ANNUAL REPORT 2018

EASTERN PROPERTY HOLDINGS

EPH EASTERN PROPERTY HOLDINGS

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DEAR SHAREHOLDERS

Eastern Property Holdings Group ("EPH" or the "Group") continued to successfully follow its strategy to expand its portfolio of prime class A core real estate assets in Western Europe:

- At the very end of 2017, the acquisition of Work Life Center, a redevelopment of an historic postal administration building in the city center of Hamburg, Germany, was finalized. In 2018, the property has been almost fully let to reputable companies, the fit-out of the main areas was finished and the premium fitness center of Fitness First offering the only inner city pool has opened. The property and its holding companies were included in the operational structure of EPH Group starting to profit from expansion in the area.
- In the beginning of 2019, the Group acquired its first asset in Vienna, Austria, a prime office asset in the newly developed and striving business district – Quartier Belvedere – in close proximity to the also newly developed Vienna Main Station. The property is fully let to two reputable tenants, BDO Austria and a subsidiary of the Austrian Economic Chambers. The property comprises an approx. gross floor area of 20,000 sqm with approx. 70 parking spaces.

Both transactions follow the strategy to focus on investments in premium quality, income producing commercial property assets. Given its key investment parameters such as city center location, impressive architectural design and reputable long-term tenants, the acquisitions will further diversify the Group's portfolio in Western Europe and strengthen sustainability of its long-term performance with promising growth potential. Overall, EPH now owns three properties in Western Europe.

Although the Russian properties of EPH on the Group's balance sheet have again suffered from RUB depreciation during the reporting period which affected the US$ value of the current rental stream nominated in RUB and a lower estimated rental value (ERV) applied by the appraiser after the expiration of the existing leases, the valuations itself (in RUB) have strengthened and followed the general stabilization of the Russian real estate market. Most of the Russian rental properties are fully leased (e.g. Hermitage Plaza, Berlin House, Magistralnaya), vacancy rates for other properties have come down in 2018. On top of the increase in the Russian portfolio, EPH's assets in Germany showed a strong development by further increasing in values in 2018. Considering the annual cash flows from each of our investment properties we are more than certain that the cash stream will allow us to further expand the Group's portfolio.

Following the finalization of the Arbat property developments, the stabilization of the economy in Russia and the successful sale of the penthouse in Arbat in the beginning of 2018 (the deal was finally closed in April 2019), we started the active marketing of the apartments. The first responses from the market are very positive and we expect first sales in due course.

Generally, the Russian economy recovered well in 2018. The Gross Domestic Product grew by 1.5% (Q3 2018 year-on-year). Two years of rising wages, low inflation and declining interest rates provide support to retail development and consumer purchasing power. However, consumers are cautious and tend to save. As a result, consumption is lagging wages. That said, the political uncertainties, especially US sanctions against Russia remain a threat and an unpredictable influence factor for the economy, foreign investments as well as the real estate market. 2018 volumes of real estate investments in Russia almost reached the cyclical bottom of 2015, when the economy was in recession. The main reason for this decline is the caution of investors triggered by the sanctions against Russia, volatility in emerging markets and the oil price drop. Nevertheless, unlike in 2015, the debt market in Russia is healthy, senior debt financing is available at relatively low interest rates causing an ironic shortage of real estate products available for purchase.

In contrary, although economic growth in Germany in November 2018 was projected to decline for the full year it remained solid, backed by strong job creation and a fiscal stimulus. Trade-related uncertainties and moderating world demand will weigh on 2018 exports. Private consumption is expected to accelerate due to strong wage growth and fiscal measures that increase household disposable income. Low interest rates, high capacity utilization and growing housing demand will support residential and business investment.

In 2019, EPH intends to continue to seek for potential real estate investment opportunities in Russia as well as Western Europe. The successful acquisitions in the past years convince us that the defined strategy is the right one to follow and to aim an expansion of the Group's portfolio in Europe further stabilizing EPH's result.

Sincerely,
The Board of Directors
April 2019

MANAGEMENT
REPORT

The following is a discussion of the key factors influencing our 2018 results and our financial condition at the end of the year.

KEY PERFORMANCE INDICATORS

			for the year ended
in US$	31.12.2018	31.12.2017	31.12.2016
Net rental income	68,214,163	70,871,392	71,144,014
Administrative expenses	−5,200,748	−6,726,493	−6,462,563
Net other operating income / (expenses)	2,495,279	1,667,969	2,550,354
Operating Income	**65,508,694**	**65,812,868**	**67,231,805**
Finance costs	−31,386,106	−30,169,465	−35,746,687
Current tax expense	−7,453,339	−20,834,629	−12,762,221
Earnings from operational activity	**26,669,249**	**14,808,774**	**18,722,897**
Valuation movements	81,677,977	−41,870,976	−144,773,417
Deferred tax benefit / (expense)	−16,681,201	−1,731,273	20,138,267
Other extraordinary items	−2,465,422	−12,333,441	−10,062,941
Total before foreign exchange movements	**89,200,603**	**−41,126,916**	**−115,975,194**
Net foreign exchange (loss) / gain	−58,969,127	30,270,544	45,497,902
Net Profit / (Loss) for period	**30,231,476**	**−10,856,372**	**−70,477,292**
Earnings from operational activity per share	**2.68**	**1.49**	**3.38**
Number of investment properties	9	9	8
Investment properties at FV	841,451,779	874,828,138	761,615,921
Passing rents as of 31 December 2018	68,139,590	69,939,413	63,126,326
Yield	**8.10%**	**7.99%**	**8.29%**
Total Assets	1,073,143,730	1,143,230,806	1,044,936,740
Borrowings	553,502,512	559,748,328	480,934,738
Loan-to-value	**52%**	**49%**	**46%**
Cash from operating activity	54,335,758	45,389,345	38,322,032
Market capitalization, million	279.27	264.31	291.74
Cash yield	**19%**	**17%**	**13%**

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. In 2016 and 2017, the Company diversified its portfolio by acquiring two commercial properties in Germany. In February 2019, as a further step for diversifying the portfolio across European markets the Company acquired an office property in Vienna.

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 2018, EPH had total assets of 1,073.14 US$ million (2017: US$ 1,143.23 million) and net assets (calculated as total equity) of US$ 338.31 million (2017: US$ 375.16 million).

In the twelve months ended at 31 December 2018 the Company is reporting a profit of US$ 30.23 million, compared to a loss of US$ 10.86 million for the year ended at 31 December 2017.

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.

The principal factors contributing to the volatility of the Company's net earnings in 2017 and 2018 are RUB / USD exchange rate fluctuation, revaluation of investment properties held at fair value, impairment of loans and income tax expense / benefit.

Despite the profit generated by the Company in 2018, its net assets decreased – due to US$ 66.69 million negative Cumulative Translation Adjustment (CTA) effect on the Company's net assets. The CTA reflects gains and losses from currency translation which have accumulated over the period of ownership of the subsidiaries. Significant weakening of RUB against USD in 2018 had negative effect on CTA which is mostly attributable to Geneva House, Berlin House, Polar Lights and Hermitage Plaza.

RESULTS OF OPERATIONS

Earnings from Operational Activity

Despite the significant fluctuation of the Company's overall financial result in its consolidated Income Statement caused mainly by non-cash-generating factors, the result from the Company's operational activity remains stable: the Company's operating income before finance costs and taxation is US$ 65.51 million in 2018 as compared to US$ 65.81 million in 2017.

Net rental income

The Company's net rental income decreased from US$ 70.87 million in 2017 to US$ 68.21 million in 2018 (see Note 17) – mainly as a result of decrease of income in Berlin House and Hermitage Plaza (both due to tenants' rotation) and Polar Lights (mainly due to the significant RUB depreciation as most of leases there are denominated in RUB), slightly overlapped by additional income generated in 2018 by Work Life Center acquired at the end of December 2017.

Administration expenses

Management fees were optimized and significantly decreased from US$ 3.00 million in 2017 to US$ 1.94 million in 2018.

Professional and administration fees, which include legal advice, audit, appraisals and costs for other services for the Company and its subsidiaries decreased from US$ 3.40 million in 2017 to US$ 2.75 million in 2018 – mainly due to the fact that in 2017 professional advisory fees in respect of Work Life Center acquisition were incurred.

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 (including penalties for early termination of leases by the tenants). Net other income increased from US$ 1.67 million in 2017 to US$ 2.50 in 2018.

Finance costs

Our finance costs slightly increased from US$ 30.17 million in 2017 to US$ 31.39 million in 2018. The increase was caused by the fact that at the end of 2017 the Company issued interest bearing subordinated registered notes to finance the acquisition of Work Life Center.

Current income tax expense

Current income tax expense in 2018 represents mainly the current income tax payable with respect to Berlin House, Geneva House, Polar Lights and Hermitage Plaza. The amount decreased from US$ 20.83 million in 2017 to US$7.45 in 2018 mainly due to some tax provisions recognized as a tax expense in 2017.

NON-CASH GENERATING INCOME / (EXPENSES))

Valuation movements

Valuation movements in 2018 represent net loss from fair value adjustment on investment properties in the amount of US$ 35.68 million, as well as the positive effect of foreign exchange movements on fair value of investment properties in the amount of US$ 117.35 million, resulting in the net positive valuation movements of US$ 81.68 million, as compared to negative valuation movements of US$ 41.87 million in 2017.

The loss from fair value adjustment is caused by the net decrease of the appraised values of the Company's investment properties in US$ equivalent. Although the rental income generating properties are performing well, the expected reduction in the appraised values is arising from RUB depreciation during the reporting period which affects the USD value of the current rental stream nominated in RUB and a lower estimated rental value (ERV) applied by the appraiser after the expiration of the existing leases. In 2017 loss from fair value adjustment on investment properties was recognized in the amount of US$ 8.12 mln.

Significant positive 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 slightly decreased during the year, due to the significant RUB depreciation against US$ in 2018, the RUB fair values of the properties have increased.

Deferred tax expense

Deferred tax expense is recognized on the difference between fair values and tax values of the Company's investment property. In 2018 deferred tax expense was US$ 16.68 million as compared to US$ 1.73 million in 2017. The increase is caused by the increase of RUB equivalent of USD denominated fair values of the Russian properties.

Other extraordinary items

In 2017 the Company recognized a loan impairment charge in the amount of US$ 12.33 million which relates to the loans povided to VPL to finance Arbat projects. In October 2017 VPL assigned its rights to both Arbat projects to the Moscow branch of Redhill Investments Limited. Part of the Group's loans receivable due from VPL was set-off against Redhill's payable due to VPL for the assigned rights. The Company has impaired remaining loans receivable due from VPL down to the amount of remaining Redhill's payable due to VPL (Note 12). In 2018 the Company recognized a loss in the amount of US$ 2.47 million from the sale of Arbat assets which were not transferred to Redhill in October 2017 and remained in the joint operation VPL.

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, dollar denominated assets and liabilities of these subsidiaries create unrealised exchange rate gains or losses against the Russian rouble on income statements.

During 2018 the Russian rouble significantly weakened against US$. As a result our net loss from foreign currency translation in 2018 was recognized in the amount of US$ 58.97 million, compared to net gain of US$ 30.27 million in 2017 which was caused by moderately strengthening of Russian rouble against US$ during 2017.

EASTERN PROPERTY HOLDINGS
REAL ESTATE

Our property holdings consists of:

- 100% 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)
- 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 regardless of the uncertainty in the Russian real estate market. The acquisition of two premium quality income producing commercial properties in Europe in 2016 and 2017 diversified the Company's portfolio and strengthened sustainability of its long-term performance.

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

BERLIN HOUSE

13,381 BUILDING AREA	US$ 141,000,000 APPRAISED VALUE
9,960 RENTABLE AREA*	5% 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*	0% 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 2018 is 5%. The major tenants are Richemont Group and Thomson Reuters.

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 2018 is 0%. The major tenants are Chanel, Akin Gump, S7 Airlines and Merrill Lynch.

HERMITAGE PLAZA

40,216 BUILDING AREA	US$ 199,000,000 APPRAISED VALUE
33,400 RENTABLE AREA*	0% 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 tenant is VimpelCom, one of the leading Russian telecommunication companies. The lease contract with VimpelCom is valid till October 2019.

City Gate

City Gate 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, DREISS Patentanwälte Borgward Group AG and Internetstores GmbH.

As of end of December 2018 City Gate is fully rented.

WORK LIFE CENTER

19,600 BUILDING AREA	EUR 86,500,000 APPRAISED VALUE
12,100 RENTABLE AREA	5% VACANCY RATE
94% OWNERSHIP	2017 YEAR OF CONSTRUCTION

ARBAT PROJECTS

36,000 BUILDING AREA	US$ 153,100,000 APPRAISED VALUE
14,000 REMAINING RENTABLE / SELLABLE AREA	99% OWNERSHIP
160 PARKING LOTS	2016 YEAR OF CONSTRUCTION

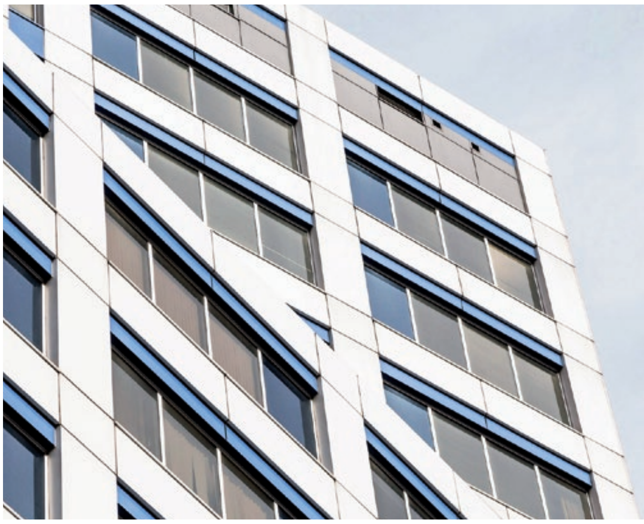
Work Life Center

Work Life Center is a Class A property complex with office, retail and fitness centre premises, located very close to the Hamburg city center and the train station. EPH acquired 94% of Work Life Center in the end of 2017. The major tenants are Performance Media Deutschland, Germany Centre Company and Fitness First Germany. The vacancy rate as of 31 December 2018 is 5%.

Arbat Projects

The Company owns premises in two mixed-use developments 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 are of elite standing.



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.

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.

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.

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 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.

Christodoulos G. Vassiliades,
born 1957, Cypriot

Executive Member
(since April 2013)

Management Committee
Member
(since April 2015)

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.

Michael Cuthbert,
born 1956, English

Non-Executive Member
(since April 2013)

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.

Tomasz Dukala,
born 1974, Polish

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.

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 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 associate companies. An organizational chart showing the Company's subsidiaries and otherwise affiliated companies, percentage ownership, and domiciliation can be found on pages 30 & 31 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 26 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 2018, the Company's market capitalization was
US$ 279.27 million.

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

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

Company name	Registered office	Issued Share Capital	Ownership %
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 preference shares
Idelisa 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
Inspetsstroy, LLC	11/2 bldg.1, 1st Magistralnaya St., 123290 Moscow, Russia	RUB 50	100% held by Housefar Limited
INTRUSTCOM, JSC	11/2 bldg.1, 1st Magistralnaya St., 123290 Moscow, Russia	RUB 500,000 (100 ordinary shares, par RUB 5,000)	100% held by Geneva House LLC

Company name	Registered office	Issued Share Capital	Ownership %
Lexworth Finance Limited	Menandrou 12, office 207, Eleona Tower, 1066 Nicosia, Cyprus	EUR 1,500	99.9% held by EPH and 0.1% held by T&A Services Ltd.
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.
Primary TIZ Limited	Griva Digeni 115, Trident Center, P.C. 3101 Limassol, Cyprus	US$102,540 (102,540 ordinary shares, par US$1)	100% held by TP Invest Ltd.
Redhill Investment Limited	Agiou Andreou, 339, Andrea Chambers Court, Flat/Office M103 3035 Limassol, Cyprus	EUR 8,550 (5,000 ordinary shares, par EUR 1.71)	100% held by EPH
Setford Limited	Menandrou 12, office 207, Eleona Tower, 1066 Nicosia, Cyprus	EUR 20,000 (20,000 ordinary shares of EUR 1 each)	100% held by EPH
Silverlake Limited	Koumandarias & Spyrou Araouzou, 7th Floor, Tonia Court II 3036 Limassol, Cyprus	EUR 2,000 (2,000 ordinary shares, par EUR 1.00)	100% held by EPH
T&A Services Limited	171 Main Street, Road Town, Tortola VG 1110, British Virgin Islands	US$ 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 2018, EPH had 9,974,022 shares in issue, whereof 9,920,017 were outstanding and had voting rights. As per 31 December 2018, the Company held 54,005 treasury shares.

On 31 December 2018, 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 2018, 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 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.

As of 31 December 2018 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	31.12.2018	31.12.2017	31.12.2016
Authorised	11,000,000	11,000,000	11,000,000
Issued	9,974,022	9,974,022	9,974,022
Treasury shares	54,005	44,250	35,533
Issued and outstanding	9,920,017	9,929,772	9,938,489

On 6 December 2016, the Company announced the successful placement of 4,635,890 ordinary shares. As a result, the total issued shares of the Company increased to 9,974,022 ordinary shares, of which all are duly authorized, validly issued, fully paid and non-assessable. The unissued (authorized) shares now comprise of 1,025,978 ordinary shares without par value and 1,000,000 series A non-voting preferred shares without par value.

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 2018.

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 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 2018, 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 2016 (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 2018, 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 seven times in 2018.

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$ 10 million).

The Manager is responsible for the day-to-day business of EPH, in particular 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 2018, 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 Internatinoal Ltd. which is acting as is the Manager of the Company. 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 a very specific scope of services and an exhaustive list of managed assets and EPH subsidiaries. Valartis International Ltd. and its subsidiaries manage Berlin House, Geneva House, Polar Lights as well as Hermitage Plaza – this includes comprehensive services for management and administration. 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 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 2018 the annual fixed management fee in respect to property management, investor relations and administrative services amounted to approximately US$ 1,900,000. Starting from 1 January 2019 certain additional financial management services have been included into the scope of the Real Estate Management Agreement, therefore, the annual fee increased up to approximately US$ 2,250,000.

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), 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 US$ 39,401 in 2018.

Members of the Board of Directors are compensated for serving on the Board of Directors. The Board of Directors had set annual compensation for the members from April 2017 until March 2018 to a fixed USD 75,000 per year which is included in professional and administration expenses in the Company's income statement. Starting from April 2018 the annual fee per board member has been reduced to US$ 50,000.

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. 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.

Hans Messmer is 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 2018, 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 57,192
Michael Cuthbert	Non-Executive Member	USD 57,192
Tomasz Dukala	Non-Executive Member	USD 57,192
Christodoulos G Vassiliades	Executive Member	USD 57,192
Hans Messmer	Executive Member	USD 82,192
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 Ernst & Young, which include services both the Zurich and Moscow offices, for audit of the Company's 31 December 2017 financial statements, and audit-related work, totaled US$ 496,000.

Fees (excluding expenses and VAT) paid or to be paid to Deloitte AG for audit of the Company's 31 December 2018 financial statements and review of the 30 June 2018 interim financial statements are estimated at a total of approximately US$ 475,000

8.3 ADDITIONAL FEES

The total fees (excluding expenses and VAT) charged to the Company in the year under review by Ernst & Young AG and its related parties for additional services are as follows: Transition to Deloitte: US$ 15,135. There have been no additional services provided by Deloitte in 2018.

8.4 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 2018.

9. INFORMATION POLICY

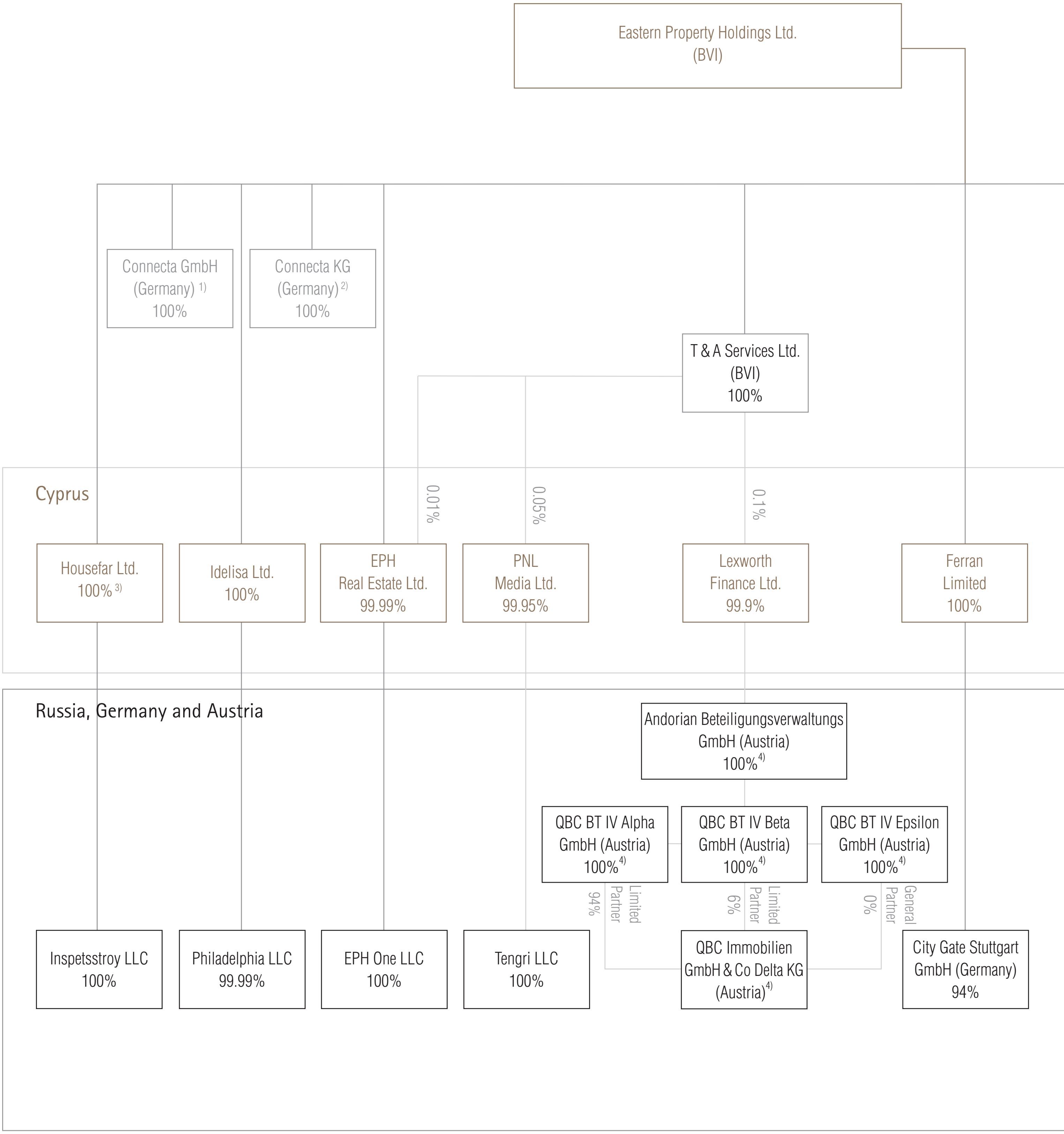
Audit reports are published on an annual basis for the reporting perioid ending 31 December. In addition, the Company publishes unaudited interim financial information for the period ended 30 June which are reviewed by the auditor.

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/.

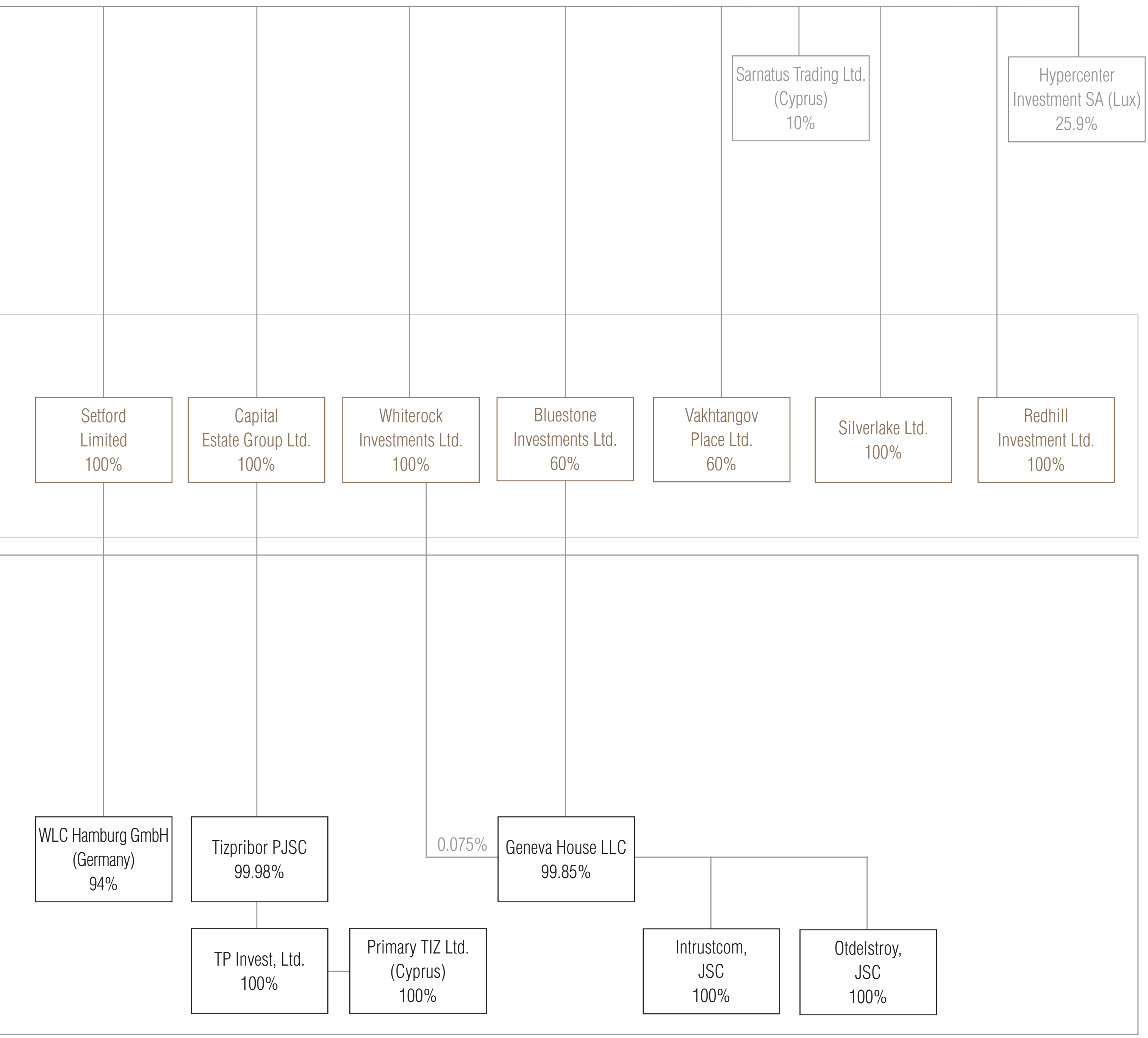
Printed financial statements can be requested in writing free of charge from the following address:

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.



1) Connecta Beratungsgesellschaft im Ost-West Wirtschaftsverkehr mbH
2) Connecta Beratungsgesellschaft im Ost-West Wirtschaftsverkehr mbH & Co Erste Grundstücks KG
3) Ordinary Shares
4) acquired in February 2019


Sarnatus Trading Ltd. (Cyprus) 10%
Hypercenter Investment SA (Lux) 25.9%
Setford Limited 100%
Capital Estate Group Ltd. 100%
Whiterock Investments Ltd. 100%
Bluestone Investments Ltd. 60%
Vakhtangov Place Ltd. 60%
Silverlake Ltd. 100%
Redhill Investment Ltd. 100%
WLC Hamburg GmbH (Germany) 94%
Tizpribor PJSC 99.98%
0.075%
Geneva House LLC 99.85%
TP Invest, Ltd. 100%
Primary TIZ Ltd. (Cyprus) 100%
Intrustcom, JSC 100%
Otdelstroy, JSC 100%

EXTERNAL
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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 2018, and the consolidated statement of profit or 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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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.

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Valuation of investment properties	
Key audit matter description	The valuation of investment properties represent 78% of the total assets in the consolidated financial statements of the Group as of 31 December 2018 and are valued at fair value for an amount of USD 841 million. The fair value is determined by an independent real estate valuation expert, using multiple assumptions (e.g. rental rate or macroeconomic factors) which contain room for discretion. Given the complexity of the assumptions used in the valuation of the investment property and the significance of the balance sheet item in the consolidated financial statements of the Group, its valuation is of particular importance from an audit perspective. The accounting principles applied are explained in note 4 on page 52 and further explanation is available in note 8 on page 63 and note 9 on page 69 in the consolidated financial statements of the Group.
How the scope of our audit responded to the key audit matter	We evaluated the objectivity, independence and expertise of the independent real estate valuation expert. We evaluated the information and assumptions used in the valuations by comparing them with external sources. This includes the estimates such as market rent levels, expected vacancy, interest rates as well as achievable selling prices. We assessed the valuation method used and analyzed the calculations performed by management. We included our own internal property valuation experts on our team to assist us in assessing the assumptions, methods and developments in the valuation. Based on the procedures performed we agreed with management on their assessement of the disclosures on the valuation of investment property.
Key observations	To assess the fair value of investment property as of 31 December 2018, the Group changed the valuation approach for the its Russian investment properties from the Yield Method to the Discounted Cash Flow Method. In this regard, the appraiser of Russian investment properties compared the fair value of investment property calculated by the newly adopted approach with the previously applied methodology based on 6M 2018 data. This comparison did not identify any significant differences between the results of both methodologies. We therefore deem the results as consistent and the new approach as acceptable. Our procedures around the key assumptions and estimates used in the valuation models have come to the conclusion that they are within our acceptable range.

Deloitte.

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 consolidated 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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 ("IFRSs") 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.
Those charged with governance are responsible for overseeing the Group's financial reporting process.

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:

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- 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 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.

Deloitte.

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, which constitute the key audit matters included herein.

Deloitte AG

Marcel Meyer
Licensed audit expert
Auditor in charge

Avazkhodja Usmanov

26 April 2019

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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 2018.

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

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16 April 2019
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/Kriegsbergstraße/Arnulf-Klett-Platz crossing as at 31 December 2016.

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

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 2019.

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

pwc

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft
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Fünfunddreißigste Verwaltungsgesellschaft
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Mr. Marcus Friedrichs
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julia.sacchi@de.pwc.com

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

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 25 January 2019.

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

Dirk Hennig

ppa. Sacchi
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, StB RA Klaus Schmidt

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

FINANCIAL
REPORT

in US$	Note *	31.12.2018	31.12.2017
Assets			
Non-current assets			
Investment properties	8	841,451,779	874,828,138
Goodwill	11	65,309,036	66,256,622
Deferred tax assets	22	637,090	670,787
Furniture and equipment		89,051	175,281
Total non-current assets		907,486,956	941,930,828
Current assets			
Inventory	10	116,649,298	136,358,467
Accounts receivable		1,959,461	1,601,487
Loans	12	81,837	15,755,148
Prepayments		2,296,516	2,095,103
Prepaid taxes		2,976,066	4,845,366
Cash & cash equivalents	13	41,693,596	40,644,407
Total current assets		165,656,774	201,299,978
Total assets		1,073,143,730	1,143,230,806
Liabilities			
Non-current liabilities			
Borrowings	14	523,453,152	550,896,722
Deferred tax liabilities	22	131,264,211	135,607,903
Other non-current liabilities	16	10,254,243	15,748,686
Total non-current liabilities		664,971,606	702,253,311
Current liabilities			
Accounts payable and accrued expenses	15	9,750,142	21,142,312
Advances received		16,977,150	19,989,443
Taxes payable and provisions		12,221,007	15,716,499
Borrowings	14	30,054,477	8,851,606
Financial liabilities at fair value through profit or loss		–	121,845
Total current liabilities		69,002,776	65,821,705
Equity			
Share capital	24	590,539,374	590,539,374
Share premium		19,176,805	19,176,805
Treasury shares	24	–1,540,593	–1,263,047
Accumulated deficit		–111,571,870	–141,520,488
Cumulative translation adjustment		–161,101,897	–95,264,800
Shareholders' equity attributable to the holders of the Company		335,501,819	371,667,844
Non-controlling interest		3,667,529	3,487,946
Total equity		339,169,348	375,155,790
Total equity and liabilities		1,073,143,730	1,143,230,806
Number of shares outstanding		9,920,017	9,929,772
Net asset value per share		33.82	37.43

* The Notes are an integral part of these consolidated financial statements

in US$	Note *	31.12.2018	for the year ended 31.12.2017
Rental income			
Gross rental income	17	69,194,619	71,037,776
Ground rents paid	17	−653,982	−389,826
Service charge income on principal basis	17	12,143,777	11,914,784
Service charge expenses on principal basis	17	−3,978,517	−3,711,420
Property operating expenses	17	−3,500,395	−3,226,790
Repair and maintenance costs	17	−542,626	−818,825
Non-income taxes	17	−4,448,713	−3,934,307
Net rental income	**17**	**68,214,163**	**70,871,392**
Administrative expenses			
Management fees	25	−1,937,202	−3,001,673
Professional and administration fees		−2,749,678	−3,401,068
Salaries and social charges		−513,868	−323,752
Total administrative expenses		**−5,200,748**	**−6,726,493**
Other income / (expenses)			
Interest income		322,636	466,038
Other income	18	3,104,615	1,837,215
Loan impairment charge	12	–	−12,333,441
Other expenses	19	−3,366,805	−627,688
Depreciation		−30,589	−7,596
Net foreign exchange (loss) / gain	27	−58,969,127	30,270,544
Net other (expenses) / income		**−58,939,270**	**19,605,072**
Valuation movements			
Net loss from fair value adjustment on financial instruments		–	−40,954
Net loss from fair value adjustment on investment properties	8	−35,676,301	−8,116,135
Net gain / (loss) due to effect of currency fluctuation on valuation of investment property	20	117,354,278	−33,713,887
Net valuation movements		**81,677,977**	**−41,870,976**
Net operating gain before finance cost		**85,752,122**	**41,878,995**
Finance costs	21	−31,386,106	−30,169,465
Gain before taxes		**54,366,016**	**11,709,530**
Income taxes	22	−24,134,540	−22,565,902
Net profit / (loss) for the period		**30,231,476**	**−10,856,372**
Attributable to:			
Equity holders of the Company		29,948,618	−10,928,881
Non-controlling interest		282,858	72,509
Earnings per share for profit attributable to equity holders of the Company during the period			
Weighted average number of outstanding shares		9,925,763	9,934,368
Basic and diluted		3.02	−1.10

* The Notes are an integral part of these consolidated financial statements

in US$	31.12.2018	for the year ended 31.12.2017
Net profit / (loss) for the period	**30,231,476**	**−10,856,372**
Other comprehensive (loss) / gain		
Other comprehensive (loss) / gain to be reclassified to profit or loss in subsequent periods:		
(Loss) / gain on currency translation differences	−65,940,372	21,817,831
Net other comprehensive (loss) / gain to be reclassified to profit or loss in subsequent periods	−65,940,372	21,817,831
Total comprehensive (loss) / gain for the period	**−35,708,896**	**10,961,459**
Attributable to:		
Equity holders of the Company	−35,888,479	10,642,407
Non-controlling interest	179,583	319,052

* The Notes are an integral part of these consolidated financial statements

			for the year ended
in US$	Note *	31.12.2018	31.12.2017
Cash flows from operating activities			
Net profit / (loss) for the period		30,231,476	–10,856,372
Net foreign exchange loss / (gain)		58,969,127	–30,270,544
Net loss from fair value adjustment on investment properties	8	35,676,301	8,116,135
Other non-cash expenses	19	2,465,422	–
Loan impairment charge	12	–	12,333,441
Net unrealised loss on financial investments		–	16,467
Depreciation		30,589	7,596
Interest income		–322,636	–466,038
Net (gain) / loss due to effect of currency fluctuation on valuation of investment property	20	–117,354,278	33,713,887
Finance costs	21	31,386,106	30,169,465
Income tax expense	22	24,134,540	22,565,902
Cash generated from operations before movements in working capital		65,216,647	65,329,939
Movements in working capital			
Increase in accounts payable and other liabilities, advances received and other non-current liabilities		2,746,012	800,754
Decrease / (increase) in accounts receivable, prepayments and prepaid taxes		1,309,914	–3,046,598
Increase in inventory	10	–6,090,412	–6,218,218
Cash generated from operations		63,182,161	56,865,877
Interest income received		318,495	484,198
Income tax paid		–9,164,895	–11,960,729
Net cash generated from operating activities		54,335,761	45,389,346
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	7	–	2,383,553
Deferred acquisition purchase price paid		–	–32,564,576
Sale of loan		–	3,650,000
Purchase of loan		–	–64,039,340
Net sale of financial instruments		–	545,250
Investments in investment properties	8	–15,326,803	–2,538,191
Loans granted to joint operation entities		–	–1,938,374
Net cash used in investing activities		–15,326,803	–94,501,678
Cash flows from financing activities			
Finance costs paid		–34,246,349	–23,253,538
Proceeds from notes payable		–	66,266,032
Repayment of borrowings		–89,735	–
Proceeds from sale of treasury shares		34,555	–
Acquisition of treasury shares		–312,100	–246,778
Net cash (used in) / generated from financing activities		–34,613,629	42,765,716
Net change in cash & cash equivalents		4,395,329	–6,346,615
Cash & cash equivalents at the beginning of the period		40,644,407	41,378,278
Net gain from foreign currency translation		–3,351,257	5,612,744
Cash & cash equivalents at the end of the period	13	41,688,479	40,644,407

* The Notes are an integral part of these consolidated financial statements

In 2018 and 2017, there were significant non-cash transactions relating to the assignment of rights to Arbat projects and settlement of the liabilities that arose due to the assignment (Notes 12 and 15).

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

in US$	Share capital	Share Premium	Treasury shares	Accumulated deficit	Currency translation adjustment	Shareholders' equity attributable to the holders of the Company	Non-controlling interest	Total equity
Balance as of 01.01.2017	590,539,374	19,176,805	−1,016,269	−130,591,607	−116,836,088	361,272,215	1,762,276	363,034,491
Net loss for the period	–	–	–	−10,928,881	–	−10,928,881	72,509	−10,856,372
Other comprehensive gain	–	–	–	–	21,571,288	21,571,288	246,543	21,817,831
Total comprehensive (loss)/gain for the period	–	–	–	−10,928,881	21,571,288	10,642,407	319,052	10,961,459
Net acquisition of treasury shares (acquisitions US$ 263,902, sales US$ 17,124)	–	–	−246,778	–	–	−246,778	–	−246,778
Aquisition during the period	–	–	–	–	–	–	1,406,618	1,406,618
Balance as of 31.12.2017	590,539,374	19,176,805	−1,263,047	−141,520,488	−95,264,800	371,667,844	3,487,946	375,155,790
Net profit for the period	–	–	–	29,948,618	–	29,948,618	282,858	30,231,476
Other comprehensive loss	–	–	–	–	−65,837,097	−65,837,097	−103,275	−65,940,372
Total comprehensive gain/(loss) for the period	–	–	–	29,948,618	−65,837,097	−35,888,479	179,583	−35,708,896
Net acquisition of treasury shares (acquisitions US$ 312,100, sales US$ 34.554)	–	–	−277,546	–	–	−277,546	–	−277,546
Balance as of 31.12.2018	590,539,374	19,176,805	−1,540,593	−111,571,870	−161,101,897	335,501,819	3,667,529	339,169,348

* The Notes are an integral part of these consolidated financial statements

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 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 26 April 2019.

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 and Financial Assets and Financial Liabilities at Fair Value through Profit or Loss that have been measured at fair value.

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 2018

– IFRS 9 – Financial Instruments effective for annual reporting periods beginning on or after 1 January 2018;
– IFRS 15 – Revenue from contracts with customers effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 9 Financial Instruments

The final version of IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The new version includes revised requirements for the classification and measurement of financial assets and for the first time regulations on the impairment of financial instruments; with the new "expected loss model", losses are recognised earlier because both existing and expected losses are recognised.

IFRS 9 was adopted by the Group without restating comparative information. The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out below in Note 4, section Financial assets.

Given the nature of the Group's financial assets, the impact of the implementation of IFRS 9 on the consolidated financial statements is not significant. The financial assets and liabilities of the Group and their measurement categories under IAS 39 and IFRS 9 as of 1 January 2018 are given below.

	measurement category		
in US$	original IAS 39	new IFRS 9	carrying amount
Current financial assets			
Accounts receivable	amortised cost	amortised cost	1,601,487
Loans	amortised cost	amortised cost	15,755,148
Cash & cash equivalents	amortised cost	amortised cost	40,644,407
Non-current financial liabilities			
Borrowings	amortised cost	amortised cost	–550,896,722
Tenant deposits	amortised cost	amortised cost	–9,581,278
Finance lease liabilities	amortised cost	amortised cost	–3,847,874
Current financial liabilities			
Borrowings	amortised cost	amortised cost	–8,851,606
Trade payables and accrued expenses	amortised cost	amortised cost	–21,142,312
Financial liabilities at fair value through profit or loss	FVPL	FVPL	–121,845

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and starting from 1 January 2018 superseded all current revenue recognition requirements under IFRS. This new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has applied the new standard as from 1 January 2018, choosing the option of fully retrospective transitional approach. As most of the Group's income is from leases, which are dealt with under IAS 17 Leases, the cumulative effect of transition is not material. The new accounting policies are set out below in Note 4, section Revenue recognition.

Other amendments and interpretations effective as of 1 January 2018 are relevant to the Group in the reporting period but have no material impact:

– IFRIC 22, Foreign Currency Transactions and Advance Consideration;
– Amendments to IFRS 10 and IAS 28 Investments in Associates and Joint Ventures entitled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
– Amendments to IFRS 2, Share-based Payment entitled Classification and Measurement of Share-based Payment Transactions;
– Amendments to IFRS 4 Insurance Contracts, Applying IFRS 9 Financial instruments with IFRS 4, Insurance contracts;
– Amendments to IAS 40 Investment Property entitled Transfers of Investment Property;
– Annual Improvements to IFRSs 2014-2016 cycle – amendments to IFRS 1 and IAS 28.

Early adoption of standards

In 2018, 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. The forthcoming standard considered as relevant to the Group is described below.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and starting from 1 January 2019 will replace IAS 17 Leases. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

As for lessor accounting under IFRS 16, it is substantially unchanged from today's accounting under IAS 17, and the Group does not expect significant changes from this new standard on its financial position or performance.

Management of the Group do not expect that the adoption of the new Standards and improvemenets and amendments listed below will have a material impact on the consolidated financial statements of the Group in future periods.

- IFRS 17, Insurance Contracts;
- Amendments to IFRS 9, Prepayment Features with Negative Compensation;
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015–2017 Cycle: Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs;
- Amendments to IAS 19 Employee Benefits, Plan Amendment, Curtailment or Settlement;
- IFRS 10 Consolidated Financial Statements and IAS 28(amendments), Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- IFRIC 23, Uncertainty over Income Tax Treatments.

RECLASSIFICATION ADJUSTMENT OF COMPARATIVE FINANCIAL INFORMATION

To enhance usefulness of the consolidated financial statements, management changed presentation of certain items of the consolidated statement of financial position and statement of profit or loss as follows.

Consolidated statement of financial position

- Assets under development in the current section of the statement of financial position has been renamed into Inventory (adjustment#1 in the table below);
- The items of the current assets have been ranged in accordance with their liquidity from the less liquid to the more liquid;
- Advance received and tax-payable, representing non-financial liabilities, that had been included in line “Accounts payable and accrued expenses” in the current section of liabilities, were reclassified to the new lines “Advances received” (#2) and “Taxes payables and provisions” (#3), respectively;
- Line “Provisions for current liabilities and charges” has been disaggregated: the item “Other payables” has reclassified to line “Accounts payable and accrued expenses”; the item “Provision for tax risk” has reclassified to line “Taxes payable and provisions”(#4).

Consolidated statement of profit or loss

- The cost of services of technical management companies at Berlin House and Geneva House, presented in line “Service charge expense on principal bases” in prior periods, have been reclassified to line “Property operating expenses”, to achieve consistency in presentation for other properties;
- Revenues and expenses at City Gate were reviewed for consistency of presentation with other Group properties and correspondence to nature of the expenses. As a result, the presentation of several items has been amended.
- The effect of foreign currency fluctuations on fair value is reclassified from foreign exchange gain / (loss) to the new line Net gain / (loss) due to effect of currency fluctuation on valuation of investment property. The fair value of investment property, located in Russia, is determined by using US$-denominated discounted cash flows (refer to Note 9). Previously, the effect of fluctuations of Ruble, being the functional currency of the Russian subsidiaries, holding the property, over US$, as the currency of the appraised fair value, had been presented as foreign exchange gain / (loss) in the consolidated statement of profit or loss.

The consolidated statement of financial position and statement of profit or loss for prior period are amended to reflect the changes, as presented in the table below:

in US$	31.12.2017 before reclassification adjustments	reclassification adjustments #1	#2	#3	#4	31.12.2017 after reclassification adjustments
Assets under development	**136,358,467**	**–136,358,467**	**–**	**–**	**–**	**–**
Inventory		**136,358,467**	**–**	**–**	**–**	**136,358,467**
Accounts payable and accrued expenses	**46,249,766**	**–**	**–19,989,443**	**–5,194,944**	**76,933**	**21,142,312**
Due to other third parties	30,434,713	–	–19,989,443	–5,194,944	76,933	5,327,259
Payable to third parties	5,250,326	–	–	–	–	5,250,326
Advances received	19,989,443	–	–19,989,443	–	–	–
Accrued expenses		–	–	–	76,933	76,933
Tax payable	5,194,944	–	–	–5,194,944	–	–
Due to Vakhtangov Place Limited	15,677,452	–	–	–	–	15,677,452
Due to Valartis	137,601	–	–	–	–	137,601
Provisions for current liabilities and charges	**10,598,488**	**–**	**–**	**–**	**–10,598,488**	**–**
Accrued expenses	76,933	–	–	–	–76,933	–
Provisions for tax risk	10,521,555	–	–	–	–10,521,555	–
Advances received	**–**	**–**	**19,989,443**	**–**	**–**	**19,989,443**
Taxes payable and provisions	**–**	**–**	**–**	**5,194,944**	**10,521,555**	**15,716,499**

in US$	for the year ended 31.12.2017 before reclassification adjustments	reclassification adjustments Berlin House	Geneva House	City Gate	Foreign exchange effect	for the year ended 31.12.2017 after reclassification adjustments
Gross rental income	**71,441,375**	**–**	**–**	**–403,599**	**–**	**71,037,776**
Service charge income on principal basis	**11,780,219**	**–**	**–**	**134,565**	**–**	**11,914,784**
Service charge expenses on principal basis	**–4,489,043**	**255,196**	**377,174**	**145,253**	**–**	**–3,711,420**
Property operating expenses	**–2,579,740**	**–255,196**	**–377,174**	**–14,680**	**–**	**–3,226,790**
Repair and maintenance costs	–829,384	–	–	10,559		–818,825
Non-income taxes	–4,386,798	–	–	452,491		–3,934,307
Net rental income	70,546,803	–	–	324,589	–	70,871,392
Other income	2,064,315	–	–	–227,100	–	1,837,215
Other expenses	–530,199	–	–	–97,489	–	–627,688
Net foreign exchange gain / (loss)	–3,443,343	–	–	–	33,713,887	30,270,544
Valuation movements						
Net loss from fair value adjustment on financial instruments	–40,954	–	–	–	–	–40,954
Net loss from fair value adjustment on investment properties	–8,116,135	–	–	–	–	–8,116,135
Net loss due to effect of currency fluctuation on valuation of investment property	–	–	–	–	–33,713,887	–33,713,887
Net valuation movements	–8,157,089	–	–	–	–33,713,887	–41,870,976

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 2018. Control over subsidiaries is achieved when the Group is exposed, or has rights, to variable returns from its involvement 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.

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.

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.

Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operational policy decision of the investee, but has no control or joint control over those policies.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The consolidated statement of profit or loss reflects the Group's share of the results of the operations of the associates. Any change in the other comprehensive income of those investments is presented as part of the Group's other comprehensive income. In addition to this, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

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$):

	31.12.2018		31.12.2017	
in US$	RUB	Euro	RUB	Euro
closing rate	69.5131	0.8744	57.7101	0.8342
average rate	62.6679	0.8478	58.1208	0.8807

Translation of 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.

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. Property held under a lease is classified as investment property when the definition of an investment property is met. The lease obligation is recognised under IAS 17 at fair value of the interest in the leasehold property.

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 also includes certain long-term leasehold land, which is accounted for as if it was a finance lease under IAS 17 "Leases". Each lease payment on the long-term leasehold property is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of future finance charges, are included in Non-current Lease Liability on Leasehold Property. The interest element of the finance costs is charged to the consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period in accordance with IAS 40 "Investment Property".

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. When Inventory is sold, revenue from the sale, as determined by the sale price, will be recognised in the consolidated statement of profit or loss.

FINANCIAL ASSETS

Classification

From 1 January 2018, 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 IAS 17 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 at bank and in-hand, short-term deposits with an original maturity of three months or less. Bank overdrafts (if any) are shown separately in the current liabilities on the consolidated statement on 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.

Impairment

From 1 January 2018, 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 27).

ACCOUNTING POLICIES APPLIED UNTIL 31 DECEMBER 2017

The group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Until 31 December 2017, the Group's financial assets were classified as loans and receivables. The measurement at initial recognition did not change on adoption of IFRS 9. Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method which is no different to the rules applied under IFRS 9 described above. As a consequence, the transition to IFRS 9 had no impact on the consolidated financial statements in terms of presentation, initial recognition and subsequent measurement of the financial assets.

The group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss in the consolidated statement of profit or loss.

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, finance 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.

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. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and it establishes provisions where appropriate.

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 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.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

REVENUE RECOGNITION

Rental income, incentives for lessees and tenant deposits

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. 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 management is certain that the tenant will exercise that option.

Under the terms of the lease contracts, the Group receives deposits from tenants ("tenant deposits" hereinafter) which will be repaid at the end of the lease term. Tenant deposits qualify as financial instruments and are initially recognised and measured at fair value, and then subsequently at amortised cost using the effective interest method. The difference between the carrying amount (present value) of the financial liability and the actual consideration received are treated as an initial premium over and above annual rents. It is presented as deferred revenue in the consolidated statement of financial position. Initial premiums are recognised on a straight-line basis over the lease term in gross rental income in the consolidated statement of profit or loss.

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 they arise.

Service charges and expenses recoverable from 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. Before 1 January 2018, the Group recognised service charge revenue under IAS 18 by reference to the stage of completion of the service, provided that the outcome of the transaction can be estimated reliably, which is, effectively, over time.

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

Interest income

Interest income is recognised as it accrues using the effective interest rate method.

Property sales

Revenue on sale of property (primarily, inventory) 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. Deposits and instalments received on properties prior to the transfer of control are included under current liabilities.

Leases – Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Finance lease are carried at amortized cost.

Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the consolidated statement of profit or loss as they arise.

Other leases are classified as operating leases, unless they are leases of investment property (see investment property above). Operating lease payments are recognised as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term, except for contingent rental payments which are expensed when they arise.

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 ASSUMPTIONS

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.

Treatment of Bluestone Investments Limited (Bluestone) and Vakhtangov Place Limited (VPL)

VPL and Bluestone are considered by the Company as entities under joint control based on the following:

The Company owns 5,000 voting class A shares of each VPL and Bluestone (which is 50% of class A voting shares in both entities) and 2,500 class B shares with limited voting rights of each VPL and Bluestone (which is 100% of class B shares in both entities).

Although class B shares have voting rights with respect to certain limited Class B Shareholders matters, such rights just have a protective nature, and they do not provide any power over an investee and do not relate to the operational activity of VPL and Bluestone. All decisions related to the ordinary business of VPL and Bluestone (i.e. decisions related to Arbat projects development) require unanimous consent of both shareholders. Moreover, both VPL and Bluestone have two Directors which manage day-to-day business of the companies. One director represents EPH and the second director represents the second shareholder, Vincennes Estates Limited. All operating decision may be taken by two directors only unanimously.

Thus, although the Company owns 60% of the economic rights in both entities, the relevant activities of VPL and Bluestone are controlled by the parties collectively and the related decisions require the unanimous consent of both parties' representatives. No single party controls the arrangement on its own. Any party of the arrangement can prevent another party from controlling the arrangement, therefore, the management believes there is a joint control in Bluestone and VPL.

The Company classifies its interest in Bluestone and VPL as a Joint Operation under IFRS 11 "Joint arrangements" based on the following.

VPL and Bluestone represent separate vehicles through which the joint arrangement related to Arbat projects was structured. Although the legal form of VPL and Bluestone provides that their assets and liabilities are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties, in our opinion, certain provisions of the contractual arrangement between the parties as well as facts and circumstances indicate that the investments in VPL and Bluestone are a joint operation. In particular:

– The parties of the joint arrangement are the only substantial source of cash contributing to the continuity of the operations of the arrangement that indicates that the parties have an obligation for the liabilities relating to the arrangement.
– The contractual arrangement between the parties in relation to VPL and Bluestone states that until the sufficient third party debt financing is obtained, a party of the joint arrangement shall finance the project. So far, except for one third party loan, all other costs of the joint arrangement were financed by the parties of joint arrangement. Thus, VPL and Bluestone depend on the joint arrangement parties on a continuous basis for settling the liabilities.

Based on the above, the management treats the investment in Bluestone and VPL as a Joint Operation.

ESTIMATES

Valuation Uncertainty as at December 2018

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.

There are a number of signs of recovery of the Russian economy after a profound and prolonged market downturn in 2014–2017. Growth prospects for 2019–2020 remain modest, forecast at 1.5% to 1.8% (World Bank). Higher-than-expected oil prices could favorably affect the growth forecast. A sound macroeconomic framework, with relatively high levels of international reserves ($461 billion), low external debt levels (about 29% of GDP), and comfortable import cover (15.9 months), positions Russia well to absorb external shocks.

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 geo-political, 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.

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.

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 establishes provisions, 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 provisions 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 income tax and deferred tax provisions in the period in which such determination is made.

Assumption of expected future use of investment properties or assets under development

In order to determine the appropriate accounting treatment for the Group's investment projects or properties which have been newly developed, the Group has allocated the cost of development to the individual property components i.e. office / retail and residential apartments, based on the expected future use of these components (where office / retail premises are intended for rent and residential apartments are intended for sale) and their estimated future revenues (Notes 8 and 10). Should the management decides to change the use of individual property components, the allocation of costs and values between these components may be also changed.

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. Before 2018, based on the shared natures of products and services, production processes, type of customer, distribution methods, and regulatory environment, the Group's assets had been aggregated into three operating segments: rental properties, development properties, and development financing and administration. In 2018, Arbat Multi-Use Complexes have been completed and ready for use in accordance with the management intentions. The office and retail areas of the Complexes became available at rental market. The management started active sales marketing of the residential properties of the Complexes. As a result, the management rearranged its operating segments as of 31 December 2018 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.

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, the Company issued interest bearing subordinated registered notes to finance acquisition of rental property, therefore these 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 (in 2017, Scandinavia was aggregated with Arbat Multi-Complexes and reported as "Development Properties" segment).

Segment data for a prior period presented for comparative purposes has been restated to reflect the changes. In 2017, the following assets and activities have been aggregated to "Other segments":

- Loans to Vakhtangov Place Ltd., the 60%-owned joint operation company which developed the Arbat Multi-use Complexes
- Administration expenses.

Information provided to the Management Committee is measured in a manner consistent with that in the consolidated financial statements.

Information on the main customers and gross and net rental income of the Rental properties segment on asset by asset basis is given in Note 17. Assets City Gate and WLC represent German geographic segment, the other assets represent Russian geographic segment.

Revenue of the Group by operating activities for the periods is as follows:

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 loss	−14,959,601	−5,900,476	−38,109,050	−58,969,127
Net valuation movements	81,540,752	–	137,225	81,677,977
Finance costs	−29,821,371	−1,555,384	−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	−10,589,380	−39,963,300	30,231,476

for the year ended 31.12.2017

in US$	Rental properties	Residential properties for sale	Other segments	Total
Gross rental income (refer to Note 3)	71,037,776	–	–	71,037,776
Other rental expenses (refer to Note 3)	−166,384	–	–	−166,384
Net rental income (refer to Note 3)	70,871,392	–	–	70,871,392
Interest income	466,038	–	–	466,038
Loan impairment charge	–	–	−12,333,441	−12,333,441
Net foreign exchange gain	7,834,395	1,639,564	20,796,585	30,270,544
Net valuation movements	−41,870,976	–	–	−41,870,976
Finance costs	−28,347,058	−1,738,446	−83,961	−30,169,465
Income tax expense	−15,551,897	−7,011,844	−2,161	−22,565,902
Other income / (expenses) (refer to Note 3)	−2,274,856	−214,364	−3,035,342	−5,524,562
Net (loss) / profit for the period	−8,872,962	−7,325,090	5,341,680	−10,856,372

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 31.12.2018				
in US$	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

Assets and liabilities valuation as of 31.12.2017				
in US$	Rental properties	Residential properties for sale	Other segments	Total
Investment properties	847,978,138	23,000,000	3,850,000	874,828,138
Goodwill	66,256,622	–	–	66,256,622
Inventory (refer to Note 3)	–	136,358,467	–	136,358,467
Loans	77,696	–	15,677,452	15,755,148
Cash & cash equivalents	34,120,334	1,075,490	5,448,583	40,644,407
Other assets	8,779,098	434,223	174,703	9,388,024
Total Assets	957,211,888	160,868,180	25,150,738	1,143,230,806
Total Liabilities	727,276,424	305,075	40,493,517	768,075,016

7. BUSINESS COMBINATIONS WORK LIFE CENTER

On 27 December 2017, the Group acquired 94% of FÜNFUNDDREIßIGSTE VERWALTUNGSGESELLSCHAFT DWI GRUNDBESITZ MBH (WLC Hamburg GmbH), the company that owns Class A property complex Work Life Center refurbished and extended in 2017. The property complex comprises of office, retail and fitness centre premises with underground parking, located very close to the Hamburg city center and near train station.

The acquisition of Work Life Center enhances the Group's portfolio from the position of diversification and quality improvement.

The fair values of the identifiable assets and liabilities of WLC Hamburg GmbH as at the date of acquisition were:

in US$	27.12.2017
Assets	
Investment property	89,662,760
Cash & cash equivalents	11,401,621
Trade receivables	178,481
Other assets	1,555,240
Total assets	**102,798,102**
Liabilities	
Borrowings	68,130,720
Deferred tax liabilities	8,658,014
Accounts payable and accrued expenses	2,302,817
Other liabilities	262,922
Total liabilities	**79,354,473**
Total identifiable net assets at fair value	**23,443,629**
Total identifiable net assets at fair value	23,443,629
Less NCI	– 1,406,618
Goodwill arising on acquisition	6,136,283
Purchase consideration	**28,173,294**
thereof paid in cash	28,173,294
thereof purchase price consideration liability	–
Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	11,401,621
cash paid in 2016	– 19,155,226
cash paid in 2017	– 9,018,068
Purchase of loan related to acquisition of subsidiary	– 64,039,340
Net cash outflow	– 80,811,013
Net cash outflow in 2017	– 61,655,787

The total consideration for the 94% equity interest in WLC Hamburg GmbH was US$ 28.17 million. US$ 19.15 million was paid in August 2016 and US$ 9.02 million was paid in December 2017. Also US$ 64.04 million was paid to purchase the loan payable due to bank which WLC had as of the acquisition date.

The amount of the non-controlling interest recognised at the acquisition date is US$ 1.43 million calculated at the proportionate share of the acquiree's identifiable net assets.

At the date of the acquisition, the fair value of the trade receivables did not differ from their gross contractual amount and was US$ 178 thousand.

Work Life Center complex was put into operation in December 2017, so it started to generate rental income in 2018. Therefore if the acquisition had taken place at the beginning of 2017, the Group's gross rental income would not change for 2017 and would have been US$ 71.44 million and the net loss for the period would have been US$ 9.31 million.

As of the acquisition date a deferred tax liability was recognised in WLC MBH due to the excess of the fair value of Work Life Center 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, the 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.

Transaction costs in the amount of US$ 0.334 million had been expensed in 2017 and included in the administrative expenses in the consolidated statement of profit or loss and are part of operating cash flows in the statement of cash flows.

8. INVESTMENT PROPERTIES

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Investment Properties		
Beginning of the period	874,828,138	761,615,921
Acquisitions arising from business combinations	–	89,662,760
Reclassification from held for sale	–	3,800,000
Additions from subsequent expenditure	12,950,054	2,538,191
Acquisition of Arbat properties from joint operator	–	8,480,000
Revaluations	–35,676,301	–8,116,136
Land lease obligations and embedded derivatives	346,615	630,102
Effect of translation to presentation currency	–10,996,726	16,217,300
End of the period	841,451,799	874,828,138

in US$	31.12.2018	31.12.2017
Market value as estimated by the external valuer	837,511,431	870,809,430
Add: finance lease obligation recognised separately	3,940,348	3,896,864
Add: embedded derivatives recognised separately	–	121,845
Fair value for financial reporting purposes	841,451,779	874,828,138

Investment Properties comprise the following:

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Investment Properties		
A. Berlin House	141,292,855	141,682,391
B. Geneva House	140,730,907	144,831,219
C. Polar Lights	96,432,222	111,177,034
D. Hermitage Plaza	201,096,102	218,928,922
E. Magistral'naya	4,488,262	4,924,142
F. Arbat Multi-use Complexes	18,956,000	23,000,000
G. City Gate	136,209,289	136,771,670
H.Work Life Center	98,926,142	89,662,760
I. "Scandinavia" Land plots in St. Petersburg	3,320,000	3,850,000
Total Investment Properties	841,451,779	874,828,138

The impact of investment property revaluations on the financial results of the Group is presented below on an asset by asset basis:

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Net gain / (loss) from fair value adjustment on investment properties		
A. Berlin House	–770,047	5,140,026
B. Geneva House	–4,228,145	–1,630,000
C. Polar Lights	–16,085,640	–69,436
D. Hermitage	–18,557,149	–14,946,883
E. Magistral'naya	–418,396	398,000
F. City Gate	5,387,472	2,162,158
G.Work Life Center	3,569,604	–
H. Arbat Multi-use Complexes	–4,044,000	780,000
I. "Scandinavia" Land plots in St. Petersburg	–530,000	50,000
Total	**–35,676,301**	**–8,116,135**

RENTAL PROPERTIES

A. Berlin House

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Berlin House		
Beginning of the period	141,682,391	136,377,351
Additions from subsequent expenditure	332,730	119,974
Revaluation	–770,047	5,140,025
Land lease obligations	47,781	45,040
End of period	**141,292,855**	**141,682,391**

Berlin House is a 13,381 sqm commercial property located at 5, Petrovka Street in Moscow. The building's approx. 9,960 sqm of net rentable space is divided between 6,620 sqm of office space and 3,340 sqm of retail space (all area measurement information here and below in the Note is calculated in accordance with BOMA standard). The building has 62 underground parking spaces.

As of 31 December 2018, the vacancy rate as a percentage of free area of the building was 5% (31 December 2017: 5%). The lease terms vary between 2019 and 2023.

The fair value of Berlin House was determined to be US$ 141 million as of 31 December 2018 (31 December 2017: US$ 141.31 million), based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Berlin House represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (31 December 2018: US$ 0.29 million and 31 December 2017: US$ 0.37 million). The valuer has adopted the income approach by using the DCF technique (Note 9).

B. Geneva House

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Geneva House		
Beginning of the period	144,831,219	146,116,910
Additions from subsequent expenditure	163,409	–
Revaluation	–4,228,145	–1,630,000
Land lease obligations	–35,576	344,309
End of period	140,730,907	144,831,219

Geneva House is a 16,455 sqm commercial property at 7, Petrovka Street in Moscow. The building has approx. about 11,970 sqm of net rentable space, divided between 10,340 sqm of office space and 1,630 sqm of retail space. The building also has 127 underground parking spaces.

As of 31 December 2018, the vacancy rate as a percentage of free area of the building was 0% (31 December 2017: 9%). The lease terms vary between 2019 and 2025.

The fair value of Geneva House was determined to be US$ 140 million as of 31 December 2018 (31 December 2017: US$ 144.01 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Geneva House represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (31 December 2018: US$ 0.73 million and 31 December 2017: US$ 0.82 million). The valuer has adopted the income approach by using the DCF technique (Note 9).

C. Polar Lights

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Polar Lights		
Beginning of the period	111,177,034	111,128,167
Additions from subsequent expenditure	1,468,310	11,492
Revaluation	–16,085,640	–69,436
Land lease obligations	–5,637	101,089
Embedded derivatives	–121,845	5,722
End of period	96,432,222	111,177,034

Polar Lights is a B+ class business center with a total area of 37,815 sqm located at 26, Pravdy Street in Moscow. The building's approx. 29,850 sqm of net rentable space is divided between 28,325 sqm of office space and 1,525 sqm of retail space. The building has an underground parking facility with 201 underground and surface parking spaces.

As of 31 December 2018, the vacancy rate as a percentage of free area of the building was 2.9% (31 December 2017: 12%). The lease terms vary between 2019 and 2027.

The fair value of Polar Lights was determined to be US$ 95.70 million as of 31 December 2018 (31 December 2017: US$ 110.2 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Polar Lights represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (31 December 2018: US$ 0.73 million and 31 December 2017: US$ 0.86 million). The valuer has adopted the income approach by using the DCF technique (Note 9).

D. Hermitage Plaza

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Hermitage Plaza		
Beginning of the period	218,928,922	233,719,228
Additions from subsequent expenditure	244,953	26,883
Revaluation	–18,557,149	–14,946,883
Land lease obligations	479,376	129,694
End of period	**201,096,102**	**218,928,922**

Hermitage Plaza is an A class business center including three buildings with a total area of 40,216 sqm located at Krasnoproletarskaya Street in Moscow. Of approx. 33,400 sqm of net rentable space, 33,010 sqm are designated for office use and about 390 sqm for retail space. The buildings have an underground parking facility with 284 parking spaces.

As of 31 December 2018, the vacancy rate as a percentage of free area of the building was 0% (31 December 2017: 0%). The property is primarily let to mobile company VimpelCom (77% of net rentable area) and development company Ingrad Nedvizhimost (21%). The lease terms mature in 2019 and 2024, respectively.

The fair value of Hermitage Plaza was determined to be US$ 199 million as of 31 December 2018 (31 December 2017: US$ 217.18 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Hermitage Plaza represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (31 December 2018: US$ 2.1 million and 31 December 2017: US$ 1.75 million). The valuer has adopted the income approach by using the DCF technique (Note 9).

E. Magistralnaya

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Magistralnaya		
Beginning of the period	4,924,142	4,521,895
Revaluation	–418,396	398,000
Land lease obligations	–17,484	4,247
End of period	**4,488,262**	**4,924,142**

Magistral'naya is an operational Class B office complex of three buildings with a total area of 3,552 sqm and leasehold rights in two conjoined land plots, located in Moscow at the intersection of Zvenigorodskoye Highway and the Third Transport Ring Road.

As of 31 December 2018, the entire office complex, with the exception of 135 sq m, used by the Group, is let to one tenant for a 10 year lease agreement signed in March 2012.

The fair value of Magistral'naya was determined to be US$ 4.40 million as of 31 December 2018 (31 December 2017: US$ 4.83 million) based on an independent valuation prepared by Jones Lang LaSalle. The carrying value of Magistral'naya represents its fair value plus the adjustment for outstanding land lease obligations with respect to the long-term leasehold land under the property (31 December 2018: US$ 0.1 million and 31 December 2017: US$ 0.1 million). The valuer has adopted the income approach by using the DCF technique (Note 9).

F. Arbat Multi-use Complexes (retail and office premises)

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Arbat Multi-use complexes		
Beginning of the period	23,000,000	13,740,000
Acquisition of Arbat properties from joint operator	–	8,480,000
Revaluation	–4,044,000	780,000
End of period	18,956,000	23,000,000

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 transferred to the Russian Federation after construction. Retail / office premises have been recognised as investment property and carried at fair value. 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 10). The Group entered the projects in 2007 and completed them in 2018. The buildings at 24 and 39 include approx. 2,400 and 1,200 sqm, respectively, of office / retail leasable area. As of 31 December 2018, the retail area of 189 sqm at Arbat 39 is let till July 2023.

Until October 2017, the rights to the projects were owned by the joint operation company, Vakhtangov Place Limited (VPL), in which the Company owns 60% of the project. The Group recognizes 60% of VPL's assets, liabilities, incomes and expenses, therefore, 60% of the value of Arbat projects was recognized by the Group.

In October 2017, VPL assigned its rights to the most part of both Arbat projects to the Moscow branch of Redhill Investments Limited which is fully owned by the Group and thus the Group increased its share in both Arbat projects.

The fair value of the office / retail premises was determined to be US$ 18.96 million as of 31 December 2018 (31 December 2017: US$ 23.00 million) based on an independent valuation prepared by Jones Lang LaSalle. The valuer has adopted the income approach by using the DCF technique (Note 9).

G. City Gate

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
City Gate		
Beginning of the period	136,771,670	116,012,370
Additions from subsequent expenditure	510,051	2,379,842
Revaluation	5,387,472	2,162,158
Effect of translation to presentation currency	–6,459,904	16,217,300
End of period	136,209,289	136,771,670

City Gate is a newly constructed Class A office and retail complex with an underground parking located in the centre of Stuttgart with a total area of 26,445 sqm, in close proximity to the main railway station. Of the net rentable space (17,260 sqm), 15,407 sqm are designated for office use, 1,330 sqm for retail space and restaurant and 523 sqm for archive. The building has an underground parking facility with 145 parking spaces

As of 31 December 2018, the vacancy rate as a percentage of free area of the building was 0% (31 December 2017: 0%). The lease terms vary between 2021 and 2030.

The fair value of CityGate was determined to be EUR 119.10 million (US$ 136.21 million) as of 31 December 2018 (31 December 2017: EUR 114.10 million (US$ 136.77 million)) based on an independent valuation prepared by PWC. The valuer has adopted the income approach by using the DCF technique (Note 9).

H. Work Life Center

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Work Life Center		
Beginning of the period	89,662,760	–
Acquisition of Work Life Center	–	89,662,760
Additions from subsequent expenditure	10,230,600	–
Revaluation	3,569,604	–
Effect of translation to presentation currency	–4,536,822	–
End of period	98,926,142	89,662,760

Work Life Center is a class A property complex was acquired by the Company at the end of 2017. The property complex is presented by office, retail and fitness centre premises with underground parking, located very close to the city center of Hamburg and near train station. Of the net rentable space (12,068 sqm), 6,171 sqm are designated for office use, 2,416 sqm of fitness centre areas, 2,519 sqm for retail space and 962 sqm of terrace, common areas and archive. The building has an underground parking facility with 89 parking spaces.

As of 31 December 2018, the vacancy rate as a percentage of total rentable area of the building was 5% (31 December 2017: 10%). The lease terms varies between 2025 and 2032.

The fair value of Work Life Center was determined to be EUR 87.20 million (US$ 99.73 million) as of 31 December 2018 (31 December 2017: EUR 84.20 million (US$ 100.93 million) based on an independent valuation prepared by PWC. The carrying value of Work Life Center represents its fair value adjusted for outstanding capital expenditure in the amount of EUR 0.7 million (US$ 0.83 million) (31 December 2017: EUR 9.40 million (US$ 11.27 million)). The valuer has adopted the income approach by using the DCF technique (Note 9).

I. Scandinavia Land

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
"Scandinavia" Land		
Beginning of the period	3,850,000	–
Reclassified from held-for-sale	–	3,800,000
Revaluation	–530,000	50,000
End of period	3,320,000	3,850,000

The Company owns four land plots located at Leninskoye Settlement, "Pervomaiskoye Selskoye Poseleniye", Vyborgsky District, in the Leningrad Region near St. Petersburg, Russia, with a total area of 55 hectares.

The fair value of these land plots was determined to be US$ 3.32 million as of 31 December 2018 (31 December 2017: US$ 3.85 million) based on an independent valuation prepared by Jones Lang LaSalle. In calculating the market value the appraiser used sales comparable method.

9. FAIR VALUE MEASUREMENT – INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER DEVELOPMENT

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 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. 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. The Group changed the valuation techniques for its Russian investment properties as of 31 December 2018 from the Yield Method to the Discounted Cash Flow Method. Both methods are described beneath and deliver practically the same fair value of the property but the latter is preferred as more transparent and easily verified.

Techniques used for valuing investment property

The Yield Method converts anticipated future cash flow benefits in the form of rental income into present value. This approach requires careful estimation of future benefits and the application of investor yield or return requirements. One approach to value the property on this basis is to capitalise net rental income on the basis of an Equivalent Yield, which represents the "overall" rate of return on a reversionary investment and is therefore the "weighted average" yield, reflecting the rent change and term length, adjusted for any factors not included in net rental income, such as vacancy, lease incentives, refurbishment, etc.

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 at 31 December 2018 and 31 December 2017, the Group held the investment properties carried at fair value determined by the Level 3 technique.

During the periods ending 31 December 2018 and 31 December 2017, 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;
- Quantitive information about significant unobservable inputs used in the fair value measurement.

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

Property	Fair value as of 31.12.2017	Valuation technique	Key unobservable inputs	Range (Weighted average), per sq.m p.a.
Berlin House	$141,310,000	Income capitalisation	ERV	US$ 850 – US$ 2,250 (US$ 1,269)
			Equivalent yield	9.25%
Geneva House	$144,010,000	Income capitalisation	ERV	US$ 900 – US$ 3,175 (US$ 1,073)
			Equivalent yield	9.25%
Polar Lights	$110,200,000	Income capitalisation	ERV	US$ 203 – US$ 1,007 (US$ 367)
			Equivalent yield	10.25%
Hermitage Plaza	$217,180,000	Income capitalisation	ERV	US$ 375 – US$ 780 (US$ 589)
			Equivalent yield	9.25%
Magistral'naya	$4,825,000	Income capitalisation	ERV	US$ 180 (US$ 180)
			Equivalent yield	12.25%
City Gate	€ 114,100,000	DCF, Income capitalisation	ERV	€ 267 – € 306 (€ 285)
			Discount rate	4.85%
			Capitalisation rate	3.95%
Work Life Center	€ 84,200,000	DCF, Income capitalisation	ERV	€ 138 – € 270 (€ 266)
			Discount rate	4.70%
			Capitalisation rate	3.80%
Arbats IP	$23,000,000	DCF, Income capitalisation	ERV	US$ 443 – US$ 1,387 (US$ 788)
			Discount rate	13.0%
			Capitalisation rate	10.0%; 10.5%
Scandinavia	$3,850,000	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;
- Equivalent yield;
- 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 / equivalent yield / 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:

31.12.2018		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

31.12.2017			Effect on fair value
in US$	Sensitivity used	Rental properties	Properties under development
Decrease in ERV	5%	−23,096,667	−1,100,000
Increase in equivalent yield	25 bps	−15,965,000	–
Increase in discount rate	25 bps	−4,667,704	−200,000
Increase in capitalisation rate	25 bps	−10,351,374	−500,000

There were no transfers into or out of Level 3 in the reporting period (2017: nil). The changes in the balances categorized within Level 3 are disclosed in Note 8.

10. Inventory

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Inventory		
Beginning of the period	136,358,467	72,855,882
Acquisition from joint operator	–	52,471,803
Additions from construction expenditure	6,090,412	6,218,218
Disposal by joint operator	−2,465,422	–
Effect of translation to presentation currency	−23,334,159	4,812,564
End of period	**116,649,298**	**136,358,467**

ARBAT MULTI-USE COMPLEXES UNDER DEVELOPMENT (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 2018, the Group owns the appartments with total area of approx. 9,800 sqm.

Until October 2017 the Group's 60% joint operation company, Vakhtangov Place Limited (VPL), was developing these buildings. In October 2017, VPL assigned its rights to the most part of both Arbat projects to the Moscow branch of Redhill Investments Limited which is fully owned by the Group and thus the Group increased its share in both Arbat projects.

In October 2018, the apartment premises kept at VPL with the carrying amount of US$ 2.47 million, were sold to a third party (refer to Note 19).

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$ 116.65 million as of 31 December 2018 (31 December 2017: US$ 136.36 million).

11. Goodwill

for the year ended 31.12.2018

in US$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	City Gate	WLC	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

for the year ended 31.12.2017

in US$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	City Gate	WLC	Total
Goodwill							
Beginning of the period	8,837,903	3,655,945	12,372,982	20,754,539	12,745,112	–	58,366,480
Arising on business combinations (Note 7)	–	–	–	–	–	6,136,283	6,136,283
Forex effect	–	–	–	–	1,753,859	–	1,753,859
End of period	**8,837,903**	**3,655,945**	**12,372,982**	**20,754,539**	**14,498,971**	**6,136,283**	**66,256,622**

Goodwill was recognised on the acquisition of investment properties as given above and 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 2018 and 31 December 2017, there are no circumstances indicating that the carrying value of goodwill may be impaired.

12. Loans

in US$	31.12.2018	31.12.2017
Loans (short term)		
Vakhtangov Place Limited	–	15,677,452
Other	81,837	77,696
Total	81,837	**15,755,148**

VAKHTANGOV PLACE LIMITED (VPL) AND BLUESTONE INVESTMENTS
The Group has financed the construction of the Arbat Multi-use Complexes by granting interest-bearing loans to the joint operations.

The Group recognizes 60% of VPL's and Bluestone's assets, liabilities, incomes and expenses. As such, 60% of the Group's loans to the joint operations were eliminated in consolidation, while the remaining 40% of the loans were carried on the Group's balance sheet as Loans and Receivables.

In October 2017, VPL assigned its rights to both Arbat projects to the Moscow branch of Redhill Investments Limited. Part of the Group's loans receivable due from VPL in the amount of US$ 45.27 million was set-off against Redhill's payable due to VPL for the assigned rights in 2017. The Group has impaired remaining loans receivable due from VPL down to US$ 15.68 million, the amount of remaining Redhill's payable due to VPL (Note 15), and recognized loan impairment charge in the amount of US$ 12.33 million. In October 2018, the parties agreed to set off the remaining payables with the loan receivable, resulting on derecognition of both the loan and the payable (Note 15).

13. Cash and Cash Equivalents

in US$	31.12.2018	31.12.2017
Cash at bank	32,486,703	29,135,316
Fiduciary deposits	9,206,893	8,188,692
Escrow account	–	3,320,399
Cash and cash equivalents	**41,693,596**	**40,644,407**
Bank overdrafts (Note 14)	–5,117	–
Cash and cash equivalents with bank overdrafts	**41,688,479**	**40,644,407**

Fiduciary deposits are denominated in Rouble and have different terms of maturity up to 3 months and interest rates of 5.0%–7.55% p.a.

14. Borrowings

in US$	31.12.2018	31.12.2017
Borrowings (long term)		
Bonds issued	453,841,792	453,614,264
Notes payable due to Aurora Value Fund	57,754,578	60,532,179
Notes payable due to Lionshare Opportunities Fund	6,290,103	6,592,614
Jilford Investments Limited	–	24,512,069
Jelfor Limited	4,079,021	4,086,336
Meglior Holdings Limited	1,487,658	1,559,260
Total	**523,453,152**	**550,896,722**
Borrowings (short term)		
Bonds interest accrued	3,712,500	8,606,250
Interest for notes payable due to Aurora Value Fund	–	68,603
Interest for notes payable due to Lionshare Opportunities Fund	–	7,472
Jilford Investments Limited	26,199,453	–
Jelfor Limited	–	5,045
Meglior Holdings Limited	137,407	77,596
Bank overdrafts	5,117	–
Other	–	86,640
Total	**30,054,477**	**8,851,606**

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	141,581,748	5.5%	March and September	Sep 2023
Bonds issued in Sep 2014	130,000,000	131,500,004	5.5%	March and September	Sep 2023
Bonds issued in Jun 2015	135,000,000	134,642,333	7.25%	June and December	May 2024
Bonds issued in Dec 2015	50,000,000	49,830,207	6.75%	June and December	Dec 2024
Total	**455,000,000**	**457,554,292**			

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.

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

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

in US$	Bonds issued	Notes payable
Balance as of 1 January 2017	457,188,666	–
Cash flows	–23,112,549	66,266,032
Non-cash movements:		
Interest accruals	28,158,248	76,075
Foreign currency translation	–	858,761
Other	–13,851	–
Balance as of 31 December 2017	462,220,514	67,200,868

JILFORD LOAN

Until October 2017 Vakhtangov Place Limited (VPL), the Group's 60% joint operation company, had US$ 29.15 million loan with fixed 10% annual interest rate from Jilford Investments Limited which was attracted for financing of Arbat construction. As Group recognizes 60% of VPL's assets, liabilities, incomes and expenses, 60% of this loan was carried on the Group's balance sheet as Borrowings.

In October 2017 VPL and Jilford agreed to restructure the debt by reducing it down to US$ 24.11 million (which represented the value proportionally supported by the value of VPL assets) with fixed 7% annual interest rate and maturing in 31 December 2019. Then, as part of assignment of rights to Arbat projects from VPL to Redhill Moscow branch, this debt was assigned from VPL to Redhill. Thus, in the end of 2017, the Group recognized 100% of this loan in its statement of financial position.

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

in US$	31.12.2018	31.12.2017
Trade payables and accrued expenses	4,206,610	5,327,259
Tenant deposits	5,439,076	–
Deferred revenue	104,456	–
Due to Vakhtangov Place Limited	–	15,677,452
Due to Valartis	–	137,601
Total	9,750,142	21,142,312

VAKHTANGOV PLACE LIMITED (VPL)

The Group recognizes 60% of VPL's assets, liabilities, incomes and expenses. As such, 60% of the Group's payable due to the joint operation is eliminated in consolidation, while the remaining 40% of the payables are carried on the Group's balance sheet as Accounts Payable.

In October 2017, VPL assigned its rights to both Arbat projects to the Moscow branch of Redhill Investments Limited. Part of the Redhill's payable due to VPL for these assigned rights was set-off against Group's loans receivable due from VPL to US$ 15.68 million by the end of 2017 (Note 12).

In October 2018, the parties agreed to set off remaining balances (Note 12).

TENANT DEPOSITS AND DEFERRED REVENUE

The balance of tenant deposits consists of the deposits refundable within a year after the reporting date, primarily the deposit of tenant VimpelCom at subsidiary Tizpribor (Hermitage property) of US$5.37 million. The contract with VimpelCom expires in October 2019.

Deferred revenue relates to the current tenant deposits decribed above and represents amortised value of the difference between nominal and fair value of the deposit. The difference is recognised as a liability at the date of initial recognition of the deposit.

16.Other non-current liabilities

in US$	31.12.2018	31.12.2017
Tenant deposits	4,907,218	9,581,278
Deferred revenue	1,406,677	2,319,534
Finance lease liabilities	3,940,348	3,847,874
Total	10,254,243	15,748,686

TENANT DEPOSITS AND DEFERRED REVENUE

As of 31 December 2018, the current part of tenant deposits and deferred revenue is reclassified to current accounts payable in the amount of US$ 5.44 million and US$ 0.1 million, respectively (Note 15).

FINANCE LEASE LIABILITIES

Finance Lease Liabilities represent current and non-current obligations of the Group in relation to rent payments to the city of Moscow for lease of the land under Berlin House, Geneva House, Hermitage Plaza, Polar Lights and Magistral'naya. Minimum lease payments are accounted for as financial lease and the present values of these payments as at 31 December 2018 are as follows:

		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

		31.12.2017
in US$	Present value	Minimum lease payments
Within 1 year	21,068	385,566
After 1 year but not more than 5 years	106,191	1,542,266
More than 5 years	3,720,614	13,325,420
	3,847,874	15,253,252
Less: future interest costs	–	–11,405,378
Total	3,847,874	3,847,874

17. NET RENTAL INCOME

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

for the year ended 31.12.2018

in US$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	Magistral'naya	Arbat	City Gate	WLC	Total
Gross rental income	12,089,598	13,581,050	11,611,880	24,743,848	624,774	85,667	4,778,526	1,679,276	69,194,619
Ground rents paid	−26,774	−76,172	−140,199	−318,803	−92,034	–	–	–	−653,982
Service charge income on principal basis	1,994,839	2,062,833	2,152,778	3,621,038	267,952	5,172	1,339,865	699,300	12,143,777
Service charge expenses on principal basis	−470,580	−466,060	−995,198	−617,343	−72,486	−80	−1,148,689	−208,081	−3,978,517
Property operating expenses	−293,517	−434,545	−767,137	−938,578	−91,551	–	−261,677	−713,390	−3,500,395
Repair and maintenance costs	−326,719	–	70,127	−96,699	−7,979	–	–	−181,356	−542,626
Non-income taxes	−669,376	−802,482	−1,406,585	−1,333,108	−55,592	−8,581	−152,243	−20,746	−4,448,713
Net rental income	12,297,471	13,864,624	10,525,666	25,060,355	573,084	82,178	4,555,782	1,255,003	68,214,163

for the year ended 31.12.2017

in US$	Berlin House	Geneva House	Polar Lights	Hermitage Plaza	Magistral'naya	Arbat	City Gate	WLC	Total
Gross rental income	13,223,732	13,450,470	13,217,223	26,005,137	641,575	–	4,499,639.69	–	71,037,776
Ground rents paid	−31,830	−82,555	−85,910	−166,392	−23,139	–	–	–	−389,826
Service charge income on principal basis	2,196,557	1,998,352	2,332,804	4,053,420	277,161	–	1,056,491	–	11,914,784
Service charge expenses on principal basis	−524,467	−451,669	−1,055,685	−598,945	−158,004	–	−922,650	–	−3,711,420
Property operating expenses	−284,361	−406,446	−769,082	−1,341,498	−3,486	–	−421,917	–	−3,226,790
Repair and maintenance costs	−141,689	–	−416,441	−239,607	−21,088	–	0	–	−818,825
Non-income taxes	−722,435	−785,657	−1,106,682	−1,116,960	−56,009	–	−146,564	–	−3,934,307
Net rental income	**13,715,508**	**13,722,496**	**12,116,226**	**26,595,154**	**657,010**	**–**	**4,064,999**	**–**	**70,871,393**

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%).

As of 31 December 2017, the top five tenants in the Group are VimpelCom (35% of the annual rental income), Richemont Group (11%), S7 Airlines (4%), Akin Gump (4%), and Chanel (4%).

The following table represents the rental income to be received by the Group in future periods under leases currently in effect:

in US$	31.12.2018	31.12.2017
Less than 1 year	73,797,077	74,685,946
From 1 year to 5 years	176,219,089	190,570,948
More than 5 years	48,714,174	56,095,529
Total	**298,730,340**	**321,352,423**

18. OTHER INCOME

Other income of US$ 3.10 million (2017: US$ 1.84 million) includes lease termination fee from VimpelCom at Hermitage Plaza in the amount of US$ 2.22 million (2017: US$ 0.93 million) due to the early vacation of part of the contracted rental area. Remaining amount of other income of US$ 0.88 million (2017: US$ 0.91 million) refers to miscelanious income of irregular nature.

19. OTHER EXPENSES

The most significant part of the Group's other expenses recognized in 2018 in the amount of US$ 2.47 million relates to the sale of Arbat assets which were not transferred to Redhill in October 2017 and remained in the joint operation VPL. In 2018 VPL sold the assets to one of the Group's creditors and the consideration for the assets was paid through the set off of the creditor's claims towards the Group. Since the Group derecognized its liabilities towards this creditor in the past years based on the joint operation agreement with the joint operation partner, the above transaction led to the loss of the current period recognized by the Group as other expenses.

Remaining amount of other expenses of US$ 0.90 million (2017: US$ 0.63 million) includes various individually insignificant irregular expenses.

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 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 31.12.2018	for the year ended 31.12.2017
A. Berlin House	26,689,982	−7,356,053
B. Geneva House	26,794,355	−7,820,909
C. Polar Lights	19,313,460	−5,935,557
D. Hermitage Plaza	39,136,786	−12,380,311
E. Magistral'naya	862,328	−240,894
F. Arbat Multi-use Complexes	3,890,142	224,551
I. "Scandinavia" Land plots in St. Petersburg	667,225	−204,714
Total Net gain / (loss) due to effect of currency fluctuation on valuation of investment property	117,354,278	−33,713,887

21.FINANCE COSTS

in US$	for the year ended 31.12.2018	for the year ended 31.12.2017
Interests on bonds issued	28,253,482	28,158,248
Interest on notes payable	1,119,423	76,075
Interest on loans payable	1,856,322	1,794,153
Bank charges	106,637	101,741
Other finance cost	50,242	39,248
Total	31,386,106	30,169,465

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% 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 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 2018 and 2017 are:

in US$	31.12.2018	31.12.2017
Current income tax expense	– 7,453,339	– 20,834,629
Deferred income tax expense	– 16,681,201	– 1,731,273
Income tax expense	**– 24,134,540**	**–22,565,902**

Reconciliation between income tax expense / benefit and the product of accounting profit multiplied by the Russian tax rate for the years ended 31 December 2018 and 2017 is as follows:

in US$	31.12.2018	31.12.2017
Profit before tax	**54,366,016**	**11,709,530**
Income tax at Russian corporate tax rate of 20% (2017: 20%)	– 10,873,203	– 2,341,906
Effect of non-deductable expenses net of non-taxable income	– 12,959,609	– 12,762,079
Release of tax provision in respect of prior period profit	1,576,900	
Effect of tax rates in other jurisdictions	– 1,878,628	– 7,461,917
Income tax expense	**– 24,134,540**	**– 22,565,902**

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

in US$	Consolidated statement of financial position		Consolidated income statement		Forex effect
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Deferred tax assets gross					
Due to losses available for offset against future taxable income	2,729,089	2,314,812	1,300,823	−8,974,673	−886,546
Deferred tax liability gross					
Due to fair value adjustment to investment property	−133,356,210	−137,251,928	−17,982,024	7,243,400	21,877,742
Deferred income tax (expense)/benefit			−16,681,201	−1,731,273	20,991,196
Deferred tax liabilities net	−130,627,121	−134,937,116			
Reflected on the statement of financial position as follows					
Deferred tax assets net	637,090	670,787			
Deferred tax liability net	−131,264,211	−135,607,903			
Deferred tax liabilities net	−130,627,121	−134,937,116			

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 2018, 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$	31.12.2018	31.12.2017
Earnings per share		
Net profit (loss) attributable to shareholders	29,948,618	−10,928,881
Weighted average number of ordinary shares outstanding	9,925,763	9,934,368
Earnings per share (US$ per share)	3.02	−1.1

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	
	31.12.2018	31.12.2017	30.06.2018	31.12.2017
Authorised capital				
Total authorised capital	11,000,000	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	–	–	–	–
Utilisation for capital increase	–	–	–	–
Conversion to ordinary shares	–	–	–	–
Closing balance unissued authorised capital	1,025,978	1,025,978	1,000,000	1,000,000

	Number of ordinary shares		Number of series A preferred shares	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Issued share capital				
Opening balance	9,974,022	9,974,022	–	–
Capital increase	–	–	–	–
Closing balance	9,974,022	9,974,022	–	–

	Number of shares	
	31.12.2018	31.12.2017
Treasury shares		
Opening balance	44,250	35,533
Issued to treasury	–	–
Purchase	10,955	8,917
Sales	1,200	200
Closing balance	54,005	44,250

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 2018 and 2017.

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 following table:

		% Holding	
Name of subsidiary	Incorporated in	31.12.2018	31.12.2017
Housefar Limited	Limassol, Cyprus	100%	100%
Idelisa Limited	Limassol, Cyprus	100%	100%
Silverlake Limited	Limassol, Cyprus	100%	100%
Whiterock Investments Limited	Limassol, Cyprus	100%	100%
Redhill Investment Limited	Limassol, Cyprus	100%	100%
Connecta Gmbh & Co. KG	Frankfurt am Main, Germany	100%	100%
EPH Real Estate Limited	Limassol, Cyprus	100%	100%
PNL Media Limited	Limassol, Cyprus	100%	100%
Capital Estate Group Limited	Limassol, Cyprus	100%	100%
T&A Services Limited	Tortola, BVI	100%	100%
Lexworth Finance Limited	Limassol, Cyprus	100%	100%
Ferran Limited	Limassol, Cyprus	100%	100%
Setford Limited	Limassol, Cyprus	100%	100%
Joint operations			
Vakhtangov Place Limited	Limassol, Cyprus	60%	60%
Bluestone Investments Limited	Limassol, Cyprus	60%	60%

Related parties include shareholders, associates, entities under joint control, 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 and had loans due to the Group and payables from the Group as of 31 December 2017. The loans and payables are set off as of 31 December 2018 (Note 12 and Note 15).

OTHER RELATED PARTIES HAVING SIGNIFICANT INFLUENCE ON THE GROUP

On 26 February 2018, the Chairman of the Board of the Directors of the Company acquired 100% of the third party company EPH LLC, which delivers consulting services to EPH Ltd.

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.

The following contractual agreements are in place between the Group and Valartis International Limited under which management fee is charged:

- Valartis International Ltd has a real estate management agreement with EPH Ltd;
- Valartis International Ltd has property management agreements in place with Connecta KG (Berlin House) and EPH One LLC (Geneva House);
- VLR Property Management LLC, a subsidiary of Valartis International Ltd, has property management agreements in place with Tengri LLC (Polar Lights) and Tizprobor JSC (Hermitage Plaza);
- Valartis International Ltd leases an office space at Berlin House owned by Connecta KG;
- VLR Property Management LLC leases an office space at Polar Lights owned by Tengri LLC.

The Group's related party balances as of 31 December 2018 and 31 December 2017 consisted of the following:

in US$	31.12.2018	31.12.2017
Loans (joint operation)	–	15,677,452
Accounts receivable (other related parties)	247	–
Borrowings (shareholders)	–64,044,681	–67,200,868
Accounts payable and accrued expenses (other related parties)	–	–137,601
Accounts payable and accrued expenses (joint operation)	–	–15,677,452

The Group's transactions with related parties for the period ended of 31 December 2018 and 2017 consisted of the following:

		for the year ended
in US$	31.12.2018	31.12.2017
Gross rental income (other related parties)	303,173	664,954
Management fees (other related parties)	–1,937,202	–3,001,673
Finance costs (shareholders)	–1,119,423	–76,075
Professional and administration fees (other related party)	–110,756	–75,000

26. CONTINGENCIES

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.

OPERATING ENVIRONMENT

Russian Federation

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.

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 RISK MANAGEMENT

FINANCIAL RISK FACTORS

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.

As a result of economic downturn, commercial property industry has become a tenant ruble-driven market. As most of the Group's liabilities are denominated in US$, almost all lease agreements with tenants in the Group's properties remain US$-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.

As of 31 December 2018, if the US dollar had weakened / strengthened by 10% against the Russian Ruble with all other variables held constant, net profit for the year would have been US$ 25.7 million (2017: US$ 32.5 million) lower / higher, mainly as a result of foreign exchange gains / losses on translation of US$-denominated investment properties and inter-company loans.

As at 31 December 2018, if the Euro had weakened / strengthened by 1% against the US Dollar with all other variables held constant, net profit for the year would have been US$ 1.6 million (2017: US$ 1.6 million) lower / higher, mainly as a result of foreign exchange gains / losses on translation of Euro-denominated notes payable and inter-company loans.

INTEREST RATE RISK

Bonds issued

The Group's interest rate risk arises from bonds issued at fixed coupon rates. Fixed coupon rates expose the Group to fair value interest rate risk. Considering current market and low fixed coupon rate fair value interest rate risk is remote. If the interest rate on the market declines the Group will consider using hedging instruments.

As at 31 December 2018, if coupon rate on bonds issued had been 1% higher / lower with all other variables held constant, the Group's profit before tax for the year would have been US$ 4.55 million lower / higher (2017: US$ 4.55 million).

Loans payable and notes payable

As at 31 December 2018, the Group has loans and notes payable of US$ 95.95 million (31 December 2017: US$ 97.53 million). All of these loans and notes payable are interest-bearing at fixed rates, which expose the Group to fair value interest rate risk. Considering current market and low fixed interest rate the fair value interest rate risk is remote. If the interest rate on the market declines the Group will consider using of hedging instruments.

As at 31 December 2018, if the interest rate had been 1% higher / lower with all other variables held constant, the Group's profit before tax for the year would have been US$ 0.88 million lower / higher (2017: US$ 0.23 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 2018: US$ 41.69 million, 31 December 2017: US$ 40.64 million). The Group holds significant cash deposits at well-known high ranking banks VTB, UniCredit (Russian 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 2018 and 31 December 2017.

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 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 5 Years	More than 5 Years	Total
31.12.2018						
Liabilities						
Borrowings	79,074	14,550,630	42,500,900	453,439,981	194,756,408	705,326,993
Gross finance lease liabilities	–	134,111	205,527	1,638,246	13,297,598	15,275,482
Tenant deposits	–	8,697	5,816,728	5,077,063	1,624,964	12,527,452
Trade and other payables	–	4,206,610	–	–	–	4,206,610
Total	79,074	18,900,048	48,523,155	460,155,290	209,678,970	737,336,537

in US$	Less than 1 Month	1 to 6 months	6 to 12 months	1 to 5 Years	More than 5 Years	Total
31.12.2017						
Liabilities						
Borrowings	4,893,750	14,652,906	16,433,480	209,938,879	495,178,096	741,097,111
Gross finance lease liabilities	96,392	96,392	192,783	1,542,266	13,325,420	15,253,252
Tenant deposits	–	–	–	9,581,278	–	9,581,278
Financial liabilities at fair value through profit or loss	–	–	121,845	–	–	121,845
Trade and other payables	–	5,464,860	15,677,452	–	–	21,142,312
Total	**4,990,142**	**20,214,157**	**32,425,560**	**221,062,423**	**508,503,516**	**787,195,798**

FAIR VALUES

Fair values of the Group's financial assets and liabilities approximate their carrying amounts except for the borrowings. Set out below is a comparison of the carrying amounts and fair value of the Group's borrowings:

in US$	31.12.2018	31.12.2017	31.12.2018	31.12.2017
		Carrying amount		Fair value
Borrowings	553,507,629	559,748,328	515,207,478	510,715,380

The fair value of bonds issued, which are a Level 3 measurement in the fair value measurement hierarchy, are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair value hierarchy

As at 31 December 2018, the Group does not hold any financial instruments carried at fair value in the statement of financial position.(31 December 2017: US$ 0.12 million measured at Level 3 hierarchy).

CAPITAL 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 2018, the Group's gearing ratio is 60.14% (2017: 57.99%). This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'shareholders equity' as shown in the consolidated statement of financial position plus net debt.

28. SUBSEQUENT EVENTS

– Issuance of secured and subordinated notes
  On 21 February 2019, the Company has received EUR 43 million (approx. US$ 49 million) by issuance of subordinated and secured Notes to its two largest shareholders at an interest rate of 1.5% p.a. and secured by pledged shares of Ferran Limited, which is the holding company of City Gate Stuttgart GmbH. Unless previously redeemed, the Company undertakes to repay all outstanding Notes at par of their aggregate principal amount, without further notice on 21 February 2024. At any time on or 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.

– Disposal of Inventory
  On 5 April 2019, the Group sold 348 sqm apartment and 3 parking lots at Arbat 24 to a third party at a price of US$ 7.5 million under a sale agreement and recognised revenue on the sale upon transfer of the control of the inventory to the purchaser.

– Acquisition of investment property
  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. 70 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 preliminary assessment of fair values of the identifiable assets and liabilities of the acquired business as at 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	–300,782
Total liabilities	**–74,665,725**
Total identifiable net assets at fair value	**43,527,772**
Goodwill arising on acquisition	11,877,627
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. Transaction costs incurred in 2019 in the amount of US$ 1.1 million are recognised in profit or loss in the period of their occurrence.

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.

BOARD OF DIRECTORS
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Gustav Stenbolt
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Tomasz Dukala
Hans Messmer
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