPENDENT AUDITOR'S REPORT

To the General Meeting of Eastern Property Holdings Limited,
Tortola, British Virgin Islands

Opinion
We have audited the consolidated financial statements of Eastern Property Holdings Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statement of profit and loss, 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 45 to 89) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and art. 17 of the Directive on Financial Reporting (DFR) of the SIX Swiss Exchange.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those 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 International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Switzerland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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.

Deloitte.

Valuation of investment properties

Key audit matter	How the scope of our audit responded to the key audit matter
The carrying values of investment properties for the Group at 31 December 2019 were USD 1'007m (refer Note 8 - Investment Property). The fair value adjustment recorded in net profit before tax in respect of investment properties for the Group amounted to USD 54m. We considered the valuation of the investment properties to be significant to the audit because the determination of fair value involves significant judgement by the directors and the use of external valuation experts. Fair value is determined by external independent valuation specialists using valuation techniques such as a capitalised income value method (discounted cash flow method) since the subject property can be classified as income generating property. Valuation techniques for investment properties are subjective in nature and involve various key assumptions regarding pricing factors. These key assumptions include future rental cash inflows, capitalisation rates and discount rates. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. When possible, fair value is determined based on recent real estate transactions with similar characteristics and location of the valued properties.	In auditing the valuation of investment properties, we performed the following procedures: • We assessed the design and implementation of the relevant controls over the valuation process of investment properties; • We involved internal valuation specialists to assist with the audit of the valuation of the investment properties based on their specific experience and knowledge in the local markets; • We evaluated the external valuators expertise, independency and methodology used for the valuation. We assessed the key assumptions included in the valuation; • We verified if the significant data applied for the valuation to supporting documentation; and • We also focused on the adequacy of disclosures about key assumptions. The disclosures on the fair value of the investment properties are included in note 9 to the consolidated financial statements.

Deloitte.

Business acquisition accounting

Key audit matter	How the scope of our audit responded to the key audit matter
As described in note 7, the Group acquired 100% of the group of entities: holding companies QBC BT IV Alpha GmbH, QBC BT IV Beta GmbH, QBC BT IV Epsilon GmbH and property company QBC Immobilien GmbH&Co Delta KG owning the office property in Am Belvedere 4, 1100 Vienna, Austria. The accounting for the Group's acquisition of above groups of entities is a key audit matter due to the accounting complexity of the transaction, and the level of audit effort involved. Management judgement was required to determine that the transaction met the definition of 'business' , i.e whether the acquired set of activities includes an organised workforce through contracts with the necessary skills and knowledge to perform the processes. And these inputs and processes can be minimal to generate the intended output in order to be accounted for as a business combination in accordance with the requirements of IFRS 3.	To obtain an understanding of the transaction, we read the sale and purchase agreements between the entities involved. We used an accounting specialist to challenge the conclusions reached by management. Our specialist assessed the Group's conclusions against the requirements of the relevant accounting standards (IFRS 3 and IAS40), including interpretation guidance and authoritative support. These conclusions included: • the use of business acquisition accounting as the basis of preparation of the financial statements; • the determination that the transaction meets the definition of 'business' as a result of acquired workforce though contracts with the necessary skills and knowledge to perform the processes and inputs together significantly contribute to the ability to create the output; We also evaluated the appropriateness of the disclosures in the financial statements and assessed the completeness and mathematical accuracy of the relevant disclosures.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information 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 and, in doing so, consider whether the other information is materially inconsistent with the 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.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and art. 17 of the Directive on Financial Reporting (DFR) of the SIX Swiss Exchange, and for such internal control as management 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, management 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 management 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 ISAs 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material

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uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte AG

Marcel Meyer | Avazkhodja Usmanov

Zurich, 27 April 2020

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Jones Lang LaSalle LLC has been instructed to prepare valuation reports regarding the following properties:

- Magistral'naya office building (Moscow)
- Arbat 24 mixed-use complex (Moscow)
- Arbat 39 mixed-use complex (Moscow)
- Geneva House office building (Moscow)
- Berlin House office building (Moscow)
- Polar Lights office building (Moscow)
- Hermitage Plaza office building (Moscow)
- Scandinavia land plot (Leningrad Oblast)

We understand that the reports are required for accounting purposes. The date of valuation: 31 December 2019.

Our valuation has been carried out in compliance with the requirements of RICS Valuation - Global Standards 2017.

Market Value is defined by the RICS Valuation - Global Standards 2017 as 'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'

In addition, our calculations have been carried out and are presented exclusive of VAT. Our reports summarise our key assumptions, estimations and conclusions used in arriving at our opinion of Market Value. The purpose of the reports is to present the basic facts and conclusions adopted in relation to the properties in arriving at our opinions.

Finally, and in accordance with our normal practice, we confirm that the reports are confidential to the party to whom they are addressed for the specific purpose to which they refer. No responsibility whatsoever is accepted to any third party and neither the whole of the reports, nor any parts, nor references thereto, may be published in any document, statement or circular, nor in any communication with third parties without our prior written approval of the form and context in which it will appear.

Yours faithfully,

Tim Millard MRICS
Reginal Director
Head of the Advisory Group
JLL Russia&CIS

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft
Kapelle-Ufer 4, 10117 Berlin

City Gate Stuttgart GmbH
Mr. Marcus Friedrichs
Westendstr. 28
60325 Frankfurt

5 March 2020
DHe/JSa

Assessment of Fair Value of the property City Gate Stuttgart

Dear Mr. Friedrichs,

You have first mandated PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Berlin to ascertain the Fair Value of the Property "City Gate Stuttgart" at Friedrichstraße/Kriegsberg-straße/Arnulf-Klett-Platz crossing as at 31 December 2016.

After the provided updates as of 30 June 2017, 31 December 2017, 30 June 2018, 31 December 2018 and 30 June 2019, you now engaged us to update the Fair Value assessment of the subject property. The valuation date is 31 December 2019.

The valuation was to serve IFRS accounting purposes in compliance with the International Financial Reporting Standard IFRS 13 issued by International Accounting Standards Board (IASB).

IFRS 13.9 defines Fair Value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

We have summarized the assumptions, estimations and conclusions made in our valuation, and our opinion of Fair Value of the Property in our Report dated 21 January 2020.

According to the engagement letter signed by you, the Report is confidential and shall therefore not be passed in whole or in part to any third party and shall not in whole or in part be published or referred to in a public document, the Internet or any other public media.

Yours faithfully
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

ppa. Sacchi

Dirk Hennig   Julia Sacchi

PricewaterhouseCoopers GmbH
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PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft
Kapelle-Ufer 4, 10117 Berlin

Fünfunddreißigste Verwaltungsgesellschaft
DWI Grundbesitz mbH
Mr. Marcus Friedrichs
Westendstraße 28
60325 Frankfurt

5 March 2020
DHe/JSa

Assessment of Fair Value of the property Work Life Center in Hamburg

Dear Mr. Friedrichs,

You have first mandated PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Berlin to ascertain the Fair Value of the Property "Work Life Center" at Gorch-Fock-Wall 1a in 20354 Hamburg as at 31 December 2017.

After the provided updates as of 30 June 2018, 31 December 2018 and 30 June 2019, you now engaged us to update the Fair Value assessment of the subject property. The valuation date is 31 December 2019.

The valuation was to serve IFRS accounting purposes in compliance with the International Financial Reporting Standard IFRS 13 issued by International Accounting Standards Board (IASB).

IFRS 13 defines Fair Value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

We have summarized the assumptions, estimations and conclusions made in our valuation, and our opinion of Fair Value of the Property in our Report dated 22 January 2020.

According to the engagement letter signed by you, the Report is confidential and shall therefore not be passed in whole or in part to any third party and shall not in whole or in part be published or referred to in a public document, the Internet or any other public media.

Yours faithfully

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

ppa. Sacchi

Dirk Hennig　　　　Julia Sacchi

Vorsitzender des Aufsichtsrats: WP StB Dr. Norbert Vogelpoth
Geschäftsführer: WP StB Dr. Ulrich Störk, WP StB Dr. Peter Bartels, Dr. Joachim Englert, WP StB Petra Justenhoven, WP Clemens Koch, StB Marius Möller, WP StB Uwe Rittmann, StB RA Klaus Schmidt, StB CPA Mark Smith

Sitz der Gesellschaft: Frankfurt am Main, Amtsgericht Frankfurt am Main HRB 107858
PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft ist Mitglied von PricewaterhouseCoopers International, einer *Company limited by guarantee* registriert in England und Wales

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QBC Immobilien GmbH & Co Delta KG
Ms Anna Bernhart
Am Belvedere 4
1100 Vienna
Austria

April 9, 2020
EMA/HAAR

Assessment of Fair Value of the property QBC 4 in Vienna

Dear Ms. Bernhart,

based on our agreement (hereinafter "agreement" or "engagement letter") as of July 25, 2019, QBC Immobilien GmbH & Co Delta KG ("QBC" or "you") has mandated PwC Advisory Services GmbH, Vienna to ascertain the Fair Value of the Property "QBC4", Karl-Popper-Straße 4, 1100 Vienna, KG 01101 EZ 3667 as of December 31, 2019.

The PwC Advisory Terms of Business (as amended 6 April 2011; see Attachment) were the basis for providing our services and for our responsibility, also in relation to third parties. We particularly draw your attention to our limitations of liability.

The valuation was to serve IFRS accounting purposes in compliance with the International Financial Reporting Standard IFRS 13 issued by International Accounting Standards Board (IASB).

IFRS 13 defines Fair Value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

We have summarized the assumptions, estimations and conclusions made in our valuation, and our opinion of Fair Value of the Property in our Report dated April 09, 2020.

According to the engagement letter signed by you, the Report was exclusively prepared for you in accordance with the engagement letter and the therein determined purposes for reporting. The Report is confidential and shall therefore not be passed in whole or in part to any third party and shall not in whole or in part be published or referred to in a public document, the Internet or any other public media. Duties of care and liabilities on the part of PwC towards third parties are excluded.

Yours faithfully

PwC Advisory Services GmbH

ppa. Olena Chekmezova

Matthias Eicher

FINANCIAL REPORT

in US$	Note *	31.12.2019	31.12.2018
Assets			
Non-current assets			
Investment properties	8	1,007,516,128	841,451,779
Prepayments for future acquisitions	10	22,962,341	–
Goodwill	12	76,620,949	65,309,036
Deferred tax assets	22	650,824	637,090
Furniture and equipment		82,635	89,051
Total non-current assets		1,107,832,877	907,486,956
Current assets			
Inventory	11	124,420,990	116,649,298
Accounts receivable		882,976	1,959,461
Loans		–	81,837
Prepayments		2,362,158	2,296,516
Prepaid taxes		3,683,928	2,976,066
Cash&cash equivalents	13	29,372,858	41,693,596
Total current assets		160,722,910	165,656,774
Total assets		1,268,555,787	1,073,143,730
Liabilities			
Non-current liabilities			
Borrowings	14	655,449,347	523,453,152
Deferred tax liabilities	22	158,371,253	131,264,211
Other non-current liabilities	16	8,085,129	10,254,243
Total non-current liabilities		821,905,729	664,971,606
Current liabilities			
Accounts payable and accrued expenses	15	6,895,412	9,750,142
Advances received	15	16,215,826	16,977,150
Taxes payable		12,296,695	12,221,007
Borrowings	14	3,909,669	30,054,477
Total current liabilities		39,317,602	69,002,776
Equity			
Share capital	24	590,539,374	590,539,374
Share premium	24	19,176,805	19,176,805
Treasury shares	24	–1,975,238	–1,540,593
Accumulated deficit		–70,893,189	–111,571,870
Cumulative translation adjustment		–133,371,463	–161,101,897
Shareholders' equity attributable to the holders of the Company		403,476,289	335,501,819
Non-controlling interest		3,856,167	3,667,529
Total equity		407,332,456	339,169,348
Total equity and liabilities		1,268,555,787	1,073,143,730
Number of shares outstanding		9,904,959	9,920,017
Net asset value per share		40.73	33.82

* The Notes are an integral part of these Consolidated financial statements.

		for the year ended	
in US$	Note *	31.12.2019	31.12.2018
Rental income			
Gross rental income	17	74,519,184	69,194,619
Service charge income	17	12,304,638	12,143,777
Utilities	17	−4,155,532	−3,978,517
Property operating expenses	17	−4,194,104	−3,500,395
Repair and maintenance costs	17	−710,275	−542,626
Ground rents paid	17	−488,812	−653,982
Non-income taxes	17	−5,977,707	−4,448,713
Net rental income	**17**	**71,297,392**	**68,214,163**
Gains and losses arising from the sales of properties			
Sales of residential properties	11	8,431,841	–
Cost of sales	11	−5,309,113	–
Net gain arising from the sales of properties	**11**	**3,122,728**	**–**
Administrative and selling expenses			
Management fees	25	−2,663,808	−1,937,202
Professional and administration fees		−3,986,989	−2,479,845
Selling expenses		−1,206,260	−269,833
Salaries and social charges		−535,167	−513,868
Total administrative and selling expenses		**−8,392,224**	**−5,200,748**
Other income/(expenses)			
Interest income		383,625	322,636
Other income	18	759,919	3,104,615
Other expenses	19	−1,923,221	−3,366,805
Depreciation		−23,120	−30,589
Net foreign exchange gain/(loss)	27	38,361,015	−58,969,127
Net other income/(expenses)		**37,558,218**	**−58,939,270**
Valuation movements			
Net gain/(loss) from fair value adjustment on investment properties	8	53,511,851	−35,676,301
Net (loss)/gain due to effect of currency fluctuation on valuation of investment property	20	−70,575,004	117,354,278
Net valuation movements		**−17,063,153**	**81,677,977**
Net operating gain before finance cost		**86,522,961**	**85,752,122**
Finance costs	21	−32,646,854	−31,386,106
Gain before taxes		**53,876,107**	**54,366,016**
Income taxes	22	−12,873,952	−24,134,540
Net profit for the period		**41,002,155**	**30,231,476**
Attributable to:			
Equity holders of the Company		40,678,681	29,948,618
Non-controlling interest		323,474	282,858
Earnings per share for profit attributable to equity holders of the Company during the period			
Weighted average number of outstanding shares		9,911,451	9,925,763
Basic and diluted		4.10	3.02

* The Notes are an integral part of these Consolidated financial statements.

	for the year ended	
in US$	31.12.2019	31.12.2018
Net profit for the period	41,002,155	30,231,476
Other comprehensive gain/(loss)		
Other comprehensive gain/(loss) to be reclassified to profit or loss in subsequent periods:		
Gain/(loss) on currency translation differences	27,595,598	−65,940,372
Net other comprehensive gain/(loss) to be reclassified to profit or loss in subsequent periods	27,595,598	−65,940,372
Total comprehensive gain/(loss) for the period	68,597,753	−35,708,896
Attributable to:		
Equity holders of the Company	68,409,115	−35,888,479
Non-controlling interest	188,638	179,583

* The Notes are an integral part of these Consolidated financial statements.

		for the year ended	
in US$	Note *	31.12.2019	31.12.2018
Cash flows from operating activities			
Net profit for the period		41,002,155	30,231,476
Net foreign exchange (gain)/loss		–38,361,015	58,969,127
Net (gain)/loss from fair value adjustment on investment properties	8	–53,511,851	35,676,301
Net loss/(gain) due to effect of currency fluctuation on valuation of investment property	20	70,575,004	–117,354,278
Other non-cash expenses		737,435	2,465,422
Depreciation		23,120	30,589
Interest income		–383,625	–322,636
Finance costs	21	32,646,854	31,386,106
Income tax expense		12,873,952	24,134,540
Cash generated from operations before movements in working capital		**65,602,029**	**65,216,647**
Movements in working capital			
(Decrease)/increase in accounts payable and other liabilities		–7,179,486	2,746,012
Decrease in accounts receivable		421,730	1,309,914
Decrease/(increase) in inventory	11	5,309,113	–6,090,412
Cash generated from operations		**64,153,386**	**63,182,161**
Interest income received		383,625	318,495
Income tax paid		–10,226,118	–9,164,895
Net cash generated from operating activities		**54,310,893**	**54,335,761**
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	7	–54,689,100	–
Prepayments for future acquisitions	8	–22,603,847	–
Purchases of investment properties		–4,875,557	–15,326,803
Net cash used in investing activities		**–82,168,504**	**–15,326,803**
Cash flows from financing activities			
Finance costs paid		–30,531,677	–34,246,349
Proceeds from notes payable	14	49,396,207	–
Repayment of borrowings		–	–89,735
Proceeds from sale of treasury shares		60	34,555
Acquisition of treasury shares		–434,705	–312,100
Unicredit loan refinance fees	14	–4,430,072	–
Net cash generated from/(used in) financing activities		**13,999,813**	**–34,613,629**
Net change in cash & cash equivalents		**–13,857,798**	**4,395,329**
Cash&cash equivalents at the beginning of the period		41,688,479	40,644,407
Net gain/(loss) from foreign currency translation		1,541,892	–3,351,257
Cash&cash equivalents at the end of the period	**13**	**29,372,573**	**41,688,479**

* The Notes are an integral part of these Consolidated financial statements.

Non-cash transactions

In 2018, the company settled the liabilities that arose from the assignment of rights to Arbat projects against loan receivable from joint operation for the amount of US$ 15.68 million (refer to Note 25). In 2019, the non-cash transactions were insignificant.

Changes in liabilities arising from significant financing activities are disclosed in Note 14.

in US$	Share capital	Share premium	Treasury shares
Balance as of 01.01.2018	590,539,374	19,176,805	–1,263,047
Net profit for the period	–	–	–
Other comprehensive loss	–	–	–
Total comprehensive gain/(loss) for the period	–	–	–
Net acquisition of treasury shares (acquisitions US$ 312,100, sales US$ 34.554)	–	–	–277,546
Balance as of 31.12.2018	590,539,374	19,176,805	–1,540,593
Net profit for the period	–	–	–
Other comprehensive loss	–	–	–
Total comprehensive gain/(loss) for the period	–	–	–
Acquisition of treasury shares (acquisitions US$434.705, sales US$ 60)	–	–	–434,645
Balance as of 31.12.2019	590,539,374	19,176,805	–1,975,238

* The Notes are an integral part of these Consolidated financial statements.

Accumulated deficit	Currency translation adjustment	Shareholders' equity attributable to the holders of the Company	Non-controlling interest	Total equity
−141,520,488	−95,264,800	371,667,844	3,487,946	375,155,790
29,948,618	–	29,948,618	282,858	30,231,476
–	−65,837,097	−65,837,097	−103,275	−65,940,372
29,948,618	−65,837,097	−35,888,479	179,583	−35,708,896
–	–	−277,546	–	−277,546
−111,571,870	−161,101,897	335,501,819	3,667,529	339,169,348
40,678,681	–	40,678,681	323,474	41,002,155
–	27,730,434	27,730,434	−134,836	27,595,598
40,678,681	27,730,434	68,409,115	188,638	68,597,753
–	–	−434,645	–	−434,645
−70,893,189	−133,371,463	403,476,289	3,856,167	407,332,456

1. CORPORATE INFORMATION

Eastern Property Holdings Limited (the "Company", "EPH") is a limited liability company incorporated and domiciled in British Virgin Islands whose shares are publicly traded on the SIX Swiss Exchange. The registered office is located at Hauteville Trust (BVI) Limited, P.O. Box 3483, Road Town, Tortola, British Virgin Islands. The consolidated financial statements of Eastern Property Holdings Limited and its subsidiaries (together the "Group") for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 27 April 2020.

The principal activities of the Group are described in Note 6.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and SIX Swiss Exchange Regulations on financial reporting.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties.

The consolidated financial statements have been prepared on a going concern basis.

The consolidated financial statements are presented in US dollars ("US$").

3. NEW ACCOUNTING POLICIES AND REPORTING CHANGES

The accounting policies adopted are consistent with those of the previous financial year with the exceptions described below

STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN 2019

IFRS 16 Leases

As of January 1, 2019, IFRS 16 Leases is applied, which replaces IAS 17 Leases and the related interpretations IFRIC 4, SIC–15 and SIC–27. New standard is effective for annual reporting periods beginning on or after 1 January 2019.

Impact on the Group's consolidated profit or loss

The impact on the Group's consolidated profit or loss is not material in the year ended 31 December 2019 and 31 December 2018.

Impact on the Group's consolidated assets, liabilities and equity as of 1 January 2019

Opening balance of long-term land lease liabilities of US$ 3.9 million has been decreased for the amount of derecognized land lease liabilities of US$ 3.6 million. Opening balance of long-term land lease liabilities as restated is US$ 0.3 million.

The impact of short-term leases and leases of low-value assets at 1 January 2019 for the lease reconciliation is immaterial.

The Group acting as a lessor

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets. The Group does not have leases that it classifies as finance lease.

The Group acting as a lessee

The Group acts as a lessee on a number of land lease contracts in Russia. Before 1 January 2019, land lease contracts were accounted for as finance lease under old IAS 17, i.e. the Group recognised investment property and respective long-term financial liability in the amount of future minimum lease payments over the lease term, net of future finance charges.

Under IFRS 16, lease payments on specific leases, defined as a percentage of state cadastral value of the land, do not meet the IFRS 16's definition of lease payments for measurement of long-term lease liability.
As a result, the finance lease liabilities on such leases and respective value of leasehold investment property were derecognised as of 1 January 2019 in the amount of US$ 3.6 million. That kind of land rental agreements are in place at properties in Russia: Geneva House, Polar Lights, Hermitage Plaza and Magistralnaya. From 2019, rental payments on such leases are only recognised in the period when they occur.

The accounting for remaining land lease contract (land under Berlin House) remained effectively the same. The Group has applied modified retrospective approach, whereby assets and liabilities have been assigned the same value on transition. Accordingly, no effects were recognized in shareholder's equity in connection with the introduction. As of 1 January 2019, the carrying value of the lease liability and respective right-of-use asset (land) is US$ 0,29 million. Refer to Note 4 for details on accounting policy.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Other amendments and interpretations effective as of 1 January 2019 are relevant to the Group in the reporting period but have no material impact:
- Amendment to IFRS 9, Prepayment Features with Negative Compensation;
- Amendments to IAS 28 , Long-term Interests In Associates and Joint Ventures;
- Amendments to IAS 19, Employee Benefits Plan Amendment, Curtailment or Settlement;
- IFRIC 23, Uncertainty Over Income Tax Treatments;
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12 Income Taxes and IAS 23, Borrowing Costs.

Early adoption of standards

In 2019, the Group did not early adopt any new or amended standards and does not plan to early adopt any of the issued, but not yet effective standards.

- IFRS 17, Insurance Contracts;
- IFRS 10, Consolidated Financial Statements and IAS 28(amendments), Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 3, Definition of a business.
- Amendments to IAS 1 and IAS 8, Definition of material;
- Amendments to Conceptual Framework, References to the Conceptual Framework in IFRS Standards.

Management of the Group do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

RECLASSIFICATION ADJUSTMENT OF COMPARATIVE FINANCIAL INFORMATION

- Lines “Service charge income on principal basis” and “Service charge expenses on principal basis” in the consolidated statement of profit and loss were renamed into “Service charge income” and “Utilities” to provide more accurate title for the underlying transactions in view of the continuing growth of diversity of the Group’s arrangements with tenants. No changes in accounting policy for these transactions are caused or result from renaming.
- Costs incurred to promote and market inventory (residential properties of Arbat project) were dissociated from line “Professional and administration fees” to separate line “Selling expenses’ in the consolidated statement of profit and loss.

The statement of profit or loss for prior period is amended to reflect the changes, as presented in the table below:

in US$	2018	adjustments		2018
	before adjustments	Costs to promote and market inventory	Renaming	after adjustments
Service charge income on principal basis	12,143,777		−12,143,777	–
Service charge income			12,143,777	12,143,777
Service charge expenses on principal basis	−3,978,517		3,978,517	–
Utilities			−3,978,517	−3,978,517
Professional and administration fees	−2,749,678	269,833		−2,479,845
Selling expenses	–	−269,833		−269,833

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

Subsidiaries

The consolidated financial statements comprise the financial statements of the Group as at 31 December 2019. Control over subsidiaries is achieved when the Group is exposed, or has rights, to variable returns from its involve- ment with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, it has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of financial position, statement of profit or loss and statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of comprehensive income and net assets not held by the Group and are presented separately in the consolidated statement of profit or loss and within the consolidated statement of changes in equity in the consolidated statement of financial position, separately from parent shareholders' equity.

The Group's structure is given in the Corporate Governance part of the annual report.

Property acquisition and business combinations

Where a property is acquired, via corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity to determine whether the acquisition represents the acquisition of a business.

The basis of the judgement is set out in Note 5.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. The goodwill is not deductible for income tax purposes.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill is tested for impairment at least annually, where there is an indicator that it is impaired or where there is an indicator that the CGU(s) to which it is allocated is impaired. Where the impairment indicator relates to specific CGUs, those CGUs are tested for impairment separately before testing the group of CGUs and the goodwill together. Where a property acquisition meets the definition of a business, the entity should apply IAS 12, and it might need to recognise a deferred tax liability on acquisition and the corresponding goodwill. An impairment test for such goodwill is performed using fair value less costs of disposal. The carrying value of a CGU under the fair value less costs of disposal method includes the deferred tax liabilities.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Joint operations

Joint operations are a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, resulting to the arrangement. The Group's interests in joint operation entities are accounted for by recognising its share of the assets, liabilities, revenues and expenses. The Group combines its share of the joint operations' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

The functional currency of the parent company is the US dollar (US$). The functional currency of the Group's major subsidiaries is the Russian ruble (RUB) and Euro (for German subsidiary). Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates.

The Company's shares are listed on the SIX stock exchange in US dollars. Therefore, the Group uses the US dollar as its presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions or valuation where items valued at fair value are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the consolidated statement of profit or loss.

The Group uses the following official rates of exchange, as determined by the Swiss National Bank (for 1 US$):

	31.12.2019		31.12.2018		31.12.2017	
in US$	RUB	Euro	RUB	Euro	RUB	Euro
closing rate	62.1071	0.8917	69.5131	0.8744	57.7101	0.8342
average rate	64.4692	0.8933	62.6679	0.8478	58.1208	0.8807

Translation of consolidated financial statements

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that financial position;
- income and expenses for each consolidated statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income or expenses.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings that qualify as quasi-equity loans, are taken to other comprehensive income. When the foreign operation is sold, such exchange differences are recognised in the consolidated statement of profit or loss.

Goodwill and fair value adjustment arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate

INVESTMENT PROPERTY

Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Land plot, on which the property is constructed, held under a lease is classified as investment property when the definition of an investment property is met. The lease obligation is recognised under IFRS 16 at the present value of the lease payments that are not paid at that date.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions incurred to ensure that the property is operational. The carrying amount also includes the costs for replacing parts of an existing Investment property at the time when the cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the consolidated statement of profit or loss in the year in which they arise.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the consolidated statement of profit or loss in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset.

Fair value is the price that would be received in case of a sale of the investment property in an orderly transaction between market participants at the measurement date. The fair value of the investment property is determined by professional third party appraisers at each balance sheet date, acquisition date and date of disposal using recognized valuation techniques and the principle of IFRS 13.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect to the property. Because of the primary currency used in the Group's lease contracts, the currency of the Group's bank financings, and the usual currency to set transaction prices when buying or selling properties, the appraisers determine the value of the Group's real estate holdings in US$.

The Moscow office of international real estate consultant Jones Lang LaSalle and the Berlin office of PWC have been commissioned by the Group to perform valuations of its real estate holdings. The results of the valuations have been reviewed and approved by the Board of Directors as representing the fair values at the reporting date.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to Inventories. A property's deemed costs for subsequent accounting as inventories is its fair value at the date of change in use.

For a transfer from Inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the profit or loss.

The Group's investment property includes long-term leasehold land at project Berlin House which is accounted for as if it was a right-of-use asset under IFRS 16, Leases. Refer to Note 4 for accounting policy.
On 1 January 2019, investment property comprised of the leasehold land at projects Geneva House, Polar Lights, Hermitage Plaza and Magistralnaya and corresponding lease liabilities were derecognized as a result of transition from IAS 17, Leases, to IFRS 16, Leases. Refer to Note 3 for details.

INVENTORY

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as Inventory and is measured at the lower of cost and net realisable value. Costs include amounts paid to contractors for construction, borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs. Cost is allocated between inventory items (apartments and parking lots) based on the floor space in sqm of each item. The cost of a sqm is determined using weighted average cost formula.

When item of inventory is sold, revenue from the sale, as determined by the sale price, and respective cost is recognised in the consolidated statement of profit or loss.

FINANCIAL ASSETS

Classification

The Group's financial assets (receivables and cash and cash equivalents) are classified as subsequently measured at amostised cost based on the following criteria:

– the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Receivables result from transactions that are within scope of IFRS 16 Leases (collectible on rental revenue) and IFRS 15 Revenue from Contracts with Customers (collectibles on service charge fee and sales of properties).

Cash and cash equivalents comprise cash in-hand, cash at bank and in transit between bank accounts, short-term deposits with an original maturity of three months or less and bank promissory notes payable on demand. Bank overdrafts (if any) are shown separately in the current liabilities on the consolidated statement of financial position.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequently, the financial asset is measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss in the consolidated statement of profit or loss and presented in other income or expense. Impairment losses are presented as separate line item in Profit or loss in the consolidated statement of profit or loss.

Cash flows from interest income received are classified as operating activity in the consolidated statement of cash flows.

Impairment

The group assesses on a forward looking basis the expected credit losses associated with the asset. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Financial assets have been determined to have low credit risk (refer to Note 26).

PREPAYMENTS

Prepayments are stated at historical cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect goods or services due according to the terms of the payments. The amount of the provision is the difference between the asset's carrying value and the present value of the estimated future cash flows discounted at the effective interest rate. The impairment charge is recognised in the consolidated statement of profit or loss. When a prepayment is uncollectible, it is written off against the provision account for prepayments.

SHARE CAPITAL

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

FINANCIAL LIABILITIES

Classification, initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss. All financial liabilities are recognised initially at fair value minus transaction costs that are directly attributable to issue of the financial liability.

The Group's financial liabilities include trade payables and accrued expenses, tenant deposits and borrowings including own bonds issued, lease liabilities and derivative financial instruments.

After initial recognition financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Derecognition

A financial liability is derecognised when when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Cash flows from interest expense paid are classified as financing activity in the consolidated statement of cash flows

PROVISIONS

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost.

CURRENT INCOME TAX

Current Income Tax Assets and Liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

DEFERRED INCOME TAX

Deferred Income Tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, with the following exceptions:

– Where the temporary taxable difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss
– In respect of taxable temporary differences associated with investments in subsidiaries, joint operations and associates where the timing of the reversal of the temporary differences can be controlled by the parent, operator or investor, respectively, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred Income Tax Assets are recognised only to the extent that it is probable that taxable profits will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.
The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an investment property measured at fair value, a rebuttable presumption exists that its carrying amount will be recovered through the sale.

Deferred Income Tax Assets and Liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

LEASES

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a Lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Rights-of-use assets - Investment properties (land) held under lease

The Group leases properties (land) that meet the definition of investment property. These right-of-use assets are presented as part of the line item 'Investment property' in the statement of financial position.

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised and lease payments made at or before the commencement date less any lease incentives received.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) and amounts expected to be paid under residual value guarantees. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. IFRS 16 requires certain adjustments to be expensed, while others are added to the cost of the related right-of-use asset.

Land leases where the lease payments are defined as a percentage of cadastral value of the land

Where the lease payment is determined as a percentage of cadastral value of the land and, therefore, does not fall into any category of payments that form lease liability defined by IFRS 16, the Group does not recognise a right-of-use asset and a corresponding lease liability. The lease payments are recognised as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a Lessor

Refer to accounting policies on rental income in this Note.

Rent receivables

Rent receivables are recognised at their original invoiced value except where the time value of money is material, in which case rent receivables are recognised at fair value and subsequently measured at amortised cost. Refer to accounting policies on financial assets in this note.

Tenant deposits

Tenant deposits are initially recognised at fair value and subsequently measured at amortised cost. Any difference between the initial fair value and the nominal amount is included as a component of operating lease income and recognised on a straight-line basis over the lease term. Refer also to accounting policies on financial liabilities in this note.

REVENUE RECOGNITION

The Group's's key sources of income include:
- Rental income;
- Revenue from contracts with customers:
  - Services to tenants including management charges and other expenses recoverable from tenants;
  - Sale of inventory property.

The accounting for each of these elements is discussed below.

Rental income

The Group earns revenue from acting as a lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of an investment property.
Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in revenue in the statement of profit or loss due to its operating nature, except for contingent rental income which is recognised when it arises. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.
Lease incentives that are paid or payable to the lessee are deducted from lease payments. Accordingly, tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Group is reasonably certain that the tenant will exercise that option.

The initial direct costs and tenant lease incentives are presented in the line item ‘Investment property’ in the Consolidated statement of financial position. Amounts received from tenants to terminate leases or to compensate for dilapidations are recognized as gain or loss, respectively, in the consolidated statement of profit or loss when the right to receive them arises.

Revenue from services to tenants

The Group recovers direct expenses arising on exploitation and maintenance of the investment property through fixed and variable (i.e. tied to the actual utility costs) service charge fee. Service charge revenue is recognised when a performance obligation is satisfied, which occurs when control of a service transfers to the customer. Since the customer receives and consumes the benefits of the services as the Group performs these services, the control transfers to the customer over time. Based on this criterion, revenue is recognized over time using the input method to measure progress of the performance that is when the recoverable costs are incurred. Service charges are included gross of the related costs in revenue, as the management considers that the Group acts as principal in this respect.

For practical reasons, the Group recognizes the service charge income in the consolidated statement of profit or loss at the last date of every month.

The Group arranges for third parties to provide certain of these services to its tenants. The Group concluded that it acts as a principal in relation to these services as it controls the specified services before transferring them to the customer. Therefore, the Group records revenue on a gross basis.

Sales of inventory property

Revenue on sale of inventory property is recognised when a performance obligation is satisfied, which occurs when control of the property transfers to the buyer. In each case, management considers indicators to determine the point in time at which control passes to the customer, including but not limited to whether:
- the Group has a right to payment;
- the customer has obtained legal title to the asset;
- the entity has transferred possession of the asset to the customer;
- the customer has significant risks and rewards of ownership of the asset;
- the customer has accepted the asset.

Revenue on sale is recorded in the consolidated statement of profit or loss together with an adjustment for the associated costs. General costs of marketing and promoting of the sales are recognized when they are incurred, in the consolidated statement of profit or loss as selling expenses. Deposits and instalments received on properties prior to the transfer of control are included under current liabilities.

DIVIDEND DISTRIBUTION

Dividend distribution to the Company’s shareholders is recognised as a liability in the Group’s consolidated financial statements in the period in which the dividends are approved by the Company’s shareholders.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Business combinations

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, etc.). The significance of any process is judged with reference to the guidance in IAS 40 on ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Property lease classification - the Group as a Lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of this property and accounts for the contracts as operating leases.

ESTIMATES

Valuation of Investment property

Refer to Note 9.

Estimation of net realisable value for Inventory

Inventory is carried at the lower of cost and net realisable value (NRV).

NRV for Inventory is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions. Decrease in the NRV estimate by 20% would result in impairment of Inventory in the amount of US$7.17 million.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group recognises liabilities, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such liabilities is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax liabilities in the period in which such determination is made.

6. SEGMENT INFORMATION

The Chief Operating Decision Maker of the Group has been identified as the Management Committee, which has been given responsibility for allocating the Group's resources between its various assets.

The Management Committee has access to detailed financial reports for all the Group's assets and evaluates the performance of each on an individual basis. The management arranged its operating segments into two operating segments: rental properties and residential properties for sale. All other business activities and non-reportable business segments were combined and disclosed below in "all other segments" category.

1. Rental Properties which consist of:

- 100% of six commercial properties: Berlin House, Geneva House, Polar Lights, Hermitage Plaza, office and retail areas of Arbat Multi-Use Complexes (in 2017, Arbat Multi-Use Complexes referred to the segment of Development Properties) and Magistal'naya in Moscow;
- 94% of two commercial properties City Gate in Stuttgart and Work Life Center in Hamburg.
- 100% of the commercial property QBC 4 in Vienna.

Rental Properties generate rental income and incur expenses primarily for maintenance and building operations. They are predominantly comprised of office space, though all, except Magistral'naya, have space dedicated to retail.

The Rental Properties segment generates product or service-based recurring revenues by providing commercial premises, for which rental income is received. Generally, gross and net rents for the Segment are reflected as such in both the consolidated statement of profit or loss and accounts presented by segment.

In prior years the Company issued bonds to finance acquisitions of rental properties therefore these bonds as well as the interest accrued for them are presented in Rental Properties segment.

In 2017 and 2019, the Company issued interest bearing subordinated registered notes. Proceeds were mainly used to finance acquisition of rental property, therefore the notes as well as interest accrued for them are also presented in Rental Properties segment.

2. Residential Properties for Sale which consist of 100% of owned by the Group residential areas of two mixed-use Arbat Multi-use Complexes in Moscow.

3. "Other segments" include activities on general administration of the Group and non-reportable segment of the 100% of a raw land plot of 55 hectare "Scandinavia" site near St. Petersburg.

Information provided to the Management Committee is measured in a manner consistent with that in the consolidated financial statements. Revenue of the Group by operating activities for the periods is as follows:

		for the year ended 31.12.2019		
in US$	Rental properties	Residential properties for sale	Other segments	Total
Gross rental income	74,519,184	–	–	74,519,184
Other rental expenses	−3,221,792	–	–	−3,221,792
Net rental income	71,297,392	–	–	71,297,392
Sales of residential properties	–	8,431,841	–	8,431,841
Net gain arising from the sales of properties	–	3,122,728	–	3,122,728
Interest income	360,287	23,338	–	383,625
Net foreign exchange gain/(loss)	4,541,465	−125,288	33,944,838	38,361,015
Valuation movements	−17,117,854	–	54,701	−17,063,153
Finance costs	−30,901,268	−1,670,254	−75,332	−32,646,854
Income tax expense	−10,294,705	−2,510,384	−68,863	−12,873,952
Other expenses	−3,935,338	−3,212,251	−2,431,057	−9,578,646
Net profit/(loss) for the period	13,949,979	−4,372,111	31,424,287	41,002,155

		for the year ended 31.12.2018		
in US$	Rental properties	Residential properties for sale	Other segments	Total
Gross rental income	69,194,619	–	–	69,194,619
Other rental expenses	−980,456	–	–	−980,456
Net rental income	68,214,163	–	–	68,214,163
Interest income	309,779	12,857	–	322,636
Net foreign exchange gain/(loss)	−14,959,601	−5,900,476	−38,109,050	−58,969,127
Valuation movements	81,540,752	–	137,225	81,677,977
Finance costs	−29,821,371	−1,555,385	−9,351	−31,386,106
Income tax (expense)/benefit	−24,158,194	23,654	–	−24,134,540
Other income/(expenses)	−341,372	−3,170,031	−1,982,124	−5,493,527
Net profit/(loss) for the period	80,784,156	−10,589,381	−39,963,300	30,231,476

The Management Committee also assesses the performance of operating segments based on the results of valuation of the respective assets.

	Assets and liabilities valuation as of 31.12.2019			
	Rental Properties	Residential Properties for sale	Other segments	Total
Investment properties	1,003,743,451	–	3,772,677	1,007,516,128
Prepayments for future acquisitions	22,962,341	–	–	22,962,341
Goodwill	76,620,949	–	–	76,620,949
Inventory	–	124,420,990	–	124,420,990
Cash & cash equivalents	23,457,710	3,998,331	1,916,817	29,372,858
Other Assets	6,702,821	874,729	84,971	7,662,521
Total Assets	1,133,487,272	129,294,050	5,774,465	1,268,555,787
Total Liabilities	830,638,707	30,506,992	77,632	861,223,331

	Assets and liabilities valuation as of 31.12.2018			
	Rental Properties	Residential Properties for sale	Other segments	Total
Investment properties	838,131,779	–	3,320,000	841,451,779
Goodwill	65,309,036	–	–	65,309,036
Inventory	–	116,649,298	–	116,649,298
Loans	81,837	–	–	81,837
Cash & cash equivalents	34,086,599	1,127,794	6,479,203	41,693,596
Other Assets	7,624,566	247,818	85,800	7,958,184
Total Assets	**945,233,817**	**118,024,910**	**9,885,003**	**1,073,143,730**
Total Liabilities	**732,357,596**	**1,512,903**	**103,883**	**733,974,382**

Geographical information on Group's revenues and significant non-financial assets is given below:

	for the year ended 31.12.2019			
in US$	Russia	Germany	Austria	Total
Gross rental income	63,138,542	8,172,680	3,207,962	74,519,184
Net rental income	61,182,777	6,906,311	3,208,304	71,297,392
Sales of residential properties	8,431,841	–	–	8,431,841
Carrying amount of:				
Investment property	651,129,451	239,318,157	117,068,520	1,007,516,128
Prepayments for future acquisitions	–	–	22,962,341	22,962,341
Goodwill	45,621,368	19,305,477	11,694,104	76,620,949
Inventory	124,420,990	–	–	124,420,990
Total	821,171,809	258,623,634	151,724,965	1,231,520,408

	for the year ended 31.12.2018			
in US$	Russia	Germany		Total
Gross rental income	62,736,817	6,457,802	–	69,194,619
Net rental income	62,403,378	5,810,785	–	68,214,163
Carrying amount of:				
Investment property	606,316,348	235,135,431	–	841,451,779
Goodwill	45,621,368	19,687,668	–	65,309,036
Inventory	116,649,298	–	–	116,649,298
Total	**768,587,014**	**254,823,099**	**–**	**1,023,410,113**

Information on the major customers is given in Note 17.

7. BUSINESS COMBINATIONS QBC4

On 28 February 2019, the Company acquired 100% of the group of entities: holding companies QBC BT IV Alpha GmbH, QBC BT IV Beta GmbH, QBC BT IV Epsilon GmbH and property company QBC Immobilien GmbH&Co Delta KG owning the office property in Am Belvedere 4, 1100 Vienna, Austria. The property is a newly constructed Class A office property in the attractive and sought-after Quartier Belvedere in Vienna and in close proximity to the newly constructed main station of Vienna. The property comprises an approx. gross floor area of 20,000 sqm with approx. 71 parking spaces and is fully let, primarily to the headquarters of the accounting firm BDO.

The property has been acquired on market terms. The acquired assets and liabilities constitute a business and are accounted for in accordance with IFRS 3

The fair values of the identifiable assets and liabilities of the acquired business as of the date of acquisition is given below (translated at rate 1.1391 US$/EUR):

in US$	28 February 2019
Assets	
Investment property	117,358,448
Trade receivables	37,520
Other assets	81,230
Cash and cash equivalents	716,299
Total assets	**118,193,497**
Liabilities	
Deferred tax liabilities	11,877,628
Borrowings	62,487,315
Accounts payable and accrued expenses	300,783
Total liabilities	**74,665,726**
Total identifiable net assets at fair value	**43,527,771**
Goodwill arising on acquisition	11,877,628
Purchase consideration	55,405,399
thereof paid in cash	55,405,399
Analysis of cash flows on acquisition	
Net cash acquired with the subsidiaries	716,299
Cash payment	–55,405,399
Net cash outflow	–54,689,100

At the date of the acquisition, the fair value of the trade receivables did not differ from their gross contractual amount. As of the acquisition date, a deferred tax liability is recognised due to the excess of the fair value of the investment property over its tax value. Goodwill arises on acquiring an asset via a share deal, where the Group inherits the fiscal basis of the assets. As IFRS require recognition of deferred taxes on a nominal basis, while share transactions are based on market value of these taxes, a difference appeared is reflected in the goodwill. None of the goodwill is expected to be deductible for income tax purposes.

Transaction costs incurred in the amount of US$ 1.5 million are recognised in profit or loss in line Professional and administration fees.

Net rental income and net profit of the acquired subsidiaries amounted to US$ 3.9 million and US$ 3.4 million respectively, since the acquisition date up to 31 December 2019. Had the subsidiaries been acquired on 1 January 2019, the net rental income and net profit of the Group for the reporting period would have been US$ 72 million and US$ 41.4 million accordingly.

8. INVESTMENT PROPERTIES

The balances and movements of investments properties on a project basis, reconciliation of their carrying amounts to the fair values determined by the independent appraisal and descriptions of the properties are given in the tables below.

The fair value of the investment property was determined based on an independent valuation prepared by Jones Lang LaSalle (Russian properties) or PWC (German and Austrian properties) on 31 December 2019 and 31 December 2018. Refer to Note 9 for details.

	for the year ended 31.12.2019					
in US$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	Magistral'naya	Arbat[1]
Beginning of the period	141,292,855	140,730,907	96,432,222	201,096,102	4,488,262	18,956,000
Acquisitions arising from business combinations	–	–	–	–	–	–
Additions from subsequent expenditure	33,721	42,585	1,816,408	2,548,280	–	–
Other	−22,824	–	–	−35,761	–	–
Revaluations	10,890,916	7,155,416	14,220,592	8,356,482	424,000	2,543,000
Land lease obligations	35,106	−730,908	−732,222	−2,096,103	−88,262	–
End of period	152,229,774	147,198,000	111,737,000	209,869,000	4,824,000	21,499,000

	as of 31.12.2019					
Market value as estimated by the external valuer	151,897,000	147,198,000	111,737,000	209,869,000	4,824,000	21,499,000
Add: land lease obligation recognised separately	332,774	–	–	–	–	–
Fair value for financial reporting purposes	152,229,774	147,198,000	111,737,000	209,869,000	4,824,000	21,499,000

	for the year ended 31.12.2018					
in US$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	Magistral'naya	Arbat[1]
Beginning of the period	141,682,391	144,831,219	111,177,034	218,928,922	4,924,142	23,000,000
Additions from subsequent expenditure	332,730	163,409	1,468,310	244,953	–	–
Revaluations	−770,047	−4,228,145	−16,085,640	−18,557,149	−418,396	−4,044,000
Land lease obligations	47,781	−35,576	−5,637	479,376	−17,484	–
Embedded derivatives	–	–	−121,845	–	–	–
End of period	**141,292,855**	**140,730,907**	**96,432,222**	**201,096,102**	**4,488,262**	**18,956,000**

	as of 31.12.2018					
Market value as estimated by the external valuer	141,000,000	140,000,000	95,700,000	199,000,000	4,400,000	18,956,000
Add: land lease obligation recognised separately	292,855	730,907	732,222	2,096,102	88,262	–
Fair value for financial reporting purposes	**141,292,855**	**140,730,907**	**96,432,222**	**201,096,102**	**4,488,262**	**18,956,000**

in US$	Scandinavia land plots	City Gate	WLC(2)	QBC 4	Total
			for the year ended 31.12.2019		
Beginning of the period	3,320,000	136,209,289	98,926,142	–	841,451,779
Acquisitions arising from business combinations	–	–	–	117,358,448	117,358,448
Additions from subsequent expenditure	–	215,712	189,415	29,436	4,875,557
Other	–	−41,267	−31,623	–	−131,476
Revaluations	54,701	5,534,754	2,864,710	1,467,280	53,511,851
Land lease obligations	–	–	–	–	−3,612,389
Effect of translation to presentation currency	397,976	−2,633,975	−1,915,000	−1,786,644	−5,937,643
End of period	3,772,677	139,284,513	100,033,644	117,068,520	1,007,516,128
			as of 31.12.2019		
Market value as estimated by the external valuer	3,772,677	139,284,513	100,033,644	117,068,520	1,007,183,354
Add: land lease obligation recognised separately	–	–	–	–	332,774
Fair value for financial reporting purposes	3,772,677	139,284,513	100,033,644	117,068,520	1,007,516,128

in US$	Scandinavia land plots	City Gate	WLC(2)	QBC 4	Total
			for the year ended 31.12.2018		
Beginning of the period	3,850,000	136,771,670	89,662,760	–	874,828,138
Additions from subsequent expenditure	–	510,051	10,230,600	–	12,950,053
Revaluations	−530,000	5,387,472	3,569,604	–	−35,676,301
Land lease obligations	–	–	–	–	468,460
Embedded derivatives	–	–	–	–	−121,845
Effect of translation to presentation currency	–	−6,459,904	−4,536,822	–	−10,996,726
End of period	**3,320,000**	**136,209,289**	**98,926,142**	**–**	**841,451,779**
			as of 31.12.2018		
Market value as estimated by the external valuer	3,320,000	136,209,289	98,926,142	–	837,511,431
Add: land lease obligation recognised separately	–	–	–	–	3,940,348
Fair value for financial reporting purposes	**3,320,000**	**136,209,289**	**98,926,142**	**–**	**841,451,779**

	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	Magistral'naya
			as of 31.12.2019		
Country	Russia	Russia	Russia	Russia	Russia
City	Moscow	Moscow	Moscow	Moscow	Moscow
Address	5, Petrovka Street	7, Petrovka Street	26, Pravdy Street	4&13, 2/4, Krasno-proletarskaya St.	11/2 1st Magistralnaya St
Property description	Office&retail centre	Office&retail centre	Office&retail centre	Office centre	Office centre
Class	A	A	B+	A	B
Building area, sqm	13,381	16,455	37,815	40,216	3,552
Land	leasehold	leasehold	leasehold	leasehold	leasehold
Net rentable area in sqm (BOMA)	**10,150**	**11,970**	**30,750**	**33,400**	**3,177**
office	6,620	10,340	29,270	33,030	3,177
retail	3,530	1,630	1,480	370	–
other	–	–	–	–	–
Parking lots					
underground	62	132	143	283	–
surface	–	–	46	–	39
Vacancy rate as a % of net rentable area	4.7%	2.2%	0.6%	3.5%	0.0%
Lease terms	2020–2030	2020–2035	2020–2027	2020–2026	2022
Weighted average lease term, years	4.9	5.1	3.6	5.2	2.5
Carrying amount, US$	152,229,774	147,198,000	111,737,000	209,869,000	4,824,000

	as of 31.12.2019					
	Arbat		Scandinavia land plots	City Gate	WLC	QBC 4
Country	Russia	Russia	Russia	Germany	Germany	Austria
City	Moscow	Moscow	Leningrad Region	Stuttgart	Hamburg	Vienna
Address	24, Arbat Street	39, Arbat Street	near Leninskoye Settlement, Vyborgskiy District	11, Kriegs-bergstrasse	1a, Gorch-Fock-Wall	4, Am Belvedere
Property description	Mixed-use: apartments& offices	Mixed-use: apartments& retail	4 land plots of 55 ha	Office&retail with restaurant	Office and retail with fitness	Office centre
Class	Elite	Elite	n/a	A	A	A
Building area, sqm	24,630	10,520	n/a	26,445	12,068	20,000
Land	leasehold	leasehold	freehold	freehold	freehold	freehold
Net rentable area in sqm (BOMA)	**2,600**	**1,200**	**n/a**	**17,260**	**12,068**	**17,425**
office	2,600	–	n/a	15,407	6,171	17,425
retail	–	1,200	n/a	1,330	2,519	–
other	–	–	n/a	523 (rest.)	2 416 (fitness), 962 (other)	–
Parking lots						
underground	79	70	n/a	145	89	71
surface	–	–	n/a	–	–	–
Vacancy rate as a % of net rentable area	100%	69%	n/a	0.0%	1.2%	0.0%
Lease terms	–	2022-2023	n/a	2021-2030	2023-2032	unlimited
Weighted average lease term, years	0.0	3.0	n/a	6.8	8.3	unlimited
Carrying amount, US$	8,829,000	12,670,000	3,772,677	139,284,513	100,033,644	117,068,520

(1) Arbat projects represent the two multi-use buildings of 24,630 and 10,520 sqm at Arbat Street 24 and Arbat Street 39 in Moscow. The buildings include elite segment apartments and retail/office area. The first building includes also the small stage of Vakhtangov theatre which has been granted to the Russian Federation after construction. Retail/office premises have been recognised as investment property and carried at fair value. Main characteristics on retail/office premises is presented in the table below. Apartments, which are intended for sale, have been recognised as Inventory and carried at cost but tested against an appraisal for impairment at each balance sheet date (Note 11).

(2) The carrying value of Work Life Center represents its fair value adjusted for outstanding capital expenditure in the amount of EUR 0.30 million (US$ 0.34 million) (31 December 2018: EUR 0.67 million (US$ 0.76 million)).

9. FAIR VALUE MEASUREMENT – INVESTMENT PROPERTY

Valuation of real estate assets involves a significant number of assumptions and judgement calls by the valuers. These variables include, but are not limited to: future rent and sale price levels, amount of time needed to rent or sell space, time needed to deliver new construction, best and highest use of an asset or space in an asset, and exchange rates. Varying any of these factors can have a material impact on valuations, and variations in a number of these factors at once can have a significant effect.

When possible, valuers make their assumptions based on available evidence. When such evidence is lacking, which is often the case in the Russian market, assumptions are based on the experience and judgement of the valuer.

The fair value of each Investment Property is determined by independent real estate valuation experts using recognised valuation techniques where, except for Scandinavia land plots, the Discounted Cash Flow Method (DCF) within the income approach is used. Scandinavia land plots are valued by using sales comparable method.
The determination of the fair value of Investment Property requires the use of estimates such as future cash flows from assets (including lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount and terminal capitalsation (referred to as 'capitalisation rate' hereinafter) rates applicable to those assets. Future revenue streams, inter alia, comprises contracted rent (passing rent) and estimated rental income (ERV) after the contract period. In estimating ERV, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. Discount and terminal capitalization rates represent the current market assessment of the risks specific to each property, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. All these estimates are based on local market conditions existing at the reporting date.

For all investment properties that are measured at fair value, the current use of the property is considered the highest and best use.

Techniques used for valuing investment property

The Discounted Cash Flow Method involves the projection of a series of periodic cash flows either to an operating property or a development property. To these projected cash flow series, an appropriate, market-derived discount rate is applied to achieve an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross rental income less vacancy and collection losses and less operating expenses/outgoings and investment costs. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the market value of the property.

Under Sales Comparable Method, estimations of the property's market value are based on analysis of recent sales/offers of comparable real estate assets, provided that key parameters of the comparable assets are similar to the ones of the valued property. The method assumes that the market will estimate the value of the valued property the same way as it was done for comparable properties.

Investment properties fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of investment properties by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets;
Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;
Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As of 31 December 2019 and 31 December 2018, the Group held the investment properties carried at fair value deter- mined by the Level 3 technique.

During the year ending 31 December 2019 and 31 December 2018, there were no transfers between Level 1&2 fair value measurements.

Valuation techniques used to derive Level 3 fair values

The table below presents the following for each investment property:

– The fair value measurement at the end of the reporting period;
– A description of the valuation techniques applied;
– Quantitative information about significant unobservable inputs used in the fair value measurement.

Property	Fair value as of 31.12.2019	Valuation technique	Key unobservable inputs	Range (Weighted average), per sq.m p.a.
Berlin House	$151,897,000	DCF	ERV	US$ 750–US$ 2,621 (US$ 1,251)
			Discount rate	10.50%
			Capitalisation rate	8.50%
Geneva House	$147,198,000	DCF	ERV	US$ 750–US$ 3,100 (US$ 935)
			Discount rate	10.50%
			Capitalisation rate	8.75%
Polar Lights	$111,737,000	DCF	ERV	US$ 172–US$ 1,580 (US$ 380)
			Discount rate	13.25%
			Capitalisation rate	9.75%
Hermitage Plaza	$209,869,000	DCF	ERV	US$ 244–US$ 768 (US$ 552)
			Discount rate	12.25%
			Capitalisation rate	9.00%
Magistral'naya	$4,824,000	DCF	ERV	US$ 202 (US$ 202)
			Discount rate	15.75%
			Capitalisation rate	10.75%
City Gate	€ 124,200,000	DCF	ERV	€ 276–€ 300 (€ 291)
			Discount rate	4.55%
			Capitalisation rate	3.85%
Work Life Center	€ 89,500,000	DCF	ERV	€ 228–€ 276 (€ 270)
			Discount rate	4.50%
			Capitalisation rate	3.65%
QBC 4	€ 104,390,000	DCF	ERV	€ 184–€ 222 (€ 195)
			Discount rate	3.74%
			Capitalisation rate	3.20%
Arbats IP	$21,499,000	DCF	ERV	US$ 430–US$ 1,659 (US$ 591)
			Discount rate	11.75%
			Capitalisation rate	10.25%; 8.75%
Scandinavia	$3,772,677	Comparable approach	n.a	n.a

Property	Fair value as of 31.12.2018	Valuation technique	Key unobservable inputs	Range (Weighted average), per sq.m p.a.
Berlin House	$141,000,000	DCF	ERV	US$ 750–US$ 2,100 (US$ 1,156)
			Discount rate	10.75%
			Capitalisation rate	8.75%
Geneva House	$140,000,000	DCF	ERV	US$ 750–US$ 3,000 (US$ 924)
			Discount rate	10.75%
			Capitalisation rate	8.75%
Polar Lights	$95,700,000	DCF	ERV	US$ 168–US$ 1,056 (US$ 331)
			Discount rate	13.50%
			Capitalisation rate	10.00%
Hermitage Plaza	$199,000,000	DCF	ERV	US$ 317–US$ 637 (US$ 508)
			Discount rate	11.25%
			Capitalisation rate	9.25%
Magistral'naya	$4,400,000	DCF	ERV	US$ 180 (US$ 180)
			Discount rate	16.00%
			Capitalisation rate	11.00%
City Gate	€ 119,100,000	DCF	ERV	€ 264–€ 300 (€ 281)
			Discount rate	4.70%
			Capitalisation rate	3.90%
Work Life Center	€ 86,500,000	DCF	ERV	€ 222–€ 270 (€ 266)
			Discount rate	4.60%
			Capitalisation rate	3.75%
Arbats IP	$18,956,000	DCF	ERV	US$ 369–US$ 1,152 (US$ 534)
			Discount rate	12.0%; 12.25%
			Capitalisation rate	9.0%–10.5%
Scandinavia	$3,320,000	Comparable approach	n.a	n.a

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy

The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy of the entity's portfolios of investment property are:

– ERV
– Discount rate
– Capitalisation rate

Significant increases (decreases) in the ERV in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in the discount rate/capitalisation rate in isolation would result in a significantly lower (higher) fair value measurement.

The table below presents the sensitivity of the valuation to changes in the most significant unobservable inputs used in the fair value measurement categorized within Level 3.

31.12.2019	Effect on fair value	
in US$	Sensitivity used	Rental properties
Decrease in ERV	5%	−31,279,332
Increase in discount rate	25 bps	−14,107,496
Increase in capitalisation rate	25 bps	−28,113,870

31.12.2018	Effect on fair value	
in US$	Sensitivity used	Rental properties
Decrease in ERV	5%	−22,851,382
Increase in discount rate	25 bps	−9,750,088
Increase in capitalisation rate	25 bps	−20,114,480

Valuation Uncertainty as at December 2019

Most of the Group's real estate properties and projects relate to commercial properties in Moscow, Russia. As a result of this geographic and sectoral concentration, any change in the Russian political or regulatory environment, any decline in economic activity in Russia generally or in Moscow in particular, and any downturn or weakness in the local real estate market due to changes in the level of demand for or supply of commercial space or otherwise, may each adversely affect the Group's results of operations, financial condition and the value of its properties. Recently, the Group has been making steps to reduce the risk resulting from the geographical concentration by the series of acquisitions of commercial properties in European countries.

The valuation experts have relied upon our proprietary market research and third party economic forecasts in arriving at our opinion of market value. However, in periods where geopolitical, economic and market conditions can change rapidly and unexpectedly there is less certainty with regard to valuations.

Under these circumstances, it is still necessary to make more estimates and judgements than usually required.

10. PREPAYMENTS FOR FUTURE ACQUISITIONS

On 22 August 2019, the Group signed the share purchase agreement to acquire 100% of ownership interest in the currently under construction office and retail complexes QBC 1&2 as well as the parking garage QBC 7 located at Am Belvedere 10, 1100 Vienna, Austria. The properties are directly adjacent to the QBC 4 property, the BDO Headquar- ters, acquired by the Group in March 2019.

The closing of the transaction will occur after finalization of construction and is expected for Q1 2021 also subject to various other customary closing conditions. In 2019, the Company paid EUR 20.00 million as a down payment and incurred related advisory and due diligence costs for EUR 0.48 million (as of 31 December 2019 US$ 22.96 million in total).

11. INVENTORY

in US$	for the year ended 31.12.2019	for the year ended 31.12.2018
Inventory		
Beginning of the period	116,649,298	136,358,467
Additions from construction expenditure	–	6,090,412
Disposal	−5,309,113	–
Disposal by joint operator	−605,959	−2,465,422
Effect of translation to presentation currency	13,686,764	−23,334,159
End of period	**124,420,990**	**116,649,298**

ARBAT MULTI-USE COMPLEXES (APARTMENT PREMISES)
Inventory consists of residential properties at Arbat Multi-use complexes. Arbat projects represent two multi-use buildings of 24,630 and 10,520 sqm at Arbat Street 24 and Arbat Street 39 in Moscow. The part of the project representing residential properties expected for sale is recognized as inventory. As of 31 December 2019, the Group owns the apartments with total area of approx. 9,700 sqm.

In 2019, the Group sold a penthouse of 348 sqm (Arbat Street, 24), an apartment of 77 sqm (Arbat Street, 39) and several parking lots to third parties and recognised gain on disposal in the amount of US$ 3.12 million. In 2019, an apartment of 53 sqm at Arbat 24 was disposed by the joint operator of the project (2018: two apartments of 334 sqm and 4 parking lots at Arbat 24).

Inventory is kept at cost and tested against appraised values for impairment at each balance sheet date. The carrying value is thus the lower of cost and net realizable value. The cost of the space allocated for apartments in the Arbat Multi-use Complexes was determined to be US$ 124.42 million as of 31 December 2019 (31 December 2018: US$ 116.65 million).

12. GOODWILL

	for the year ended 31.12.2019							
in US$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	City Gate	WLC	QBC 4	Total
Goodwill								
Beginning of the period	8,837,903	3,655,945	12,372,982	20,754,539	13,833,167	5,854,500	–	65,309,036
Arising on business combinations (Note 7)	–	–	–	–	–	–	11,877,628	11,877,628
Forex effect	–	–	–	–	−268,539	−113,652	−183,524	−565,715
End of period	8,837,903	3,655,945	12,372,982	20,754,539	13,564,628	5,740,848	11,694,104	76,620,949

	for the year ended 31.12.2018							
in US$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	City Gate	WLC	QBC 4	Total
Goodwill								
Beginning of the period	8,837,903	3,655,945	12,372,982	20,754,539	14,498,970	6,136,283	–	66,256,622
Forex effect	–	–	–	–	−665,803	−281,783	–	−947,586
End of period	**8,837,903**	**3,655,945**	**12,372,982**	**20,754,539**	**13,833,167**	**5,854,500**	**–**	**65,309,036**

Goodwill was recognised on the acquisition of investment properties as given above and represents the advantage of acquired entities' corporate structure optimizing the future income tax expense which can arise from potential property sales. Goodwill is tested for impairment at least annually and when circumstances indicate that the carrying value may be impaired.

Goodwill arises on acquiring an asset via a share deal, where the Group inherits the fiscal basis of the assets. As IFRS require recognition of deferred taxes on a nominal basis, while share transactions are based on market value of these taxes, a difference appeared is reflected in the goodwill. Therefore, in this case the impairment test consists in a comparison between the accounting value of the Goodwill and the potential tax optimization existing at the date of reporting.
As of 31 December 2019 and 31 December 2018, there are no circumstances indicating that the carrying value of goodwill may be impaired.

13. CASH AND CASH EQUIVALENTS

in US$	31.12.2019	31.12.2018
Cash at bank	20,311,397	32,486,703
Fiduciary deposits(1)	8,090,564	9,206,893
Cash in transit	504,654	–
Cash equivalents(2)	466,243	–
Cash and cash equivalents	29,372,858	**41,693,596**
Bank overdrafts (Note 14)	−285	−5,117
Cash and cash equivalents with bank overdrafts	29,372,573	**41,688,479**

(1) Fiduciary deposits are denominated in Rouble and have different terms up to one month and interest rates of 4,5%–5,69% p.a.
(2) Cash equivalent represent interest-free Sberbank promissory note payable on demand.

14. BORROWINGS

in US$				31.12.2019	31.12.2018
Borrowings (long term)	currency	nominal interest	repayment date		
Bonds issued	US$	5,5% - 7,25%	Sept. 2023; May and Dec. 2024	454,069,321	453,841,792
Notes payable due to Aurora Value Fund	EUR	1,5%; 1,7%	Dec. 2022; Feb. 2024	100,032,983	57,754,578
Notes payable due to Lionshare Opportunities Fund	EUR	1,5%; 1,7%	Dec. 2022; Feb. 2024	10,990,171	6,290,103
Jilford Investments Limited	US$	7%	Dec. 2022	27,886,804	–
UniCredit	EUR	3M EURIBOR +1,125%	April 2024	56,840,137	–
Jelfor Limited	EUR	4,5%	Dec. 2022	4,171,152	4,079,021
Meglior Holdings Limited	EUR	4,26%	Oct. 2026	1,458,779	1,487,658
Total				655,449,347	523,453,152
Borrowings (short term)					
Bonds interest accrued	US$	5,5% - 7,25%	March 2020	3,712,500	3,712,500
Jilford Investments Limited	US$	7%		–	26,199,453
Meglior Holdings Limited	EUR	4,26%	Oct. 2020	196,884	137,407
Bank overdrafts	US$			285	5,117
Total				3,909,669	30,054,477

BONDS ISSUED

Bonds are measured at amortised cost using the effective interest rate (EIR). Amortised cost is calculated by taking into account transaction costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

The information on all four bond placements performed by the Company is presented in the table:

	Nominal vlaue, US$	Amortised cost, US$	Nominal interest rate	Interest payment date	Maturity date
Bonds issued in Aug 2014	140,000,000	141,655,303	5.5%	March and September	Sep 2023
Bonds issued in Sep 2014	130,000,000	131,560,530	5.5%	March and September	Sep 2023
Bonds issued in Jun 2015	135,000,000	134,707,085	7.25%	June and December	May 2024
Bonds issued in Dec 2015	50,000,000	49,858,904	6.75%	June and December	Dec 2024
Total	455,000,000	457,781,822			

NOTES PAYABLE

In December 2017, to finance the acquisition of Work Life Center the Company issued subordinated registered notes nominated in EUR for the total amount of EUR 56.0 million with 1.7% annual interest maturing in December 2022. Notes with the total amount of EUR 50.5 million were issued to Company's majority shareholder, Aurora Value Fund and notes with the total amount of EUR 5.5 million were issued to Lionshare Opportunities Fund.

In February 2019, the Company has received EUR 43 million by issuance of subordinated and secured notes to the same largest shareholders (EUR 38.7 million (US$ 44.46 million) to Aurora Value Fund and EUR 4.3 million (US$ 4.94 million) to Lionshare Opportunities Fund) at an interest rate of 1.5% p.a. and secured by pledge of 100% of the shares of the Cyprus holding company of City Gate Stuttgart GmbH, Ferran Limited. Unless previously redeemed, the Company undertakes to repay all out- standing notes at par of their aggregate principal amount, without further notice on 21 February 2024. At any time after 1 March 2019, the Company may redeem all but not only some of the notes for the time being outstanding at par with interest accrued to the day of redemption.

The changes in the balance of bonds and notes payable are given below:

in US$	Bonds issued	Notes payable
Balance as of 1 January 2019	457,554,292	64,044,681
Cash flows	–28,012,500	47,697,390
Non-cash movements:		
Interest accruals	28,240,029	1,682,304
Foreign currency translation	–	–2,401,221
Balance as of 31 December 2019	457,781,821	111,023,154

in US$	Bonds issued	Notes payable
Balance as of 1 January 2018	462,220,514	67,200,868
Cash flows	–32,919,704	–1,172,861
Non-cash movements:		
Interest accruals	28,253,482	1,119,423
Foreign currency translation	–	–3,102,749
Balance as of 31 December 2018	457,554,292	64,044,681

JILFORD LOAN

Loan was obtained in prior periods to finance Arbat Project. It has fixed 7% annual interest rate. Maturity term was initially 31 December 2019. It was extended till 31 December 2022 by additional agreement of the parties in December 2019.

UNICREDIT LOAN

The loan represents refinanced credit facility of the Austrian subsidiary QBC Immobilien GmbH&Co Delta KG that was acquired in February 2019 (refer to Note 6). After acquisition of the subsidiary, the loan was refinanced. Respective refinancing charges of US$ 4.4 million were recognised as liability at acquisition date and paid in March 2019. The loan is repayable in April 2024, with quarterly payments of interest 3M EURIBOR+1.125% p.a. The loan agreement provides for embedded interest cap, closely related to the host contract and accounted for as part of the liability on the loan. The loan is secured by 100% shares in subsidiary QBC Immobilien GmbH&Co Delta KG that holds investment property.

JELFOR LOAN

The euro-denominated loan is issued to the German subsidiary WLC by its non-controlling shareholder in 2016, at 4.5 % p.a. and repayable in December 2022.

MEGLIOR LOAN

The euro-denominated subordinated loan is issued to the German subsidiary City Gate by its non-controlling shareholder in 2016, at 4.26 % p.a. and repayable in October 2026.

15. ACCOUNTS PAYABLE AND ACCRUED EXPENSES, ADVANCES RECEIVED

Accounts payable and accrued expenses are presented below:

in US$	31.12.2019	31.12.2018
Trade payables and accrued expenses	6,628,417	4,206,610
Tenant deposits	253,308	5,439,076
Deferred revenue	13,687	104,456
Total	6,895,412	9,750,142

The balance of tenant deposits consists of the tenant security deposits refundable within a year after the reporting date. As of 31 December 2018, the amount consisted primarily of the deposit of tenant VimpelCom at subsidiary Tizpribor (Hermitage property) of US$5.37 million. In October 2019, the deposit was returned to VimpelCom upon the expiration of the lease. According to the new lease agreement, the deposit will be provided by VimpelCom in July 2020.

Deferred revenue relates to the current tenant deposits described above.

Advances received of US$16,22 million (31 December 2018: US$ 16.98 million) consist mainly of the current rental prepayments from tenants.

16. OTHER NON-CURRENT LIABILITIES

in US$	31.12.2019	31.12.2018
Tenant deposits	6,183,669	4,907,218
Deferred revenue	1,568,686	1,406,677
Land lease liabilities	332,774	3,940,348
Total	8,085,129	10,254,243

LEASE LIABILITIES

Lease liabilities represent obligations of the Group in relation to rent payments to the city of Moscow for lease of the land under Berlin House (31 December 2018: Berlin House, Geneva House, Hermitage Plaza, Polar Lights and Magistral'naya).

Finance lease liabilities for the amount of US$3.6 million were derecognized as of 1 January 2019 upon transition to the new IFRS 16, Leases. Refer to Note 3.

Minimum lease payments are accounted for as lease liabilities and the present values of these payments as of 31 December 2019 and 31 December 2018 is as follows:

	31.12.2019	
in US$	Present value	Minimum lease payments
Within 1 year	3,790	35,837
After 1 year but not more than 5 years	19,700	143,348
More than 5 years	309,284	671,945
	332,774	851,130
Less: future interest costs	–	–518,356
Total	332,774	332,774

	31.12.2018	
in US$	Present value	Minimum lease payments
Within 1 year	–35,306	339,638
After 1 year but not more than 5 years	160,376	1,638,246
More than 5 years	3,815,278	13,297,598
	3,940,348	15,275,482
Less: future interest costs	–	–11,335,134
Total	3,940,348	3,940,348

17. NET RENTAL INCOME

The breakdown of Rental Income on an asset by asset basis is presented below:

in US$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza
Gross rental income	13,145,682	14,036,270	10,395,829	24,626,445
Service charge income	2,216,614	2,380,908	1,672,812	3,281,027
Utilities	−473,727	−462,002	−877,280	−592,088
Property operating expenses	−276,979	−377,300	−888,061	−1,067,967
Repair and maintenance costs	−153,939	–	−102,322	−77,283
Ground rents paid	−82,162	−82,726	−82,760	−225,252
Non-income taxes	−867,492	−1,096,138	−1,555,199	−1,998,585
Net rental income	13,507,997	14,399,012	8,563,019	23,946,297

in US$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza
Gross rental income	12,089,598	13,581,050	11,611,880	24,743,848
Service charge income	1,994,839	2,062,833	2,152,778	3,621,038
Utilities	−470,580	−466,060	−995,198	−617,343
Property operating expenses	−293,517	−434,545	−767,137	−938,578
Repair and maintenance costs	−326,719	–	70,127	−96,699
Ground rents paid	−26,774	−76,172	−140,199	−318,803
Non-income taxes	−669,376	−802,482	−1,406,585	−1,333,108
Net rental income	**12,297,471**	**13,864,624**	**10,525,666**	**25,060,355**

As of 31 December 2019, the top five tenants in the Group are VimpelCom (27% of the annual rental income), Richemont Group (11%), S7 Airlines (6%), Ingrad Nedvizhimost (5%) and BDO Austria (4%).

As of 31 December 2018, the top five tenants in the Group are VimpelCom (33% of the annual rental income), Richemont Group (11%), S7 Airlines (4%), Reuters (4%) and Cetelem Bank (4%).

The Group has entered into leases on its property portfolio. The commercial property leases typically have various lease terms (refer to Note 8 for information on each property) and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are, as follows:

in US$	31.12.2019	31.12.2018
Less than 1 year	75,924,009	73,797,077
From 1 year to 5 years	231,448,915	176,219,089
More than 5 years*	184,800,631	48,714,174
Total	492,173,555	**298,730,340**

*The income on leases with BDO at QBC 4, unlimited in term, is included in the table for the period up to December 2043, when the Group shall be entitled to increase the basic rate up to a fair market rate for similar rental property

The Group's strategy in respect of the property portfolio's management and associated risks are described above in the Management report section of the Annual report.

for the year ended 31.12.2019

Magistral'naya	Arbat	City Gate	WLC	QBC 4	Total
637,683	296,633	4,801,892	3,370,788	3,207,962	74,519,184
274,513	14,650	995,109	669,608	799,397	12,304,638
−72,739	−1,039	−1,044,146	−354,619	−277,892	−4,155,532
−88,512	−16,013	−221,432	−755,037	−502,803	−4,194,104
−4,964	−1,944	−29,585	−325,411	−14,827	−710,275
−15,382	−530	–	–	–	−488,812
−82,862	−173,042	−116,704	−84,152	−3,533	−5,977,707
647,737	118,715	4,385,134	2,521,177	3,208,304	71,297,392

for the year ended 31.12.2018

Magistral'naya	Arbat	City Gate	WLC	QBC 4	Total
624,774	85,667	4,778,526	1,679,276	–	69,194,619
267,952	5,172	1,339,865	699,300	–	12,143,777
−72,486	−80	−1,148,689	−208,081	–	−3,978,517
−91,551	–	−261,677	−713,390	–	−3,500,395
−7,979	–	–	−181,356	–	−542,626
−92,034	–	–	–	–	−653,982
−55,592	−8,581	−152,243	−20,746	–	−4,448,713
573,084	82,178	4,555,782	1,255,003	–	68,214,163

18. OTHER INCOME

in US$	for the year ended 31.12.2019	31.12.2018
Lease termination fee Vimpelkom	324,786	2,206,538
Other miscellanious income	435,133	898,077
Total	759,919	3,104,615

19. OTHER EXPENSES

in US$	for the year ended 31.12.2019	31.12.2018
Disposal of residential property by joint operator	605,959	2,465,422
Utilities and maintenance of Arbat residential properties in stock	670,251	–
Other miscellanious expenses	647,011	901,383
Total	1,923,221	3,366,805

20. NET GAIN/(LOSS) DUE TO EFFECT OF CURRENCY FLUCTUATION ON VALUATION OF INVESTMENT PROPERTY

The fair value of investment property, located in Russia and accounted for in Ruble as a functional currency of Russian subsidiaries, is determined by using USD-denominated discounted cash flows (DCF) (refer to Note 9 on the DCF technique). This gives rise to the effect of currency fluctuation on the appraised value of investment property.

in US$	for the year ended 31.12.2019	for the year ended 31.12.2018
A. Berlin House	–16,596,853	26,689,982
B. Geneva House	–16,346,448	26,794,355
C. Polar Lights	–11,581,270	19,313,460
D. Hermitage Plaza	–23,258,667	39,136,786
E. Magistral'naya	–520,992	862,328
F. Arbat Multi-use Complexes	–2,270,774	3,890,142
I. "Scandinavia" Land plots in St. Petersburg	–	667,225
Total Net (loss)/gain due to effect of currency fluctuation on valuation of investment property	–70,575,004	117,354,278

21. FINANCE COSTS

in US$	for the year ended 31.12.2019	31.12.2018
Interests on bonds issued	28,240,029	28,253,482
Interest on notes payable	1,682,304	1,119,423
Interest on loans payable	1,904,161	1,856,322
Interest on bank loan	633,738	–
Bank charges	122,275	106,637
Other finance cost	64,347	50,242
Total	32,646,854	31,386,106

22. TAXATION

The Company is domiciled in the British Virgin Islands (BVI), and organised as a Business Corporation, which is tax exempt in the BVI. Therefore, profits can be accumulated and paid out free of any corporate tax or withholding tax.

TAXATION IN RUSSIA

The Group's subsidiaries in Russia are liable for the following major taxes in the Russian Federation:

- 20% payable on the taxable profit calculated as the difference between rental income and tax deductible expenses incurred by the companies in connection with the permanent establishment (therefore the Russian corporate tax rate is used for income tax reconciliation);
- According to Russian tax code the dividends are subject to income tax at 15% rate unless otherwise is provided by double tax treaty. Double tax treaty between Russia and Cyprus provides 5% and 10% income tax rates depending on an amount of direct investments in Russian subsidiary;
- 1.5% (1.6% starting from 1 January 2019) property tax on the cadastrial value of the properties.

TAXATION IN GERMANY

The Group's subsidiaries in Germany are liable for the following major taxes in Germany:

- 30.5 – 32.3% corporate income tax payable on the taxable profit calculated as the difference between rental income and tax
  deductible expenses incurred by the companies in connection with the permanent establishment;
- land tax on tax value of the land in Stuttgart and Hamburg at rate established by local authorities on an individual basis.

TAXATION IN AUSTRIA

The Group's subsidiaries in Austria are liable for the following major taxes in Austria:

- 25% corporate income tax payable on the taxable profit calculated as the difference between rental income and tax deductible expenses incurred by the companies in connection with the permanent establishment;
- Property tax (real estate tax) levied on the assessed value of real estate property. It is levied at a basic federal rate, multiplied by a municipal coefficient. The basic federal rate is 2% and the municipal coefficient of 500%.

TAXATION IN CYPRUS

The Group's subsidiaries in Cyprus are liable for income tax in Cyprus at 12.5% rate payable on the taxable profit calculated as the difference between taxable income and tax deductible expenses incurred by the companies in connection with the permanent establishment.

Income taxes

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

in US$	31.12.2019	31.12.2018
Current income tax expense	–9,068,833	–7,453,339
Deferred income tax expense	–3,805,119	–16,681,201
Income tax expense	–12,873,952	–24,134,540

Reconciliation between income tax expense/benefit and the product of accounting profit multiplied by the Russian tax rate for the years ended 31 December 2019 and 2018 is as follows:

in US$	31.12.2019	31.12.2018
Profit before tax	53,876,107	54,366,016
Income tax at Russian corporate tax rate of 20% (2018: 20%)	–10,775,221	–10,873,203
Effect of non-deductable expenses net of non-taxable income	–3,739,167	–12,959,609
Release of tax provision in respect of prior period profit	–	1,576,900
Effect of tax rates in other jurisdictions	1,640,436	–1,878,628
Income tax benefit/(expense)	–12,873,952	–24,134,540

In 2019, average effective tax rate is 24% (2018: 44%).

Deferred tax assets and liabilities reflected in the financial statement are:

in US$	Consolidated statement of financial position		Consolidated income statement		Business combination	Forex effect
			for the year ended			
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2019
Deferred tax assets gross						
Due to losses available for offset against future taxable income	2,445,757	2,729,089	−1,495,905	1,300,823	–	1,212,573
Deferred tax liability gross						
Due to fair value adjustment to investment property	−160,166,186	−133,356,210	−2,309,214	−17,982,024	−11,877,628	−12,623,134
Deferred income tax (expense)/benefit			−3,805,119	−16,681,201	−11,877,628	−11,410,561
Deferred tax liabilities net	−157,720,429	−130,627,121				
Reflected on the statement of financial position as follows						
Deferred tax assets net	650,824	637,090				
Deferred tax liability net	−158,371,253	−131,264,211				
Deferred tax liabilities net	−157,720,429	−130,627,121				

Tax losses have been recognised as a Deferred Income Tax Asset as it is probable that taxable profit will be available against which the unused tax losses can be utilised. As of 31 December 2019, the available tax losses capable of being carried forward can be offset against taxable profits.

Deferred tax liabilities represent temporary differences resulting from excess of Berlin House, Geneva House, Polar Lights, Hermitage Plaza, City Gate and Work Life Center fair values over their tax values.

23. EARNINGS PER SHARE

Basic Earnings per Share amounts are calculated by dividing Net Profit/Loss for the Year Attributable to Equity Holders of the Company by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the Basic and Diluted Earnings per Share computations:

in US$	31.12.2019	31.12.2018
Earnings per share		
Net profit (loss) attributable to shareholders	40,678,681	29,948,618
Weighted average number of ordinary shares outstanding	9,911,451	9,925,763
Earnings per share (US$ per share)	**4.10**	**3.02**

24. SHAREHOLDERS' EQUITY

AUTHORIZED CAPITAL

Art. 5 of the Company's Memorandum of Association, as amended by the resolutions passed at the Extraordinary Shareholders Meeting of 29 June 2004, 19 November 2004, 7 March 2005, the General Meeting of Members of 16 May 2006, 3 May 2007, 24 June 2008, the Extraordinary Shareholders Meeting of 15 April 2013 and Shareholders Meeting of 17 June 2014 provides for an authorised capital which entitles the Board of Directors to issue a total of 11,000,000 registered ordinary shares without par value and 1,000,000 registered Series A preferred shares without par value.

	Number of ordinary shares		Number of series A preferred shares	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Authorised capital				
Total authorised capital	21,000,000	11,000,000	1,000,000	1,000,000
Opening balance unissued authorised capital	1,025,978	1,025,978	1,000,000	1,000,000
Increase	10,000,000	–	–	–
Utilisation for capital increase	–	–	–	–
Conversion to ordinary shares	–	–	–	–
Closing balance unissued authorised capital without par value	11,025,978	1,025,978	1,000,000	1,000,000

	Number of ordinary shares		Number of series A preferred shares	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Issued share capital without par value				
Opening balance	9,974,022	9,974,022	–	–
Capital increase	–	–	–	–
Closing balance	9,974,022	9,974,022	–	–

	Number of shares	
	31.12.2019	31.12.2018
Treasury shares		
Opening balance	54,005	44,250
Issued to treasury	–	–
Purchase	15,060	10,955
Sales	2	1,200
Closing balance	69,063	54,005

The Company had several issues of the shares in the past. As of 31 December 2019 and 31 December 2018, issued share capital of the Company consists of 9 974 022 shares, totaling to US$ 590,54 million.
In June 2019, the authorised share capital was increased by 10,000,000 ordinary shares, none of them issued.

Since November 2015 the Company performs market making for its publicly traded shares. Therefore, the amount of treasury shares held by the Company might fluctuate on a daily basis. Treasury shares do not participate in profits of the Group and do not carry any voting rights.

All outstanding shares rank equally as to dividends and all other pecuniary rights associated with share ownership. Ordinary shares are entitled to one vote each. Preferred A shares are not entitled to vote. No Preferred A shares are outstanding or in issue.
No dividend was paid during 2019 and 2018.

SHARE PREMIUM

The balance of share premium in the amount of US$ 19.18 million as of 31 December 2019 and 31 December 2018 represents premium arisen on issue of equity shares in prior periods.

25. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of the Company and the subsidiaries and joint operations. The Company's holdings in subsidiaries and joint operations are listed in the Corporate Governance part of the report, section 1. Group structure and shareholders.:

Related parties include shareholders, key management personnel and other related parties having significant influence on the Group. The Company and its subsidiaries, in the ordinary course of their business, enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note.

Shareholders of the Company issued subordinated registered notes to the Company (Note 14).

The Company owns shares in associates Hypercenter Investment SA (25.9%) and Sarnatus Trading Limited (10%). Investment in these associates has been fully impaired in previous periods.

Entities under joint control Vakhtangov Property Limited and Bluestone are treated by the Company as a joint operation. In 2018, the Group has set settled its obligations to the joint operation that resulted from the assignment of rights on the Arbat project, against its loans receivable for the amount of US$ 15.68 million. As at 31 December 2019 and 31 December 2018, the Group has no balances with the joint operation. In 2019 the inventory (an apartment and a parking lot) with the carrying amount of US$ 0.61 million was disposed by the joint operator (in 2018: US$2.47 million). Refer to Note 11 and 19.

OTHER RELATED PARTIES HAVING SIGNIFICANT INFLUENCE ON THE GROUP

Board of the directors:

- Company EPH LLC, owned by the Chairman of the Board Olga Melnikova, delivers consulting services to EPH LTD in 2018 and 2019;
- Member of the Board Tomasz Dukala has been delivering strategic advisory services to EPH LTD since March 2019;
- Company Ledra Management Ltd, owned by the member of the Board Christodoulos G. Vassiliades, has been delivering administrative and accounting services to Cypriot subsidiaries of the Company since November 2019.

The real estate activities of the Company are managed by Valartis International Ltd, a subsidiary of Valartis Group AG. Employees of Valartis Group are members of the Management Committee and Board of Directors of the Company.

Valartis Group:

Real estate management agreements

The management of the Group is provided by the entities of Valartis Group on the base of the real estate management agreements, concluded with the Company and its subsidiaries Connecta KG (Berlin House), EPH One LLC (Geneva House), Tengri LLC (Polar Lights), Tizprobor JSC (Hermitage Plaza), Redhill Investment Limited (Multi-use complexes at Arbat 24 and 39) and WLC Hamburg GmbH (Work Life Center).

Other transactions

- Valartis Group's entity rents out office space to Redhill Investment Limited;
- Valartis Group's entities lease office space at Berlin House owned by Connecta KG and at Polar Lights owned by Tengri LLC;
- Valartis Group's entity concluded the agreement for administrative and consulting services to German and Austrian subsidiaries of the Company starting 2020 year ;
- Valartis Group's entity delivers various financial consulting and administrative services to the Company on specific cases (acquisitions).

The services and rents are provided on market terms.

The Group's related party balances as of 31 December 2019 and 31 December 2018 consisted of the following:

in US$	31.12.2019	31.12.2018
Other related parties		
Accounts payable	−328,258	−224,073
Accounts receivable	119	256
Advances paid	22,331	2,518
Advances received	−11,029	−10,186
Shareholders		
Borrowings (Note 14)	−111,023,154	−64,044,681

The Group's subsidiary QBC 1,2,7 received from Valartis Advisory Services SA consulting services related to the future acquisition of investment property for the amount of US$ 156,500 presented in line Prepayments for future acquisition in the Consolidated statement of financial position.

The Group's transactions with related parties for the period ended of 31 December 2019 and 2018 consisted of the following:

	for the year ended	
in US$	31.12.2019	31.12.2018
Other related parties		
Gross rental income	398,409	303,173
Management fees	−2,663,808	−1,937,202
Other expenses	−10,858	–
Professional and administration fees	−497,617	−110,756
Shareholders		
Finance costs	−1,682,304	−1,119,423

26. CONTINGENCIES AND COMMITMENTS

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that there are no current legal proceedings or other claims outstanding that could have a material effect on the results of operations or financial position of the Group which have not been disclosed in these consolidated financial statements.

Pledges

Shares in some of the subsidiaries are pledged to secure borrowings of the Group (refer to Note 14).

Capital commitments

On 22 August 2019, the Group signed the share purchase agreement to acquire 100% of ownership interest in the currently under construction office and retail complexes QBC 1&2 as well as the parking garage QBC 7 located at Am Belvedere 10, 1100 Vienna, Austria. The properties are directly adjacent to the QBC 4 property, the BDO Headquarters, acquired by the Group in March 2019. The closing of the transaction will occur after finalization of construction and is expected for Q1 2021 also subject to various other customary closing conditions. The preliminary purchase price amounts to EUR 230m subject to final purchase price calculations. The Company intends to finance 50% of the purchase by a bank loan. On 19 August 2019, the Company has paid EUR 20.00 million as a down payment.

OPERATING ENVIRONMENT IN RUSSIA

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In March 2020 oil prices dropped for more than 40%, which resulted in immediate weakening of Russian Ruble against major currencies.

Russia's GDP grew by 1.3% in 2019, according to the Russian state statistics agency, Rosstat. That compares with an official expansion rate of 2.5% recorded in 2018, and is the weakest annual growth since Russia emerged from economic crisis in 2016.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

27. FINANCIAL INSTRUMENTS

CLASSES AND CATEGORIES OF FINANCIAL INSTRUMENTS AND THEIR FAIR VALUES

The following table combines information about:

- classes of financial instruments based on their nature and characteristics;
- the carrying amounts of financial instruments.

	measurement category	carrying amount	
in US$		31.12.2019	31.12.2018
Current financial assets			
Accounts receivable	amortised cost	882,976	1,959,461
Loans	amortised cost	0	81,837
Cash&cash equivalents	amortised cost	29,372,858	41,693,596
Non-current financial liabilities			
Borrowings	amortised cost	−655,449,347	−523,453,152
Tenant deposits	amortised cost	−6,183,669	−4,907,218
Finance lease liabilities	amortised cost	−332,774	−3,940,348
Current financial liabilities			
Borrowings	amortised cost	−3,909,669	−30,054,477
Trade payables and accrued expenses	amortised cost	−6,895,412	−9,750,142

Fair value hierarchy

As at 31 December 2019 and 31 December 2018, the Group does not hold any financial instruments carried at fair value in the statement of financial position.

Fair values of the Group's financial assets and liabilities, accounted for at amortised cost, approximate their carrying amounts except for the bonds issued:

in US$	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	Carrying amount		Fair value	
Bonds issued	457,781,821	457,554,292	497,454,355	505,665,390

The fair value of bonds issued are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's activities are exposed to a variety of financial risks: market risk (including foreign currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Management Committee and supervised by the Board of Directors.

MARKET RISK

Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the Russian ruble/US dollar and Euro/US dollar exchange rate. Foreign currency risk arises from future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The Group seeks, when possible, to reduce the currency exposure arising from these assets by obtaining direct funding in the same currency.

In Russia, commercial property industry has become a tenant ruble-driven market. As most of the Group's liabilities are denominated in US$, almost all lease agreements with tenants in the Group's properties in Russia remain US$-linked. In addition, the Group promptly exchanges significant RUB cash balances to US$ during periods of exchange rate volatility or unpredictability in order to ensure its ability to meet debt service and other major US$ obligations.

Other than interest and management fees, most significant expenses such as construction costs, property maintenance, security utilities and other operating costs are denominated and payable in RUB. The Group seeks to minimise its exposure to foreign currency risk by carefully monitoring currency markets and holding appropriate amounts of US$ or RUB to meet its obligations.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
US$	–27,887,089	–26,204,570	352,198	1,207,077
Euro	–111,226,038	–64,257,226	9,244,873	20,707,963

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The following table details the Group's sensitivity to a 10 and 1 per cent increase and decrease in US$ against RUB and Euro, respectively. This percentage is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10 and 1 per cent change in the respective foreign currency rate.

The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A negative number below indicates a decrease in profit where currency units strengthens against the relevant currency. For weakening of currency units against the relevant currency, there would be a comparable impact on the profit, and the balances below would be positive.

	10% increase US$ to RUB impact		1% increase US$ to Euro impact	
in US$	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Loss	–18,166,000	–25,700,000	–1,655,000	–1,600,000

The negative effect of 10% increase in US$/RUB rate of US$ 18.2 million is mainly attributable to the net US$ denominated inter-company borrowings of the subsidiaries with RUB functional currency (2018: US$ 25.7 million).

The negative effect of 10% increase in US$/Euro rate of US$1.7 million to the net Euro denominated inter-company loans given overlapping gain on revaluation of Euro denominated notes payable (2018: US$ 1.6 million).

Interest rate risk

All of the Group's interest-bearing financial instruments have fixed interest rates, except for UniCredit loan. Refer to Note 14.

INTEREST RATE SENSITIVITY ANALYSIS

The Group does not have any financial instruments with fixed interest rates that are accounted for at fair value through profit or loss as of 31 December 2019 and 2018. Hence, change of interest rate would not have any impact on the Group's profit or loss.

Unicredit loan has interest rate of 1,125%+3MEURIBOR with the interest SWAP, limiting upward change in the variable index to 0,119%. Hence, change in the index over this limit will not have any impact on the Group's profit or loss. Downward change of the index below zero is charged as a SWAP interest. 0,1% change in the index below zero would decrease Group's profit by US$ 0.04 million.

Credit risk

The Group's credit risk arises from cash and cash equivalents, deposits with banks, interest bearing financial instruments, as well as rents and other receivables from tenants and accounts receivable in general.

Credit risk related to rental payments is mitigated by requiring tenants to pay rentals in advance, provide rental security deposits or bank guarantees. The Group has policies in place to monitor its exposure to non-payment of rents by its tenants, including pre-screening prior to signing leases, careful monitoring of rental receipts, and efforts to collect rents or terminate leases before receivables become substantial.

The maximum exposure to credit risk at the reporting date is the carrying amount of cash and cash equivalents (31 December 2019: US$ 29.37 million, 31 December 2018: US$ 41.69 million). The Group holds significant cash deposits and current accounts at well-known high ranking banks VTB, UniCredit (Russian and Austrian entities), Postbank (Germany), Cramer Bank (holding companies). Management monitors creditworthiness of the banks on a regular basis.

Based on the effective controls in place and historically low impairment expenses over the long-term period in the past, the Group has determined the credit risk for financial assets as low. There is no concentration of credit risk as of 31 December 2019 and 31 December 2018.

Liquidity risk

Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flow.

The table below shows liabilities as at 31 December 2019 and 31 December 2018 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows.
Foreign currency payments are translated using the exchange rate at the reporting date.

in US$	Less than 1 Month	1 to 6 months	6 to 12 months	1 to 2 Years	2 to 5 Years	More than 5 Years	Total
31.12.2019							
Liabilities							
Borrowings	186,322	15,391,457	15,395,048	30,747,846	724,965,507	1,574,965	788,261,145
Gross finance lease liabilities	–	17,918	17,918	35,837	143,348	609,992	825,013
Tenant deposits	–	62,342	209,270	1,508,928	5,756,019	673,154	8,209,713
Trade and other payables	–	6,628,417	–	–	–	–	6,628,417
Total	186,322	22,100,134	15,622,236	32,292,611	730,864,874	2,858,111	803,924,288

in US$	Less than 1 Month	1 to 6 months	6 to 12 months	1 to 2 Years	2 to 5 Years	More than 5 Years	Total
31.12.2018							
Liabilities							
Borrowings	79,074	14,550,630	42,553,712	29,164,634	425,179,000	194,935,968	706,463,018
Gross finance lease liabilities	–	134,111	205,527	205,527	1,432,719	13,297,598	15,275,482
Tenant deposits	–	8,697	5,816,728	1,043,973	4,033,090	1,624,964	12,527,452
Trade and other payables	–	4,206,610	–	–	–	–	4,206,610
Total	79,074	18,900,048	48,575,967	30,414,134	430,644,808	209,858,531	738,472,562

Captial risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. As at 31 December 2019, the Group's gearing ratio is given the table below.

Net Debt, US$	31 December 2019	31 December 2018
Non-current borrowings	655,449,347	523,453,152
Current borrowings	3,909,669	30,054,477
Cash&cash equivalents	–29,372,858	–41,693,596
Total	629,986,158	511,814,033
Total Capital, US$		
Shareholders equity	407,332,456	339,169,348
Net debt	629,986,158	511,814,033
Total	1,037,318,614	850,983,381
Gearing ratio (Net debt divided by Total Capital)	60.73%	60.14%

28. SUBSEQUENT EVENTS

Issuance of subordinated notes

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

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

Acquisition of NHOW Hotel in Berlin

In the beginning of April 2020, the Company acquired 89.9% of interest in the Nhow Hotel in Berlin, Germany from a third party. The property had been completed in 2010 and comprises approximately 20,160 sqm, including 304 rooms, 86 underground&39 surface parking spaces, a spa, restaurant and two music studios. The property is leased in its entirety to Nhow Hotel, part of the NH Hotel Group, the third largest business hotel group in Europe. The lease has over 15 years left with the option to extend by a further 10 years.

COVID-19

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

Management has analysed the current impact of Covid-19 crisis on the Group's rental income on an asset by asset basis including the most important and for this crisis relevant legal regulations for each of the countries the Group is currently invested in, an overview on requests received from tenants in regards to rent deferrals or reductions and the Group's position to these requests as well as expectations on potential effects on rental income. Management cannot judge on the future potential negative impact of Covid-19 on the global economy and major financial markets as well as the EPH properties but as per the most recent assessment no material impact on the Group could be identified. It must be expected that some of the tenants might use their rights given under the current legislations and defer rent payments. Based on current legislation and Management's assessment such deferrals are only expected from a limited number of tenants. In the current situation, the Group does not expect any difficulties in meeting its financial obligations as a result of COVID-19.

GENERAL INFORMATION

1. OBJECTIVE

The objective of Eastern Property Holdings (the "Company") is to invest directly, through subsidiaries, or via participation in other companies, in real estate in Russia, the CIS, and Europe in order to provide capital appreciation and dividend income to its shareholders. Investments may be existing properties or development projects which are intended to provide capital appreciation and/or rent income. The Company may also purchase participations in other companies with real estate related activities and provide real estate financing, real estate management, sale and leaseback of real estate and enter into real estate related financial transactions.

2. INVESTMENTS

2.1 REAL ESTATE INVESTMENTS

Investment targets are commercial, residential and industrial properties located in Russia and other CIS countries which provide a reasonable risk/return ratio. The main criteria to be considered are as follows:

a) Quality of location;
b) Economic outlook;
c) Infrastructure;
d) Architecture;
e) Standard of fittings;
f) Occupancy;
g) Quality of tenants;
h) Flexibility of usage;
i) Profitability;
j) Potential for value appreciation.

2.2 DEVELOPMENT PROJECTS

Development projects might be new construction or refurbishing of existing buildings. If development projects are undertaken with a partner, special care must be taken to protect the interests of the Company through the structure and contractual framework of the endeavor.

2.3 FINANCING OF REAL ESTATE INVESTMENTS

The Company intends to optimise the return on its investments through the conservative use of leverage. Interest expenses will be considered on a consolidated basis.

2.4 PARTICIPATIONS IN COMPANIES

The Company can also invest in majority or minority participations in other companies with real estate related activities, including real estate management.

2.5 REAL ESTATE FINANCING

The Company may provide real estate financing secured by mortgages or other adequate guarantees.

2.6 FINANCIAL INVESTMENTS

For temporary or defensive purpose, the Company's assets can also be invested in financial instruments, such as stock, listed shares, bonds, investment funds and other liquid financial instruments.

The investment in options, futures and other derivatives is only permitted for hedging purposes. The Company may furthermore engage into other financial transactions such as currency and interest rate forwards and swaps for hedging purposes.

2.7 OTHER INVESTMENTS

The Company can also, subject to approval of the Board of Directors, invest up to 10% of its assets in non-real estate related investments. Up to 20% of the Company's total assets can be invested in real estate investments outside the Company's primary geographic area of focus.

3. VALUATION

The entire real estate portfolio will be appraised once a year by an independent real estate appraiser. The results of the yearly appraisal will be used as the basis for valuation in the Company's annual report. For the purpose of the half year report, a simplified valuation method will be applied.

4. INVESTMENT PROCESS

4.1 APPROVAL BY THE BOARD OF DIRECTORS

All purchases or sales of properties and all investments in other assets in excess of US$ 5 million, with the exception of financial investments for temporary or cash management purpose have to be approved by the Board of Directors.

4.2 ANALYSIS

Prior to the approval, Eastern Property Management Limited will present a comprehensive analysis of potential investments, including financing. Analysis will be based on conservative cost, timing, and rent or sale assumptions. Changes to, and Compliance with the Investment Guidelines

The Investment Guidelines can be changed or amended by resolution of the Board of Directors. Compliance with the Investment Guidelines is verified periodically by the Board of Directors

5. CHANGES TO, AND COMPLIANCE WITH THE INVESTMENT GUIDELINES

The Investment Guidelines can be changed or amended by resolution of the Board of Directors. Compliance with the Investment Guidelines is verified periodically by the Board of Directors.

The Investment Guidelines are posted on the Company's website:
www.easternpropertyholdings.com.

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