ANNUAL REPORT
2017

valartisgroup+

KEY FIGURES AT GLANCE

Key Figures – for continued and discontinued operations

in CHF million	1.1.–31.12.2017	1.1.–31.12.2016
Total operating income	**10.2**	**14.8**
Income from management services	3.7	5.1
Income from investment property, net	5.0	6.8
Share of results of associated companies	0.3	0.7
Other income	1.2	2.3
Administrative expense	**-12.0**	**-19.6**
Personnel expense	-6.1	-9.0
General expense	-5.9	-10.7
Earnings before depreciation, valuation adjustments, provisions, interest and taxes	**-1.8**	**-4.8**
Depreciation, valuation adjustments and provisions	-1.8	-6.2
Earnings before interest and taxes (EBIT)	**-3.6**	**-10.9**
Finance result, net	1.1	1.7
Net loss from continued operations before taxes	**-2.5**	**-9.2**
Income taxes	-0.3	-2.8
Net loss from continued operations	**-2.7**	**-12.0**
Net result from discontinued operations after taxes	**1.0**	**-26.1**
Net loss	**-1.8**	**-38.1**
attributable to shareholders of Valartis Group AG	-2.4	-43.2
attributable to non-controlling interests	0.6	5.1

in CHF million	31.12.2017	31.12.2016
Total assets	**177**	**189**
Current assets	83	88
Non-current assets	92	89
Total liabilities	**49**	**58**
Current liabilities	38	52
Non-current liabilities	5	6
Total shareholders' equity (including non-controlling interests)	**135**	**131**
Equity capital quota in percent	76.2	69.4
Closing price of VLRT bearer shares, in CHF	9.56	6.80
Equity of Shareholders per share, in CHF	24.82	23.73
Dividend per share, in CHF	0.20	0.20
Dividend yield in percent	2.1	2.9

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This annual report is also published in German, whereby the German version is binding. The Annual Report 2017 is available online and in a pdf version (http://www.valartisgroup.ch/EN/#geschaeftsberichte).

LETTER TO OUR SHAREHOLDERS

Dear Shareholders

Gustav Stenbolt,
Chairman and Delegate of the Board of Directors

Valartis Group's focus for 2017 in the areas of private equity, real estate project management and financial services consulting was the successful development of new profitable activities and the further development of existing projects. Valartis Group has geared its market development accordingly and adapted its range of services to this demand. The group structure was adapted to these new circumstances, requirements and range of services, which required further adjustments to the group's organisation and infrastructure. From a strategic and tactical perspective, the focus of activities in 2018 will be on the development and management of Valartis Group's strategic investments in addition to the daily business activities of ENR Russia Invest SA and the consulting activities for EPH Eastern Property Holdings Ltd.

CONSOLIDATED FINANCIAL STATEMENTS 2017

Business development during 2017 was generally pleasing, and the cost cutting measures within the Group had a positive impact. Nevertheless, according to International Financial Reporting Standards (IFRS), an annual loss for continuing and discontinued operations of CHF 1.8 million (previous year: annual loss of CHF 38.1 million) was incurred.

A positive effect in the annual results is the reversal of impairment losses on various long-term investment assets. Furthermore, cost savings in operating expenses of roughly 40 percent compared with the previous year had a positive influence. All payments 2017 from escrow accounts stemming from the 2016 sales transactions were made in full and without restrictions, so that no extraordinary write-downs burdened the annual result. On the other hand, existing receivables were partially impaired as there are indications that the contractually owed amounts may not be recovered in full. In addition, fair value adjustments due to currency effects (USD) negatively impacted the annual result.

The loss is also a consequence of a reclassification of a currency translation adjustment (CTA), which had previously only been recognised in equity. Due to the sale of Valartis Group shares in the Algerian Société des Centres Commerciaux d'Algérie SPA in 2017, the currency losses of CHF 3.5 million already recognised in equity in recent years for this subgroup, which was held in Algerian dinars and EUR respectively, had to be affected to the income statement of 2017 in accordance with IFRS. However, this effect has no influence on the consolidated equity of Valartis Group and thus also not on the net asset value of the Valartis Group share.

The increase in Valartis Group's equity is pleasing. Consolidated equity at the end of 2017 was CHF 135 million (31.12.2016: CHF 131 million). This increase of approximately CHF 4 million is mainly due to the increase in value of financial assets held for sale compared to the previous year.

VALARTIS GROUP TODAY

The business model is based on the core competencies "financial services", "real estate project management" and "participations" and comprises for these participations the three areas "active management", "management of third-party assets" and "exploitation of new opportunities".

We are looking for new or additional investments today as we have sold our stake in a shopping, leisure and business centre in Algeria and our stake in the associated company of a building at Rathausstrasse 20 in Vienna, Austria. We are mainly looking for new or additional investments that will increase our cash flow. Our main industries are still financial services and real estate projects, but we are also looking for opportunities in other industries.

ACTIVITIES IN 2017

Valartis Group continued to actively pursue its business activities and participations in 2017:

Valartis Group has sold its stake in a shopping, leisure and business centre in Algeria to another existing investor under a share purchase agreement (SPA). The closing was completed at the end of September 2017 with the transfer of the purchase price. Valartis Group held a minority stake in Société des Centres Commerciaux d'Algérie SPA (SCCA) in Algeria.

Valartis Group sold its remaining 49.9 percent stake in the associated company of the building at Rathausstrasse 20 in Vienna, Austria. The closing took place at the beginning of 2017.

ENR Russia Invest SA, a Valartis Group company, has successfully acquired 50 percent of a parking garage located very centrally on Turgenevskaya Square in Moscow. The underground car park offers space for 290 cars on 6 underground floors. The strict policy of the city of Moscow to enforce parking regulations in the city

centre will help Turgenevskaya Parking to increase income and profitability.

Valartis Group also acquired a smaller stake in a fintech start-up: Whitebox Services AG. Whitebox Services AG, based in Switzerland, is the parent company of Whitebox GmbH, Weil am Rheine, Germany. Whitebox Services AG is owned by the two founders, former board members of leading banks and industry experts. Whitebox GmbH – founded in July 2014, on the market since January 2016 – not only wants to set new standards in investment management, but also to make it accessible to everyone. Whitebox offers one of the first online asset managers on the German market at a reasonable price, which also meets the requirements of a quality-conscious clientele and at the same time offers a low-cost service in partnership with Morningstar Inc. by selecting first-class funds (Morningstar Inc. is a listed financial information and analysis company). Whitebox aims at a return on investment that is significantly better than conventional offers at the same risk.

At the end of 2017, all escrow payments in connection with the sale of Valartis Bank (Liechtenstein) AG in 2016 were received in full and the transaction was successfully completed.

Valartis Group continues to hold its nominal stake of 25 percent in Norinvest Holding SA, the parent company of Banque Cramer & Cie SA, which is undergoing a cost reduction programme and reorganization under the leadership of the newly appointed CEO Cedric Anker.

At the end of 2017, Valartis Group employed a total of 54 people in the Swiss front and service organisation and in Russian real estate management in Moscow, and St. Petersburg (marketing, leasing and maintenance) – previous year: 59 employees.

DIVIDEND 2017

With its overall good financial position, Valartis Group remains in a comfortable position, which should also be reflected in its dividend policy. The Board of Directors will propose a dividend of CHF 0.20 per registered share entitled to dividend (previous year: CHF 0.20 per bearer share entitled to dividend) to the Annual General Meeting on 15 May 2018. This corresponds to a total distribution of CHF 0.940 million (previous year: CHF 0.947 million). The Board of Directors thus expresses its appreciation to the shareholders and thanks them for the trust they have placed in us.

TODAY'S AND TOMORROW'S PRIORITIES

The 2018 financial year will continue to present us with challenges. A key success factor in our front units Private Equity, Real Estate Project Management and Financial Services Consulting continues to be the rapid and successful development of new profitable activities and the further development of existing projects. Valartis Group focuses on market development, develops and launches innovative investment opportunities and adapts its range of services to demand.

THANK YOU

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

Baar, Canton Zug, Switzerland, 28. March 2018

Gustav Stenbolt
Chairman and Delegate of the Board of Directors

BUSINESS PERFORMANCE AND ECONOMIC SITUATION OF VALARTIS GROUP

Business developed well in 2017, and the Group's restructuring measures had their impact; operating expenses decreased by more than 30 percent. Nevertheless, according to International Financial Reporting Standards (IFRS), an annual loss for continuing and discontinued operations of CHF 1.8 million (previous year: annual loss of CHF 38.1 million) was incurred. A positive special effect is the reversal of impairment losses on various long-term investment assets, in particular the investment property of ENR Russia Invest SA. Furthermore, cost savings of CHF 7.6 million or 39 percent compared to the previous year have a positive impact on operating expenses. However, existing receivables had to be partially impaired because their recoverability is considered impaired. In addition, fair value adjustments due to currency effects (USD) had a negative impact on net income for the year as well as a reclassification of a currency translation difference previously only recognized in equity. However, the latter effect has no influence on the consolidated equity of Valartis Group and thus also not on the net asset value of Valartis Group share.

With the sale of investments and business activities, Valartis Group is seeking new, additional investments. In 2017, various projects were actively evaluated under the leadership of the Business Development Committee of the Board of Directors, including corresponding due diligence processes. An important aspect of new projects is their ability to increase the Group's operating cash flow. The main sectors of the search are still financial services and real estate projects, but also opportunities in other sectors.

Overview of the 2017 financial year

On April 4, 2017, Valartis Group sold its stake in a shopping, leisure and business centre in Algeria to another existing investor under a share purchase agreement (SPA). The contract was closed on September 26, 2017 with the transfer of the purchase amount. By means of a subgroup – the "Darsi Group" – Valartis Group held a minority stake in Société des Centres Commerciaux d'Algérie SPA (SCCA) in Algeria.

The banking property of the former Valartis Bank (Austria) AG was sold on April 1, 2016 to a company founded jointly with the buyer of the Austrian banking business, Gebäudebesitz Rathausstrasse 20 GmbH (RHS GmbH), with the purpose of selling it to a third party. On December 16, 2016, an agreement was signed to sell the shares in this special purpose vehicle to a third party. The agreement was executed on January 2, 2017.

ENR Russia Invest SA, a Valartis Group company, has successfully acquired 50 percent of a car park as another investment property embedded in a corporate structure located very centrally on Moscow's Turgenevskaya Square.

Valartis Group also acquired a smaller stake in a fintech start-up. Whitebox Services AG, based in Switzerland, is the parent company of Whitebox GmbH, Weil am Rheine, Germany. Whitebox GmbH – founded in July 2014, on the market since January 2016 – offers one of the first online asset management services on the German market.

At the beginning of 2017, there were still around CHF 16.8 million in so-called escrow accounts due to the sales transactions of previous years. All payments 2017 for escrow accounts from the sales transactions in 2016 were made without restrictions. Until March 2017, CHF 2.1 million from the Austrian transaction and CHF 5 million from the sale of the Liechtenstein bank were released and transferred to Valartis (Austria) GmbH and Valartis Finance Holding AG, Liechtenstein, respectively, as sellers. In addition, Valartis Group received proceeds of EUR 4.8 million in January 2017 from the sale of the shares held by Valartis (Austria) GmbH in the associated company of the building at Rathausstrasse 20 in Vienna, Austria. Finally, CHF 4.1 million was released in December 2017 from the sale of the Liechtenstein bank and transferred to Valartis Finance Holding AG as seller (see also Note 40).

Discontinued operations

As a result of the sales in 2017, the IFRS requirements for continuing and discontinued operations (IFRS 5) are applied in Valartis Group's 2017 Annual Report.

The profit from discontinued operations of CHF 1.0 million (31.12.2016: loss of CHF 26.1 million) mainly reflects the following effects:

- Proceeds from the sale of shares in the associated company of the building at Rathausstrasse 20 in Vienna, Austria amounting to EUR 4.8 million.
- The sale of the shareholding in the Algerian Société des Centres Commerciaux d'Algérie SPA in 2017 resulted in additional transaction costs and exchange rate adjustments of approximately CHF 2.0 million.
- The sale of the Algerian participation – the company was founded in 2008 – causes the currency losses of CHF 3.5 million on this participation held in Algerian dinar or EUR, already recognised in equity in recent years, to be recycled to the income statement 2017 in accordance with IFRS.

THE FINANCIAL SITUATION OF VALARTIS GROUP

It is evident that the financial situation of Valartis Group continues to be very stable. Group equity amounts to CHF 135 million and has increased by 3.3 percent over the previous year (previous year: CHF 131 million). This now corresponds to an equity ratio of 76.2 percent (previous year: 69.4 percent).

The 2017 cash flow statement is strongly influenced by short-term cash management – for the purpose of generating interest income. Net cash and cash equivalents of continuing operations increased from CHF 24.6 million in the previous year to CHF 25.7 million. In 2017, approximately CHF 8 million was invested in short-term financial assets (bonds) and a loan of approximately USD 8.0 million was partially reduced. With the transfer of the purchase price from the sale of its shares in Société des Centres Commerciaux d'Algérie SPA, Valartis Group's liquidity remains very stable (see also Note 13).

EMPLOYEES OF THE VALARTIS GROUP

Over the years, Valartis Group employees have made a decisive contribution to the restructuring success of Valartis Group through their identification with the company and their commitment to its objectives. They are of great importance for the success of Valartis Group and its future competitiveness. See also chapter "Corporate Sustainability", page 12 ff. The financial recognition of individual performance through modern remuneration models is an important factor. In addition, however, it is also a concern of the Board of Directors to recognize the performance of its employees accordingly. For further information, see the section entitled "Compensation Report", page 33.

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

As at December 31, 2017, Valartis Group employed a total of 54 full-time adjusted employees in continuing operations in Russia (Moscow and St. Petersburg) and Switzerland (Baar, Geneva and Zurich; previous year Group: 59 employees).

The new organisational structure of Valartis Group, see organisation chart, p. 10, consists of a Board of Directors at Group level and a Delegate of the Board of Directors (additional function for the Chairman of the Board of Directors) as well as 10 full-time positions in Switzerland. Due to the simplified management structure and the services used within the Group, the number of employees in the Swiss organization was further reduced from 16 employees at the end of 2016 to 10 employees as of April 2017. These employees provide services in the areas of real estate projects, investment projects, corporate finance and, as part of the Group's service organisation, in the areas of Group Accounting & Controlling, IT & Logistics and communications. Other services required by the company (personnel administration and tax and legal advice) are obtained from external providers.

Due to the full consolidation of Group companies, further employees of Valartis International Ltd. in Moscow (24 employees) and of ENR Russia Invest SA in St. Petersburg (20 employees) have been added. These employees provide services in the areas of real estate administration (marketing, leasing and maintenance) and projects.

CARRYING OUT A RISK ASSESSMENT

The Board of Directors monitors the risk management system and deals with all risks on a quarterly basis with corresponding reports. Current risk topics are discussed and evaluated. See also Risk Management in the separate chapter and in Valartis Group's consolidated financial statements, pp. 16 and 66 ff.

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

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

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

BUSINESS DEVELOPMENT IN 2017

Income statement
The Group posted a loss of CHF 1.8 million for the financial year (31.12.2016: net loss of CHF 38.1 million). Of this, the loss for continuing operations amounts to CHF 2.8 million (31.12.2016: loss of CHF 12.0 million). The loss was significantly reduced after operating expenses of CHF 12 million were 39 percent lower than operating expenses of CHF 19.6 million in 2016. In addition, value adjustments, provisions and losses were reduced by 72 percent from CHF 6.0 million in the previous year to CHF 1.7 million.

Although income from Management Services fell from CHF 5.1 million in the previous year to CHF 3.7 million, the decline is mainly due to the termination of a service agreement (end of project). Net income from investment property 2017 – CHF 5.0 million – closes lower than last year's result (previous year: CHF 6.8 million) due to the rouble and USD valuations of the investment property Petrovsky Fort of ENR Russia Invest SA. However, rental income from real estate increased compared to the previous year due to a lower vacancy rate. Due to reversals of USD 3.6

million on long-term investments in Russia, the negative effect of the USD exchange rate effect is mitigated accordingly.

Other ordinary income includes income and expenses from the sale of financial investments, from the release of provisions no longer required or other ordinary income and expenses. At CHF 1.2 million, other ordinary income was down by around half on the previous year because in the previous year provisions could be released due to the closing of sales transactions.

Operating expenses fell by 39 percent to CHF 12.0 million (31.12.2016: CHF 19.6 million) due to the resizing of the organization and cost-cutting measures introduced in 2016 and the elimination of consulting costs from previous years. Personnel expenses fell by 32 percent year-on-year from CHF 9.0 million to CHF 6.1 million, due in particular to the significantly lower number of employees in the Swiss organization. Although general and administrative expenses were reduced to CHF 5.9 million (31.12.2016: CHF 10.7 million), they remain high in relative terms; consulting costs in 2017 come in at CHF 2.8 million – of which CHF 1.5 million for sales and purchase transactions, CHF 0.4 million for the assessment of new business opportunities and CHF 0.6 million for restructuring measures – and make up as in the previous year for roughly 50 percent of general and administrative expenses.

BALANCE SHEET

The balance sheet total of CHF 177 million reported as at 31 December 2017, including assets classified as held for sale, is lower than in the previous year due to the decrease in receivables from the sale of the Algerian minority interest (31.12.2016 reported balance sheet total: CHF 189 million). Liabilities are limited to CHF 42 million (previous year: CHF 58 million), around half of which comprise loan obligations (e.g. for a property of the fully consolidated Group company ENR Russia Invest SA financed by a loan). While Group equity stood at CHF 135 million at the end of 2017 (end of 2016: CHF 131 million), equity attributable to shareholders of Valartis Group AG now stands at CHF 117 million (end of 2016: CHF 112 million). Despite the loss for the year, Valartis Group's Group equity increased overall and its net asset value rose by 3 percent. This increase is mainly due to the increase in the value of financial assets held for sale in the amount of approximately CHF 2.7 million compared to the previous year.

EXTRAORDINARY EVENTS

Significant events after the balance sheet date

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

Segment reporting

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

OUTLOOK

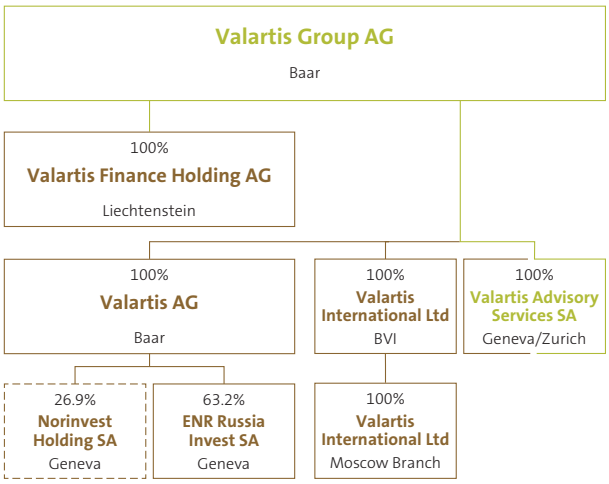
Expected development of Valartis Group

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

STRATEGY AND OBJECTIVES

Valartis Group is an internationally active financial group with offices in Switzerland (Baar, Geneva and Zurich), Luxembourg and Russia (Moscow and St. Petersburg). Valartis Group AG, headquartered in Baar, Canton Zug, Switzerland, is the holding company of the Group. The registered shares of Valartis Group AG are listed on the SIX Swiss Exchange (ISIN CH0367427686). Valartis Group AG holds direct or indirect participations in fully consolidated companies (see Group Companies, Note 38) and in equity consolidations (see Note 20).

Valartis Group – Operational Structure



THE STRATEGIC DIRECTION

After the sale of the private banking business and taking into account the basic principle of risk-bearing capacity, the return-oriented assumption of risks is now the focus of financial management instead of an operative banking business.

Today, Valartis Group's business activities comprise the areas of financial services, real estate projects and participations.

Financial services

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

Valartis German Residential Health Care Fund

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

Corporate Finance

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

Real estate projects

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

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

ENR Russia Invest SA

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

Eastern Property Holdings Limited

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

Participations

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

Elements of the traditional portfolio management process such as portfolio realisation (asset allocation, monitoring, auditing) and portfolio control (performance measurement, attribution) are used to select own investment opportunities. The disciplined implementation of these sub-steps contributes to achieving the goal of a stringent profitability orientation with an appropriate

risk/return ratio. One of the central challenges in putting together your own investment portfolio is to resolve the conflict between optimising the expected return (value growth including interest and dividends less costs) within a certain period of time on the one hand and limiting the risk of loss on the other. Typically, the structure of an investment portfolio will show a certain consistency over time, which implies an anti-cyclical behaviour that involves both opportunities and risks.

Norinvest Holding SA

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

Whitebox Services AG

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

Athris Holding AG

Athris Holding AG (until August 2008 Jelmoli Beteiligungen AG), headquartered in La Punt-Chamues-ch, Canton of Grison, Switzerland, is a Swiss investment company whose shares are traded on the OTC platform of Berner Kantonalbank. Valartis Group holds this investment as a financial instrument in the available for sale category.

The organizational structure

Board of Directors and Executive Committee

With confirmation by the Annual General Meeting on 16 May 2017, the Board of Directors of Valartis Group is composed as follows: Gustav Stenbolt, Chairman of the Board of Directors, Christoph N. Meister, Vice Chairman, and Philipp LeibundGut, Member. See also press release of 16 May 2017: Results of the Annual General Meeting of Valartis Group AG; at http://www.valartisgroup.ch/EN/#media releases. The Executive Committee was reduced in January 2017 when the Chairman of the Board of Directors, Gustav Stenbolt, additionally assumed the function of Delegate of the Board of Directors after Stephan Häberle, then CEO, had decided to resign from his function as CEO of Valartis Group and his internal mandates on the Board of Directors and to leave the Group and Group companies on 28 February 2017: http://www.valartisgroup.ch/EN/#medienmitteilungen. George M. Isliker continue to serve as CFO/CRO (since 2011).

Organisational chart

1 Business Development Committee
2 Compensation Committee
3 Audit Delegate

Valartis Group employs a total of 54 people.

As a result of the simplified management structure and the services used within the Group, the staff in Switzerland was substantially reduced from 16 to 10 employees as of April 2017. The employees provide services in the areas of real estate projects, investment projects, corporate finance and, as part of the Group's service organisation, in the areas of Group Accounting & Controlling, IT & Logistics and communications. Other services required by the company (personnel administration and tax and legal advice) are obtained from external providers.

Due to the full consolidation of Group companies, further employees of Valartis International Ltd. in Moscow (24 employees) and of ENR Russia Invest SA in St. Petersburg (20 employees) have been added. These employees provide services in the areas of real estate administration (marketing, leasing and maintenance) and projects.

Focused growth

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

Measures to increase earnings and control costs

All front units of the Group have already initiated or newly launched programs with the aim of increasing earnings or reducing costs in order to achieve the targeted increase in efficiency and profitability in a timely manner. In particular, management is working to increase short-term flexibility despite increasing

challenges and complexity in setting up additional investments in order to make the business model more scalable and to keep costs under control. Moderate risk management and compliance with the criteria for risk-bearing capacity remain key principles of the Group. The internal control system of Valartis Group (ICS) is continuously adapted and helps to manage operational risks efficiently. Details can be found in the chapter "Risk Management of the Valartis Group" p. 16 and in the chapter "Notes on risk management", p. 66 ff.

Increase in commission income

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

OUTLOOK

The focus in the front units for 2018 will be on the successful development of new profitable activities and the further development of projects already in progress, whereby the target of a significantly increased earnings orientation must be adhered to. Valartis Group focuses its market development by working on the development and launch of innovative and promising investment opportunities within a reasonable period of time and continuously adapts its range of services to demand.

SUSTAINABLE CORPORATE GOVERNANCE

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

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

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

1 Code of Conduct of Valartis Group, section Sustainability

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

Corporate responsibility

VALUES AND PARTNERSHIP

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

Risk Management and Compliance

We attach great importance to both risk management and compliance – in the sense of compliance with rules, i.e. compliance with laws and guidelines, but also with voluntary codes. Compliance governs the exercise of legal responsibility and compliance with all relevant internal and external regulations as well as the timely implementation of new requirements. Our business activities are based on disciplined, prudent risk management. We only take those risks that we can assess and evaluate and want to bear within our risk appetite. In the interest and for the protection of our stakeholders, we as a Group attach great importance to internally independent control procedures and activities, descriptions and information on risk management (see pages 16 and 66 ff.).

As a result of the current strategic orientation, both the regulatory framework conditions – after the sale of all banking groups in the Group since September 2016, Valartis Group is no longer subject to supervision under banking law – and the requirements relating to risk management have changed significantly due to the significant reduction in risk density (see also pp. 16 and 62 ff.).

FOR OUR SHAREHOLDERS – TRANSPARENCY AND SUSTAINABLE CORPORATE DEVELOPMENT

As a listed company, important stakeholder groups of Valartis Group AG are our shareholders with a "free float" of 44 percent of the shares and the majority shareholder, MCG Holding SA, Baar ZG, Switzerland, which holds 50.2 percent of the nominal capital and voting rights of the company (see "Registered shares", p. 147 and Note 29). The remaining shares are held by the company itself.

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

Sustainable corporate development – value-oriented management

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

Board of Directors and Executive Committee

The three-member Board of Directors is responsible for determining the medium- and long-term strategic orientation of Valartis Group. Its members have many years of experience and expertise in the areas of finance & banking, international investments and investment projects, finance and accounting, risk management and in dealing with internal control systems (see also "Corporate Governance", p. 17 ff.). The strategic guidelines of the Board of Directors are implemented by the Executive Committee. It is also responsible for the operational management of Valartis Group, operational liquidity planning and overall results, defines as a decision-making body the operational medium-term planning (roll-over) and the profit targets at gross profit level valid for the next three years, and defines the central tactical measures at Group level.

The persons responsible for private equity, real estate project management and corporate finance report to the Executive Committee. On the basis of a detailed annual plan, they determine their income, risk and activity budget for the coming year and, within this framework, decide on the use of necessary funds. Non-operative taxable income and expenses such as trading or valuation gains, however, do not form part of medium-term planning. Timely monitoring and discussion of the monthly results allows countermeasures to be implemented quickly during ongoing operations, especially in the event of significant budget deviations. At the same time, appropriately designed information and risk management systems make it possible to keep operational risk under control at all times (see also "Risk Management", pp. 16 and 62 ff.). The three-year capital planning process concludes the financial management process.

SUSTAINABLE EMPLOYEE DEVELOPMENT

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

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

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

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

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

Value-based remuneration system – target orientation and appreciation

We are committed to fair, balanced and performance-oriented remuneration and offer our employees in all Group companies not only attractive basic wages in line with market conditions and progressive social benefits, but also a bonus system that appropriately rewards above-average performance. Our value-based remuneration system is geared to the medium-term economic success and sustainable competitiveness of the Group (for details see also p. 27 ff. "Compensation Report of Valartis Group"). Due to the significantly reduced size of Valartis Group

OUR PROMISE TO THE EMPLOYEES

Accept social responsibility	Sustainable employee development – future-driven	Value-driven compensation system – target-oriented, appreciation	Values – trust, responsibility, cooperation
We wish all employees an adequate work-life balance, i.e. a good work-life balance and an adequate balance between work and appropriate leisure, exercise and nutrition. Accordingly, the Valartis companies offer market-conform, regionally adapted holiday and holiday regulations as well as the possibility of flexible working hours	We promote and facilitate personal and professional development within the group. We have institutionalised internal and external training and further education.	We offer market-based remuneration at all locations (for details, see "Remuneration Report", p. 27 ff.). The remuneration system provides incentives that promote a performance-, team- and risk-conscious culture as well as entrepreneurial thinking and acting and strengthen Valartis Group as a whole.	We follow the principle of equal treatment, especially in determining salaries. Female specialists receive the same salaries within the same location with the same qualifications and experience as their male colleagues. We have institutionalised internal and external training and further education We offer and expect from our employees a cosmopolitan attitude and respect towards other nations, cultures, mentalities, age groups and needs.

following the sale of the private banks of Valartis Group in recent years and the current positioning, the Compensation Committee decided at its meeting on 20 December 2016 to replace the previous bonus programme with an employee participation programme that is still to be completed in detail and adapted to the new situation (summer 2018). As a company, we motivate employees to live a performance-, team- and risk-conscious culture and promote independent entrepreneurial thinking and acting in the interests of the Group. In addition to targeted employee development and advancement, a basic salary in line with market conditions and progressive social benefits, Valartis Group offers its employees a range of fringe benefits such as benefits for long-service anniversaries, weddings or births as well as benefits and discounts from external partners.

SOCIAL COMMITMENT

As a company aware of its social responsibility, Valartis Group only modestly supports a number of international charitable organizations due to its much smaller size compared to previous years.

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

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

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

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

We reduce our ecological footprint by, for example
- use public transport for business travel;
- critically question the necessity of air travel;
- use new technologies for meetings (online or video conferencing);
- strive for efficiency in the consumption of electricity for computer systems and other electrical equipment;
- reduce paper consumption. For example, the 2017 Annual Report of Valartis Group AG is again only available online;
- develop and offer user-friendly online communication tools and platforms, such as microsites and apps for annual reports and publications;
- use chilled ceilings in the offices, which contribute to a pleasant room climate in summer and winter;
- collect waste paper and recycle it;
- obtain beverages for customers and employees in returnable bottles and return them to the dealer after use.

2017 EMPLOYEES

	31.12.2017	31.12.2016
Valartis Group (full-time equivalents) continued operations	54	59
Nationalities	9	9
Locations	5	7

RISK MANAGEMENT OF VALARTIS GROUP

RISK SITUATION OF VALARTIS GROUP

Overview

The balance sheet total of CHF 177 million reported as at December 31, 2017, including assets classified as held for sale, decreased compared to the previous year due to the decrease in receivables, partly due to the sale of the Algerian minority interest (31.12.2016 reported balance sheet total: CHF 189 million). Liabilities are limited to CHF 42 million (previous year: CHF 58 million), around half of which comprise loan obligations (e.g. for a property of the fully consolidated Group company ENR Russia Invest SA financed by an external loan). While Group equity stood at CHF 135 million at the end of 2017 (end of 2016: CHF 131 million), equity attributable to shareholders of Valartis Group AG now stands at CHF 117 million (end of 2016: CHF 112 million). The Group equity of Valartis Group has again increased and the net asset value of Valartis Group shares has risen by a total of 3 percent. Group equity at the end of 2017 was CHF 135.2 million (end of 2016: CHF 130.9 million). This increase in Group capital is mainly due to the increase in the value of an available-for-sale financial asset of around CHF 2.7 million.

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

in CHF million	31.12.2017	31.12.2016
Current assets	82.8/47%	88.4/47%
Non-current assets	91.9/52%	89.0/47%
Assets classified as held for sale	2.7/2%	11.3/6%

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

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

Organisation of risk management

Following the sale of the banking activities of Valartis Group, the risk organisation was adapted to the new circumstances. The previous cooperation between decentralized and central risk management departments was replaced by a lean, central risk management organisation.

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

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

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

The currency risk is currently the main risk to be assessed. See also further explanations in the consolidated financial statements of Valartis Group, p. 66 ff.).

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

in CHF million	31.12.2017	31.12.2016
Current assets	82.8	88.4
in CHF	19.3/23%	38.2/43%
in EUR	26.7/32%	18.9/21%
in USD	34.5/42%	29.9/34%
other	2.3/3%	1.4/2%
Non-current assets	91.9	89.0
in CHF	42.3/46%	38.6/44%
in EUR	0.2%/0%	1.9/2%
in USD	38.5/42%	37.5/42%
other	10.9/12%	11.0/12%
Net position per foreign currency (total assets per currency less total liabilities per currency)		
in EUR	25.0	18.8
in USD	41.6	16.0
other	7.3	5.5

CORPORATE GOVERNANCE

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

LEGAL GUIDELINES AND PRINCIPLES

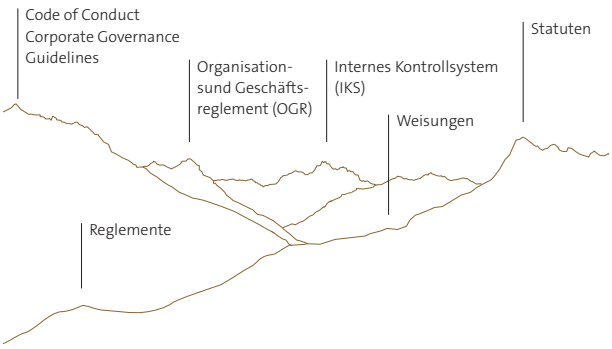
Valartis Group follows the principles and recommendations of economiesuisse's "Swiss Code of Best Practice for Corporate Governance" and its appendix with recommendations on the remuneration of the Board of Directors and the Executive Committee (see Compensation Report, p. 27 ff.). As a company listed on the SIX Swiss Exchange (SIX), Valartis Group is also subject to the guidelines of SIX Exchange Regulation. The principles of Valartis Group's corporate governance correspond to the SIX "Directive on Information Relating to Corporate Governance (DCG)" of 13 December 2016 and the disclosure requirements under Art. 663bbis and 663c para. 3 of the Swiss Code of Obligations (CO). The following information is as of December 31, 2017, unless otherwise stated.

CORPORATE GOVERNANCE FRAMEWORK OF VALARTIS GROUP

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

- The Articles of Association explain the corporate purpose and the comprehensive organisational framework of Valartis Group. The Articles of Association are posted under Investor Relations at http://www.valartisgroup.ch/EN/#statuten.
- Valartis Group's Code of Conduct defines basic ethical and professional values such as integrity, respect, client and dialogue orientation, fairness, transparent communication and a sustainable sense of responsibility. The Code of Conduct is published under Investor Relations at http://www.valartisgroup.ch/EN/#codeofconduct.
- The internal Organization and Business Regulations (OBR) define the responsibilities and competencies within Valartis Group. The essential elements of these regulations are set out in this Corporate Governance Report in the chapters "Board of Directors" (see p. 19 ff.), "Audit Delegate" (see p. 22), "Compensation Committee" (see p. 22 f) and "Executive Committee" (see p. 23 ff.).
- The rules of the Compensation Committee set out the duties and responsibilities of this body and its members. The essential elements of these regulations are set out in Compensation Report 2017 (see p. 27 ff.).
- The remuneration policy: The Compensation Report – see also http://www.valartisgroup.ch/EN/#investorrelations under "Annual Report" or http://www.valartisgroup.ch/en/#geschaeftsberichte – defines the essential elements and principles of an appropriate compensation system for the members of the Board of Directors, the Executive Committee and the employees (see Compensation Report 2017, p. 30, p. 32f and p. 33 ff.).
- The responsibilities and competencies defined in the Internal Organization and Business Regulations (OBR) are, where appropriate, additionally described and defined in various regulations, such as the responsibilities and competencies of an Audit Delegate (see also the following chapter "Audit Delegate", p. 22).

Corporate Governance



GROUP STRUCTURE AND SHAREHOLDERS

Group's structure

Valartis Group AG is a stock corporation under Swiss law with its registered office in Baar, Canton of Zug, Switzerland. The registered shares of Valartis Group AG (ISIN CH0367427686) are listed on the SIX Swiss Exchange. As at December 31, 2017, the market capitalisation of Valartis Group AG amounted to CHF 44.9 million – corresponding to CHF 24.82 or +4.6 percent per share on the total of 5,000,000 shares issued compared to the previous year. Of these, Valartis Group held 6.0 percent or 301,166 treasury shares as at December 31, 2017. The organisation chart in the chapter "Strategy and Objectives" on page 9 illustrates the operational structure and organisation of Valartis Group. Information on segment reporting and further explanations can be found in the management report on page 5 ff. and the notes to the consolidated financial statements, Note 37. For an overview of treasury shares, please refer to Note 27 to the Consolidated Financial Statements.

Consolidation

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

The following material participation in the scope of consolidation is listed on the SIX Swiss Exchange: ENR Russia Invest SA, Geneva (Switzerland), ISIN CH0034476959, which had a market capitalization of CHF 41.8 million as at December 31, 2017.

Significant shareholders
MCG Holding SA, Baar, Canton Zug, Switzerland, directly holds 50.2 percent of the nominal capital and voting rights of Valartis Group AG. The beneficial owners of MCG Holding SA are Gustav Stenbolt, Geneva, Philipp LeibundGut, Zurich, and Tudor Private Portfolio LLC, Greenwich, USA.

In addition, Nebag AG, Zurich, Switzerland, holds 3,1591616 percent of the capital and voting rights in Valartis Group AG in accordance with its disclosure of September 2, 2016. No other shareholders are known to hold more than 3.0 percent of the voting registered shares. Detailed information on the shareholder structure can be found in the notes to the consolidated financial statements, Note 29 and in the notes to the financial statements of Valartis Group AG, on page 139. There are no shareholders' agreements.

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

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

CAPITAL STRUCTURE

Share capital
The share capital of Valartis Group AG amounts to CHF 5,000,000, divided into 5,000,000 registered shares with a par value of CHF 1.00 each. All registered shares of Valartis Group AG are fully paid up and listed on the SIX Swiss Exchange. With the exception of the registered shares held as treasury shares (an overview of treasury shares can be found in the notes to the consolidated financial statements, Note 27), all registered shares of Valartis Group AG are entitled to dividend and there are no preferential rights. As of the balance sheet date of financial year 2017, there are no financial instruments outstanding that could lead to a dilution of the Company's equity.

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

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

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

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

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

In the invitation to the General Meeting, the Board of Directors announces the date of entry in the share register, which is decisive for participation and voting rights. For the corporate calendar of Valartis Group AG see below, Agenda 2018, p. 26.

Conditional capital
Valartis Group AG has no conditional capital.

Authorized capital
Valartis Group AG has no authorised capital.

Changes in capital
In the 2017 financial year, the bearer shares were converted into registered shares on the basis of the resolution of the General Meeting of May 16, 2017. By contrast, the share capital of Valartis Group AG did not change in the business year 2017. The changes in equity for the years 2017 and 2016 are listed in the table "Consolidated statement of changes in equity" on page 44. The changes in equity for the year 2015 are listed in the table "Consolidated statement of changes in equity" of Valartis Group Annual Report 2016 on page 44 (http://www.valartisgroup.ch/en/#geschaeftsberichte). The change in equity for the year 2014 is listed in the table "Consolidated Statement of Changes in Equity" of Valartis Group Annual Report 2015 on page 64 (https://valartisgroup.ch/wp-content/uploads/2018/02/ANNUAL-REPORT-2015-1.pdf).

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

Limitations on transferability

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

Convertible Bonds and Options

Valartis Group AG has not issued any convertible bonds or options.

BOARD OF DIRECTORS

Members of the Board of Directors

Name	Function	Nationality	Elected until	First election
Gustav Stenbolt[1)]	Chairman & Delegate of the BoD	Norwegian	2018	2015
Christoph N. Meister[2)]	Vice-Chairman/ non-executive member of Board of directors	Switzerland	2018	2011
Philipp LeibundGut[3)]	Member/ non-executive member of the Board of directors	Switzerland	2018	2016

1) Gustav Stenbolt had served as Group CEO since 2007 until he was elected Chairman of the Board of Directors by the Annual General Meeting on June 2, 2015. Gustav Stenbolt has been a member of the Compensation Committee since 2016. Gustav Stenbolt has also been Chairman of the Board of Directors of Valartis Advisory Services SA since 2014 and Chairman of the Board of Directors of ENR Russia Invest SA since 2015. Since March 2017 he has also been Delegate of the Board of Directors of Valartis Group (see also press release, 31 January 2017: Stephan Häberle, Group CEO, is leaving Valartis Group; https://valartisgroup.ch/wp-content/uploads/2017/10/Media-Release-31012017-en.pdf).

2) Christoph N. Meister has been a member of the Board of Directors since 2011 and its Vice Chairman since 2015. He has also been Chairman of the Compensation Committee since 2014 and has been Audit Delegate of Valartis Group since 2015. From 2011 to 2015 Christoph N. Meister was Chairman of the Audit Committee of Valartis Group. Christoph Meister was also a member of the Board of Directors of the Group company Valartis Finance Holding AG, Liechtenstein, and Valartis AG (both from 2014 to 2017) as well as of the administrative and supervisory boards of the former Group companies Valartis Bank AG, Switzerland (from 2011 to 2014), Valartis Bank (Liechtenstein) AG (from 2011 to 2016) and Valartis Bank (Austria) AG (from 2011 to 2016).

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

Gustav Stenbolt, born 1957

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

Christoph N. Meister, born 1953

Business economist HWV and certified auditor, former partner at Ernst & Young AG, Switzerland. Christoph N. Meister has been a member of the Board of Directors since 2011 and its Vice Chairman since 2015, as well as Audit Delegate (Chairman of the Audit Committee from 2011 to the end of 2015) and, since 2014, Chairman of the Compensation Committee of Valartis Group AG. He was also a member of the Board of Directors of Valartis Finance Holding AG (FL) and Valartis AG until March 2017 and a member of the Board of Directors of Valartis Bank (Liechtenstein) AG until the end of 2016 and a member of the Supervisory Board of Valartis Bank (Austria) AG until January 2016. From January 1979 to November 2010 (as a partner from April 1993), Christoph N. Meister held various auditing functions – primarily in the banking and finance sector – as lead auditor recognised by FINMA and the Liechtenstein FMA.

Philipp LeibundGut, born 1973

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

General Meetings 2017

Board of Directors after the ordinary
Annual General Meeting of May 16, 2017

At the Annual General Meeting of May 16, 2017, Gustav Stenbolt was re-elected as Chairman of the Board of Directors, Christoph N. Meister as a member of the Board of Directors and its Vice Chairman and Philipp LeibundGut as a member of the Board of Directors for a term of office ending at the close of the Annual General Meeting 2018. See also press release, 16 May 2017: Results of Valartis Group AG General Meeting 2017; https://valartisgroup.ch/wp-content/uploads/2018/02/Media-Release-16052017-en.pdf.

Christoph Meister will no longer be available for re-election to the Board of Directors at the Annual General Meeting of Valartis Group AG on 15 May 2018. The search for a suitable successor has been initiated and will be proposed to the General Assembly in 2018. See also press release, 19 December 2017: Valartis Board of Directors Christoph N. Meister is no longer available for re-election; https://valartisgroup.ch/wp-content/uploads/2018/02/Media-Release-19122017.pdf

In accordance with the law and the Articles of Association of Valartis Group AG (available at http://www.valartisgroup.ch/en/#statuten), subject to non-transferable and irrevocable duties, parts of the duties of the Board of Directors may be transferred to individual members (delegates), to a group of members (committees) or to third parties. Details on this are laid down in the Organizational Regulations. The Board of Directors as a body does not perform any management tasks within the Group. However, since March 1, 2017, the Chairman of the Board of Directors additionally assumed the function of Delegate of the Board of Directors following the departure of the former CEO from the Group and Group companies on February 28, 2017.

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

When filling an open position on the Board of Directors of Valartis Group as a small company – regardless of gender – primarily

focuses on the professional skills and international experience of the persons to be elected.

Articles of Association

The last amendment to the Articles of Association was unanimously approved by the Annual General Meeting on May 16, 2017 (see also press release, 16 May 2017: Results of Valartis Group AG Annual General Meeting 2017; https://valartisgroup.ch/wp-content/uploads/2018/02/Media-Release-16052017-en.pdf.

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

Internal Organisation

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

Other activities and vested interests

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

Main tasks of the Board of Directors

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

- the definition and periodic review of medium- and long-term corporate objectives (strategy) and the determination of the resources required to achieve the corporate objectives (medium-term planning);
- the harmonisation of strategy, risks and finances;
- the definition of the organisation;
- the determination of the compensation principles of personnel and remuneration policy (see also Compensation Report, p. 27 f.);
- the design of the accounting system, financial control, financial planning and approval of annual planning;
- the appointment of the members of the committees of the Board of Directors from among its members;
- the appointment and dismissal of the persons entrusted with the management of the company;
- the supervision of the persons entrusted with the management, in particular with regard to compliance with the law, the Articles of Association, regulations and directives;
- the responsibility for the content of the annual report, the preparation of the General Meeting and the execution of its resolutions;
- the adoption of resolutions on the proposals to be submitted to the General Meeting regarding the remuneration of the Board of Directors and the Executive Committee and the preparation of the Compensation Report;
- the handling and acceptance of the reports of the external auditors.

Other exclusive duties of the Board of Directors

- the regular exchange of information on the course of business and special events, in particular on the earnings situation, balance sheet development, liquidity, equity and risk situation;
- the definition of risk policy and risk control systems as well as the monitoring of consolidated risk management (see also risk management p. 16 and 66 ff.) and the management report p. 5 ff.).
- the issuance of guidelines or regulations for risk management as well as the regulation of responsibilities and the procedure for the approval of risk transactions;
- the decision on the acquisition or sale of participations in other companies and on the formation or liquidation of subsidiaries;
- the decision regarding the establishment and liquidation of companies, branches and representative offices;
- setting group and overall position limits;
- the decision on the admissibility of non-Group related part-time activities by employees.

Subject to irrevocable and non-transferable duties, parts of the agendas of the Board of Directors may be transferred to individual members (delegates), to a circle of members (committees) or to third parties. An Audit Committee was established in 2011 and the Compensation Committee in 2014. At the end of 2015 – with the reduction of the Board of Directors from five to three members – the Audit Committee was dissolved; Christoph N. Meister was subsequently appointed Audit Delegate and has been Chairman of the Compensation Committee since 2014. (see also chapter "Audit Delegate" on page 22).

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

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

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

These reports allow the Board of Directors to keep abreast of key developments and the risk situation at all times. Those reports that fall within the remit of the committees are discussed in the relevant committee and, if necessary, forwarded to the Board of Directors with appropriate proposals for decision. The current reports are discussed in detail at the meetings of the Board of Directors. The meetings of the Board of Directors are also attended by the CFO/CRO of the Group and, if necessary, other persons. The description of the performance of a risk assessment by the Board of Directors and the description of the Group's accounting-related internal control system can be found in the chapter "Management Report of the Executive Committee" on page 5. For current risks, see also the chapters on risk management, pages 16 and 66 ff.

In 2017, seven ordinary and four extraordinary Board of Directors meetings were held. The usual frequency of meetings for the full Board of Directors is generally quarterly, whereby the meetings usually last from 10.00 a.m. to 5.00 p.m. Committee meetings are held following a Board of Directors meeting, usually three in a financial year, each lasting one hour.

AUDIT DELEGATE

The Audit Committee was dissolved at the end of 2015 due to the reduction in the number of members of the Board of Directors from five to three. Since then Christoph N. Meister, until then Chairman of the Audit Committee, has served as Audit Delegate for Valartis Group. Due to his professional background, he has many years of experience and expertise in finance and accounting, risk management and internal control systems. Christoph Meister will no longer be available for re-election to the Board of Directors at the Annual General Meeting of Valartis Group AG on 15 May 2018. The search for a suitable successor has been initiated and will be proposed to the General Assembly in 2018. As a result, the planned allocation of functions within the Board of Directors will also be reorganised. The duties of the Audit Delegate will in all likelihood revert back to the full Board of Directors.

Duties
As Audit Delegate, Christoph N. Meister prepares the basis for decisions, assists the Board of Directors in an advisory capacity and supports it in fulfilling the tasks assigned to it by law, the Articles of Association and the regulations, in particular in connection with
- supervision and control, in particular with regard to compliance with laws, the Articles of Association, regulations and directives;
- the implementation of the financial and risk policy as well as the corresponding financial and risk management;
- the external auditors and the internal control system (ICS);
- the analysis of the annual financial statements and interim financial statements of the Group companies.

The tasks of the Audit Delegate are explained and laid down in a separate set of regulations.

COMPENSATION COMMITTEE

The Compensation Committee was convened in 2014 and consists of at least three members of the Board of Directors, each of whom is elected individually by the General Meeting for a term of one year, i.e. up to and including the first Annual General Meeting after their election. Re-election is permissible. If one or more members resign or if the Compensation Committee is not fully composed, the Board of Directors elects the missing members from among its members until the end of the next General Meeting. Christoph N. Meister, Gustav Stenbolt and Philipp LeibundGut were confirmed as members of the Compensation Committee at the Annual General Meeting on May 16, 2017.

The Compensation Committee constitutes itself and appoints one of its members as Chairman. The Compensation Committee meets as often as business requires, but generally three times a year, including in 2017.

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

The Compensation Committee supports the Board of Directors in its tasks and responsibilities in the area of human resources policy. These include, among other things:
- the preparation, development and periodic review of the remuneration policy and performance targets of the Executive Committee;

– the periodic review of the implementation of remuneration policy;
– the annual review of the remuneration of the individual members of the Executive Committee;
– the annual assessment of the members of the Executive Committee;
– succession planning and nomination for executive management positions;
– the selection of candidates for election or re-election to the Board of Directors.

Compensation of the Board of Directors and the Executive Committee

The members of the Board of Directors are entitled to a fixed remuneration, which (i) is determined in accordance with the duties and functional responsibilities of the members of the Board of Directors and (ii) is independent of the business result (see also Article 27 of the Articles of Association at http://www.valartisgroup.ch/en/#statuten; for details see Compensation Report, p. 30 ff.).

The members of the Executive Committee are entitled to (a) a fixed compensation, which is (i) calculated in accordance with the duties and functional responsibilities of the person concerned and (ii) independent of the business performance, and (b) a variable compensation (bonus). The variable remuneration component is determined taking due account of the individual performance of the employee of the business operation concerned and the success of the company as a whole. The variable remuneration can be paid in cash or in the form of the company shares. The performance targets and the type of compensation (i.e. cash and/or company shares) are determined by the Board of Directors at the request of the Compensation Committee. With regard to the remuneration in the form of company shares, the Board of Directors determines the conditions for allocation, which are to take place at market price and in particular provide for holding or vesting periods (see also Article 28 of the Articles of Association; for details, see Compensation Report, p. 32 ff.).

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

Compensation report

The Compensation Committee prepares the Compensation Report and submits it to the Board of Directors for approval; see Compensation Report, p. 28 ff.

Insurance and employee benefits

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

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

EXECUTIVE COMMITTEE

Members of the Executive Committee

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

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

Organisation of operational management

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

Other activities and vested interests

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

Management contracts

Valartis Group and its subsidiaries have not delegated management tasks to third parties.

Gustav Stenbolt, born 1957

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

George Marc Isliker, born 1964

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

REMUNERATION, SHAREHOLDINGS AND LOANS

Information on the remuneration system of Valartis Group and on the remuneration of the members of the Board of Directors, including the Delegate of the Board of Directors, and the Executive Committee in the 2017 business year can be found in the separate Compensation Report (see p. 27 ff.) and in the notes to the Group financial statements in Note 35 and Note 36.

Loans to members of the Board of Directors and the Executive Committee may only be granted if their amount corresponds to market practice and the applicable internal guidelines of the company. The total amount of outstanding loans per member of the Board of Directors or Executive Committee may not exceed CHF 5 million (according to the current Articles of Association, Article 30; see Articles of Association at http://www.valartis-group.ch/en/#statuten). Details of the shareholdings and loans of the members of the Board of Directors and the Executive Committee are disclosed in the Compensation Report on p. 34 f. and in the notes to the consolidated financial statements, Note 36.

SHAREHOLDERS' PARTICIPATION RIGHTS

Restriction and representation of voting rights

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

Statutory quorums

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

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

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

CHANGE OF CONTROL AND DEFENSIVE MEASURES

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

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

AUDITORS

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

Until BDO AG was elected as the new auditors in 2017, Ernst & Young (EY) had been the external auditors since 1988. EY fulfilled all the requirements of the Board of Directors and has a sound knowledge of Valartis Group since its inception. EY also guaranteed the necessary independence and objectivity with regular personnel rotations in its mandate. However, in the course of the realignment of Valartis Group in 2017, the Board of Directors took the opportunity to tender the audit mandate of the external auditors as part of the optimisation of the current cost structure. After EY and BDO were very close in the selection process – four external auditors participated in the tender – with their offers, the Board of Directors decided that the realignment of Valartis Group "could also benefit from new eyes in the audit and review process" (quote from the Chairman of the Board of Directors at the Annual General Meeting on May 16, 2017).

Audit fee
BDO AG charges Valartis Group CHF 0.24 million in the business year 2017 for services in connection with the interim audit, the audit of the annual financial statements and the audit of the consolidated financial statements of Valartis Group and its Group companies. A comparison with the previous year is not possible because BDO AG was not appointed as auditors until the Annual General Meeting on May 16, 2017. In addition, Valartis Group was affected in the previous year by the restructuring measures with correspondingly high audit fees.

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

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

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

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

INFORMATION POLICY

The legally prescribed announcements of Valartis Group are legally effective in the official publication channel ("Swiss Official Gazette of Commerce", SOGC). Valartis Group AG informs shareholders and capital market participants in a timely, open and comprehensive manner. Its information policy is based on the principle of equal treatment. As a company listed on the SIX Swiss Exchange, Valartis Group AG is subject in particular to the obligation to disclose price-sensitive events without delay (SIX Ad hoc Publicity Directive, RLAhP). In 2017, the company published 10 ad-hoc announcements (see also http://www.valartisgroup.ch/en/#-medienmitteilungen).

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

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

The corporate governance rules (see p. 17) are briefly described and the Articles of Association and Code of Conduct are published on the Valartis website under the title "Investor Relations": http://www.valartisgroup.ch/en/#investorrelations.

Agenda 2018

Annual Report 2017	April 10, 2018
Closing date for the share register	April 27, 2018
Annual General Meeting 2018	May 15, 2018
Half-year results 2018	August 28, 2018

Investor Relations

Valartis Group AG
Blegistrasse 11a
CH-6340 Baar ZG
Tel. +41 44 503 54 00
corporate.communications@valartis.ch

Valartis Market Information

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

www.valartisgroup.ch

COMPENSATION REPORT

DEAR SHAREHOLDERS

We are pleased to present Valartis Group's Compensation Report 2017. In this report, we present both the remuneration policy and the remuneration system of the Group and explain how the performance components are linked to the remuneration. Valartis Group Compensation Report comprises the following chapters:

- Compensation Committee: organisation, tasks and responsibilities
- Compensation principles for the Board of Directors, the Executive Committee and employees
- Determination of the remuneration
- Compensation of the Board of Directors
- Compensation of the Executive Committee
- Compensation of the employees
- Overview: Loans, shares and option holdings of the members of the Board of Directors and the Executive Committee at year-end 2017

The Compensation Report 2017 complies with current corporate governance requirements and is based on the requirements of economiesuisse's Swiss Code of Best Practice for Corporate Governance, the SIX Swiss Exchange Corporate Governancedirective, the transparency provisions of Art. 663 bbis Swiss Code of Obligations, Art. 95 para. 3 of the Swiss Federal Constitution and its implementing provisions within the framework of the Swiss Ordinance against excessive remuneration in listed stock corporations (VegüV).

In accordance with the provisions of the Swiss Code of Best Practice for Corporate Governance and the VegüV, the Board of Directors proposed to the 2017 Annual General Meeting of May 16, 2017 the overall framework for the compensation of the Board of Directors and the Executive Committee. The shareholders approved the proposed total amounts with a large majority.

Value-based compensation system

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

Valartis Group's performance-related remuneration system is geared to the Group's medium-term economic success and sustainable competitiveness (see also comments on corporate sustainability on pages 12 ff.). It coordinates the interests of shareholders and employees in a way that promotes a performance-, team- and risk-conscious culture as well as entrepreneurial thinking and acting and thus strengthens the Group as a whole. For example, a portion of the variable performance component can be drawn in Valartis Group AG shares (distributed over a period of up to three years) from a certain amount up.

Following the sale of Valartis Group's private banks over the last three years and the associated transformation to the current business model and the current size of the Group, the Compensation Committee decided at its meeting on December 20, 2016 to replace the bonus programme with an employee participation programme still to be completed (planned completion: summer 2018).

On behalf of the Board of Directors

Christoph N. Meister

COMPENSATION COMMITTEE: ORGANISATION, TASKS AND RESPONSIBILITIES

The organisation and tasks of the Compensation Committee are defined as follows for the Board of Directors of Valartis Group AG in accordance with Art. 24 of the Articles of Association of May 16, 2017 (see Articles of Association at http://www.valartisgroup.ch/en/#statuten and Art. 3.10 (a) of the Organisation Regulations of April 3, 2017):

Organisation

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

On May 16, 2017, the General Meeting elected Christoph N. Meister, Gustav Stenbolt and Philipp LeibundGut as members of the Compensation Committee for a term of office until the conclusion of the next Annual General Meeting 2018 on May 15, 2018.

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

Tasks and responsibilities

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

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

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

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

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

Valartis Group AG employs a total of 54 people at five locations (Baar, Geneva, Zurich, St. Petersburg and Moscow) in the areas of "financial services", "real estate projects" and "participations". Due to the small size of the individual business activities, the Board of Directors and the Executive Committee consider it unproductive and disproportionate to make benchmark comparisons when determining the remuneration of both the Executive Committee and employees. Rather, the relevant bodies base their decisions on their own experience and discretion.

Compensation Board of Directors

In order to guarantee the independence of the Board of Directors, the compensation of the Board of Directors consists exclusively of a fixed remuneration that is not dependent on the suc-

cess of the business. The amount of this remuneration is based on the function and the respective area of responsibility of the members of the Board of Directors (for details see p. 32 f.).

Compensation Executive Committee

The compensation of the members of the Executive Committee consists of a fixed compensation and, if applicable, a performance-related compensation (for details see p. 32 f.):

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

"Bonus Shares Programs"

Valartis Group's "Bonus Shares Programme" is an integral component of the remuneration system, which takes into account the company's success and individual performance as well as the objective of long-term employee loyalty and safeguarding shareholder interests (see details on p. 29 f.).

DETERMINATION OF REMUNERATION

The Compensation Committee decides on the total remuneration of the Board of Directors and the Executive Committee, which the Board of Directors must submit annually to the Annual General Meeting for approval. This task comprises the following two steps:

- The Compensation Committee decides on the compensation of the members of the Board of Directors within the maximum total amount approved or to be approved by the General Meeting and submits corresponding proposals to the Board of Directors (see also table "Competences and responsibilities", see p. 30).
- The Compensation Committee decides on the compensation of the Delegate of the Board of Directors and, after consulting the Delegate of the Board of Directors, the other members of the Executive Committee within the maximum overall amount approved or to be approved by the General Meeting and submits corresponding proposals to the Board of Directors (see also table "Competences and Responsibilities", p. 30).
- Due to the fact that the Board of Directors has only three members and that the Chairman simultaneously performs the duties of the Delegate of the Board of Directors, he is also a member of the Compensation Committee. Decisions on the proposals and recommendations of the Compensation Committee are taken jointly by the Board of Directors. The members of the Board of Directors or the Delegate of the Board of Directors concerned in each individual case shall abstain from voting on their case.

Board of Directors and Executive Committee

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

Employees

The Delegate of the Board of Directors proposes the amount of the bonus amount per operating Group Company, based on the total bonus amount decided by the Board of Directors, to the Compensation Committee, which reviews the corresponding proposal. In consultation with the Delegate of the Board of Directors, the manager responsible for this unit determines the bonus payments to the employees of this company.

Consultative vote on the remuneration of the members of the Board of Directors and the Executive Committee

At the 2017 Annual General Meeting, the Board of Directors proposed non-binding consultative votes on the remuneration of the Board of Directors and the Executive Committee in accordance with the provisions of the Swiss Code of Best Practice for Corporate Governance. The majority of shareholders approved the Compensation Report 2016 by a large majority. Valartis Group seeks dialogue with shareholders and shareholder representatives in order to receive valuable feedback on its remuneration policy. This is regularly evaluated and appropriately taken into account.

Approval of the remuneration of the members of the Board of Directors and the Executive Committee

In accordance with the provisions of the Swiss Code of Best Practice for Corporate Governance and the VegüV, the Board of Directors proposed to the 2017 Annual General Meeting of May 16, 2017 the overall framework for the compensation of the Board of Directors and the Executive Committee. The shareholders approved the proposed total amounts with a large majority. Valartis Group seeks dialogue with shareholders and shareholder representatives in order to receive valuable feedback on its remuneration policy. This is regularly evaluated and appropriately taken into account.

COMPENSATION OF THE BOARD OF DIRECTORS

The members of the Board of Directors receive a fixed remuneration for their work, the amount of which depends on their func-

tion within the Group. There is no variable remuneration component for members of the Board of Directors. The Compensation Committee decides on the remuneration of the members and the Chairman of the Board of Directors within the maximum total amount approved or to be approved by the General Meeting and submits the corresponding proposals to the Board of Directors (see also table "Responsibilities and competencies", p. 30). The fees of the members of the Board of Directors are fixed for the period between two Annual General Meetings.

The entire remuneration is to be paid out in cash. However, each member of the Board of Directors has the option of receiving all or part of the remuneration in the form of shares. Information on loans, shares and option holdings is disclosed in Note 36 (see also Compensation Report, p. 34 f.).

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

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

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

The Executive Committee, which had consisted of two members since 2016, was further reduced in January 2017. Due to the sale of all private banks in Valartis Group during the last three years and the new strategic orientation of the company, Stephan Häberle, then CEO, had decided to resign from his function as CEO of Valartis Group and his internal Group board of directorships and to leave the Group and Group companies on February 28, 2017. Gustav Stenbolt subsequently assumed the additional function of Chairman of the Board of Directors as of March 1, 2017.

After the additional time burden for a board of directors Chairman and Delegate of the Board of Directors increased significantly due to the very large reduction in the number of employees in the Group service organisation in 2017 and included tasks in 2017 which traditionally are not performed directly by these two functions, a consulting agreement was concluded between a Group company of Valartis Group and a Swiss stock corporation privately held by the board of directors Chairman at arm's length terms. This agreement provides for the provision of (national and international) advisory and consulting services in the areas of the Group's investment policy and strategy and asset management, in particular in the areas of short-term cash management, business development and project development. This agreement is also disclosed under Note 35 "Related parties and companies", page 104. The contract was concluded with Valartis International Ltd. because this company uses most of these advisory and consulting services.

Competencies and responsibilities

Decision	Delegate of the BoD	compensation committee	VR	GV
Compensation of the members of the BoD[1], the Chairman[1] and the Delegate of the BoD		proposal	approval	
Fixed compensation of members of the Executive Committee	proposal	review proposal	approval	
"Bonus Shares Programme" Delegate of the Board of Directors[2]		Petition	approval	
"Bonus Shares Programme" Executive Committee members (excluding Delegate of the BoD)	proposal	review proposal	approval	
"Bonus Shares Programs" other beneficiaries	proposal	review proposal	approval	
Total remuneration of the Board of Directors and the Executive Committee			proposal	approval

1) Board of Directors

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

The remuneration of the board of directors' Chairman and Delegate of the Board of directors is thus generally composed as follows for each financial year:

- CHF 130,000 as fee as board of directors Chairman (net).
- CHF 130,000 as salary as Delegate of the Board of Directors (gross).
- CHF 300,000 as compensation for a consulting contract ("Consulting Agreement"; plus VAT) with a Swiss stock corporation privately held by the Chairman of the Board of Directors.
- in total CHF 560,000 as total remuneration, plus social security contributions or VAT.

Compensation of the Board of Directors 2017 and 2016

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

1) Valartis Group pays both employer and employee contributions for the Board of Directors' fees. The pension contributions only include AHV contributions (AHV: Swiss old-age and survivors' insurance). For the compensation of the Delegate of the Board of Directors, only the employer contributions are added (employee contributions are deducted from the compensation); in addition to the AHV contributions, the pension contributions also include the BVG contributions (BVG: Swiss pension fund contributions).
2) Gustav Stenbolt had served as Group CEO since 2007 until he was elected Chairman of the Board of Directors by the Annual General Meeting on June 2, 2015. Stephan Häberle was CEO of Valartis Group from June 3, 2015 until his departure on February 28, 2017. As of March 2017, Gustav Stenbolt took over the function of Delegate of the Board of Directors.

2016 in CHF	Gustav Stenbolt, Chairman	Christoph N. Meister, Vice President	Philipp LeibundGut, Member[1]	Stephan Häberle, Member[2]	Rolf Müller-Senn, Member[3]	Total
Compensation of the Board of Directors						
Fees from Group companies (fixed)	296,800	190,000	35,600	33,000	7,800	563,200
Additional fee for 2017[4]	100,000					100,000
Pension contributions[5]	44,100	21,200	4,100	3,700	1,000	74,100
Other employers' social security contributions	17,300	6,200	1,300	400	300	25,500
Total	**458,200**	**217,400**	**41,000**	**37,100**	**9,100**	**762,800**

1) Member since the General Meeting of 28 June 2016.
2) Member from the Extraordinary General Meeting from 15 January 2016 to the Annual General Meeting on 28 June 2016.
3) Resignation from the Board of Directors of Valartis Finance Holding AG, Liechtenstein, as at 30 March 2016.
4) As decided by the Compensation Committee on 20 December 2016.
5) Valartis Group pays both employer and employee contributions. The pension contributions include the AHV contributions (AHV: Swiss old-age and survivors' insurance).

REMUNERATION OF THE EXECUTIVE COMMITTEE

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

Structure of the remuneration system for the Executive Committee

The structure of the remuneration system for the Executive Committee is based on the combining business success with individual performance components, which are also listed in the chapter "Determination of remuneration" on page 32.

The remuneration is determined according to the following criteria:

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

Compensation of members of the Executive Committee 2017 and 2016

The compensation paid to Gustav Stenbolt as Delegate of the Board of Directors as of March 1, 2017 is shown above under "Compensation of the Board of Directors".

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

1) The pension contributions include the employer contributions for the AHV and the pension fund contributions (AHV: Swiss old-age and survivors' insurance).
2) Stephan Häberle was CEO of Valartis Group from 3 June 2015 until his departure on 28 February 2017.

2016 in CHF	Stephan Häberle, CEO[1]	George M. Isliker, CFO/CRO	Total
Compensation of the Executive Committee			
Fixed compensation in cash	400,000	350,000	750,000
Variable compensation in cash	100,000	100,000	200,000
Employer pension contributions[2]	92,201	80,957	173,158
Other employers' social security contributions	14,213	12,822	27,035
Total	**606,414**	**543,779**	**1,150,193**

1) Stephan Häberle was CEO of Valartis Group from 3 June 2015 until his departure on 28 February 2017.
2) The pension contributions include the employer contributions for the AHV and the pension fund contributions (AHV: Swiss old-age and survivors' insurance).

Weighting

The following percentages apply as a guideline for the weighting of the individual components, with the individual components totalling 100 percent:

Function/ Components	Delegate of the BoD	CFO/CRO	CEO of a Group Company
(a) Consolidated operating profit	30–50%	20–40%	10–20%
(b) Operating profit business unit	–	–	30–40%
(c) Individual, personal contribution	50–70%	60–80%	40–60%

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

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

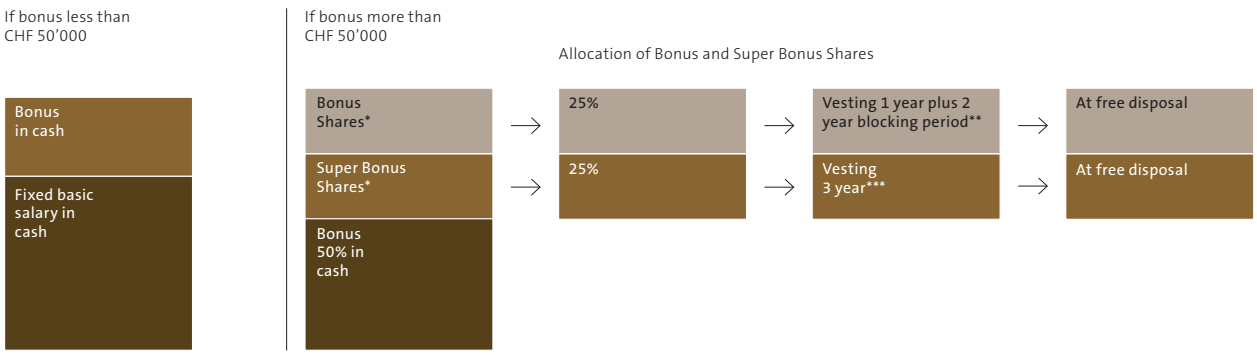
Information on loans, shares and option holdings can be found in the notes to the consolidated financial statements in Note 36 and on page 34 f. of this Compensation Report.

REMUNERATION OF EMPLOYEES

The remuneration model described for the Executive Committee also applies to all employees in Switzerland. Based on the total bonus amount decided by the Board of Directors, the Delegate of the Board of Directors determines the total bonus payment for each operating Group company and submits a corresponding proposal to the Compensation Committee (see also page 29 f.). In consultation with the Delegate of the Board of Directors, the manager responsible for the respective unit determines the bonus payments to the employees working in such Group Company.

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

Compensation system for employees of Valartis Group "Bonus Share Programme"



* Variable remuneration component, depending on individual performance, the result of the business unit and the success of Valartis Group AG.
** For current employees or "Good Leaver".
*** For current employees or "Good Leaver"; number of shares depends on the performance targets (RoE and BIS Tier 1 ratio) with a lower limit of 100 percent and an upper limit of 200 percent of the allocated shares.

OVERVIEW: LOANS, SHARES AND OPTIONS HELD BY MEMBERS OF THE BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE AT THE END OF 2017

The table below shows the total loans held by the Board of Directors and the Executive Committee, Shares and options listed as of December 31, 2016:

Loans, shares and options held by the members of the Board of Directors 2017 and 2016

2017 in CHF	Gustav Stenbolt, Chairman und Delegate of the BoD[2) 3)]	Christoph N. Meister, Vice Chairman	Philipp LeibundGut, Member[3)]	Total
Shareholdings held by and Loans/Credits to Directors				
Number of shares held by	1,874,601	4,821	398,333	2,277,755
Number of shares (entitlements)[1)]				0
Loans and credits, in CHF				0
Loans and credits to related parties, in CHF				0

1) Shares which were allocated to members of the Board of Directors in their former function as members of the management committees of Valartis Group companies as a bonus component of the year under review or in previous years but which have not yet been transferred as ownership is shown as vested rights.
2) Gustav Stenbolt had served as Group CEO since 2007 until he was elected Chairman of the Board of Directors by the Annual General Meeting on June 2, 2015. Stephan Häberle was CEO of Valartis Group from June 3, 2015 until his departure on February 28, 2017. As of March 2017, Gustav Stenbolt took over the function of Delegate of the Board of Directors.
3) Of the newly allocated shares in the year under review, 4,179 shares for Gustav Stenbolt and 1,174 shares for Philipp LeibundGut are from a bonus plan based on the result for the 2013 financial year. The remaining additions are due to changes in the ownership structure of MCG Holding SA.

2016 in CHF	Gustav Stenbolt, Chairman	Christoph N. Meister, Vice Chairman	Philipp LeibundGut, Member	Total
Shareholdings held by and Loans/Credits to Directors				
Number of shares held by	1,862,733	4,821	395,565	2,263,119
Number of shares (entitlements)[1)]	4,179		1,194	5,373
Loans and credits, in CHF				0
Loans and credits to related parties, in CHF				0

1) Shares which were allocated to members of the Board of Directors in their former function as members of the management boards of Valartis Group companies as a bonus component of the year under review or in previous years but which have not yet been transferred as ownership are shown as vested rights

Loans, shares and options held by the members of the Executive Committee 2017 and 2016

Loans, shares and options held by Gustav Stenbolt as Delegate of the Board of Directors as of March 1, 2017 are shown above under "Loans, shares and options held by the members of the Board of Directors 2017 and 2016".

2017 in CHF	Stephan Häberle, CEO[1)]	George M. Isliker, CFO/CRO	Total
Shareholdings held by and Loans/Credits to Members of the Executive Committee			
Number of shares held by		15,285	15,285
Number of shares (entitlements)[2)]			0
Loans and credits, in CHF			0
Loans and credits to related parties, in CHF			0

1) Stephan Häberle was CEO of Valartis Group from 3 June 2015 until his departure on 28 February 2017.
2) Shares allocated to members of the Executive Committee as a bonus component of the year under review or in previous years are reported as vested rights as they have not yet been transferred to property.

2016 in CHF	Stephan Häberle, CEO[1)]	George M. Isliker, CFO/CRO	Total
Shareholdings held by and Loans/Credits to the Executive Committee			
Number of shares held by		13,494	13,494
Number of shares (entitlements)[2)]		1,791	1,791
Loans and credits, in CHF			0
Loans and credits to related parties, in CHF			0

1) Stephan Häberle was CEO of Valartis Group from 3 June 2015 until his departure on 28 February 2017.
2) Shares allocated to members of the Executive Committee as a bonus component of the year under review or in previous years are reported as vested rights as they have not yet been transferred to property.

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

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

REPORT OF THE STATUTORY AUDITOR ON THE COMPENSATION REPORT

To the General Meeting of

Valartis Group AG, Baar

We have audited the compensation report (annual report page 27 to 35) of Valartis Group AG for the year ended 31 December 2017. The audit was limited to the information provided under articles 14 – 16 of the Ordinance against Excessive Compensation with respect to Listed Stock Corporations (the Ordinance).

Responsibility of the Board of Directors

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the compensation report dated 9 April 2018 of Valartis Group AG for the year ended 31 December 2017 complies with Swiss law and articles 14 – 16 of the Ordinance.

Other Matter

The compensation report of Valartis Group AG for the year ended 31 December 2016, was audited by another auditor who expressed an unmodified opinion on this report 3 April 2017.

Geneva, 9 April 2018

BDO Ltd

Nigel Le Masurier

Thomas Bigler

VALARTIS GROUP CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

in CHF 1,000	Note	1.1.–31.12.2017	1.1.–31.12.2016 [1]
Income from management services	1	3,660	5,083
Income from investment property, net	2	5,003	6,777
Share of results of associated companies	3	347	690
Other ordinary income	4	1,175	2,289
Total operating income		**10,185**	**14,839**
Personnel expense	5	-6,127	-8,966
General expense	6	-5,855	-10,653
Administrative expense		**-11,982**	**-19,619**
Earnings before depreciation, valuation adjustments, provisions, interest and taxes		**-1,797**	**-4,780**
Depreciation/amortisation of property, plant and equipment and intangible assets	7	-84	-90
Valuation adjustments, provisions and losses	8	-1,684	-6,079
Earnings before interest and taxes (EBIT)		**-3,565**	-10,949
Financial income	9	3,197	6,570
Financial exenses	9	-2,091	-4,850
Net loss from continued operations before taxes		**-2,459**	**-9,229**
Income taxes	10	-287	-2,759
Net loss from continued operations		**-2,746**	**-11,988**
Net result from discontinued operations after taxes	40	960	-26,117
Net loss		**-1,786**	**-38,105**
Net gain/(loss) attributable to shareholders of Valartis Group AG		-2,383	-43,250
Net (loss)/gain attributable to non-controlling interests		597	5,145
in CHF			
Earnings per share			
Undiluted earnings attributable to shareholders of Valartis Group AG		-0.51	-9.15
Diluted earnings attributable to shareholders of Valartis Group AG		-0.51	-9.15
Earnings per share – continued operations			
Undiluted earnings attributable to shareholders of Valartis Group AG		-0.71	-3.62
Diluted earnings per share attributable to shareholders of Valartis Group AG		-0.71	-3.62
Earnings per share – discontinued operations			
Undiluted earnings attributable to shareholders of Valartis Group AG		0.20	-5.53
Diluted earnings per share attributable to shareholders of Valartis Group AG		0.20	-5.53

1) Adjusted to new structure.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in CHF 1,000	1.1.–31.12.2017	1.1.–31.12.2016
Net loss in the income statement	**-1,786**	**-38,105**
Other comprehensive income, that will be reclassified to the income statement		
Change in fair value of financial assets available for sale [1]	3,258	-1,730
(Gains) on financial assets available for sale reclassified to income statement [1]	-572	-157
Foreign exchange translation differences	1,337	-2,219
Foreign exchange translation differences reclassified to income statement	-404	39,901
Associated companies - attributable comprehensive income [2]	3,539	
Other comprehensive income that will be reclassified to the income statement	**7,158**	**35,795**
Other comprehensive income that will not be reclassified to the income statement		
Remeasurement of defined benefit pension plans [3]	831	582
Associated companies - attributable comprehensive income		
Other comprehensive income that will not be reclassified to the income statement	**831**	**582**
Total other comprehensive income, after tax	**7,989**	**36,377**
Total comprehensive income	**6,203**	**-1,728**
Allocation of total comprehensive income		
Shareholders of Valartis Group AG	5,642	-6,164
Non-controlling interests	561	4,436

1) The gains/losses on financial assets available for sale before tax amount to TCHF 2,686 and the income tax to TCHF 0. In the previous year, the loss on financial instruments available for sale before tax was TCHF -1,868 and the income tax TCHF -20.

2) The total comprehensive income of TCHF 3,539 disclosed for associated companies mainly includes the translation differences from the sale of the participation in the Darsi Group reclassified to the income statement.

3) The tax effect on the remeasurement for defined benefit pension plans is TCHF 0 (previous year: tax effect TCHF 0).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

in CHF 1,000	Note	31.12.2017	31.12.2016 [1]
Cash and cash equivalents		25,745	24,640
Trading portfolio assets	11	38,002	31,052
Derivative financial instruments	12	109	204
Other financial assets at fair value	13	1,696	462
Due from third parties	14	13,831	29,273
Accrued and deferred assets		3,392	2,787
Total current assets		**82,775**	**88,418**
Assets under development	15	5,921	5,868
Financial assets available for sale	16	23,462	19,458
Property, plant and equipment	17	103	292
Investment property	18	37,151	35,643
Goodwill and other intangible assets	19	2,313	2,292
Associated companies	20	17,381	17,054
Non-currrent receivables	21	5,565	7,827
Deferred tax assets		0	536
Total non-current assets		**91,896**	**88,970**
		174,671	**177,388**
Assets classified as held for sale	40	2,735	11,274
Total assets		**177,406**	**188,662**

1) Adjusted to new structure.

Liabilities

in CHF 1,000	Note	31.12.2017	31.12.2016 [1]
Liabilities			
Trade payables		814	1,974
Current financial liabilities	22	28,916	39,159
Derivative financial instruments	12	1,751	1,838
Current tax liabilities		884	636
Other current liabilities	23	5,073	7,756
Current provisions	26	245	173
Total current liabilities		**37,683**	**51,536**
Non-current financial liabilities	24	2,059	2,308
Defined benfit obligations	25	1,458	2,248
Deferred tax liabilities	10	553	1,161
Non-current provisions	26	449	558
Total non-current liabilities		**4,519**	**6,275**
		42,202	**57,811**
Liabilities directly associated with assets classified as held for sale	40	0	0
Total liabilities		**42,202**	**57,811**
Shareholders' equity			
Share capital	27	5,000	5,000
Treasury shares	28	-5,872	-5,726
Reserves		111,583	115,211
Unrealised income from financial assets available for sale		6,649	3,963
Foreign exchange translation differences		-1,534	-6,042
Remeasurement defined benefit pension plans	25	801	-30
Shareholders' equity of the shareholders of Valartis Group AG		**116,627**	**112,376**
Non-controlling interests		18,577	18,475
Total shareholders' equity (including non-controlling interests)		**135,204**	**130,851**
Total liabilities and shareholders' equity		**177,406**	**188,662**

1) Adjusted to new structure.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2016 in CHF 1,000	Share capital	Treasury shares	Capital reserves	Retained earnings
Opening balance at 1 January 2016	**5,000**	**-6,130**	**-5,199**	**163,412**
Gains/losses from financial assets available for sale				
Foreign exchange translation differences				
Remeasurement of defined benefit pension plans				
Other comprehensive income [1]	**0**	**0**	**0**	**0**
Net loss				-43,250
Comprehensive income	**0**	**0**	**0**	**-43,250**
Dividend payments				
Change in treasury shares		404	-271	
Employee participation plan			-37	
Transaction with non-controlling interests				556
Owner-related changes	**0**	**404**	**-308**	**556**
Total shareholders' equity at 31 December 2016	**5,000**	**-5,726**	**-5,507**	**120,718**

2017 in CHF 1,000				
Opening balance at 1 January 2017	**5,000**	**-5,726**	**-5,507**	**120,718**
Gains/(losses) from financial assets available for sale				
Foreign exchange translation differences				
Remeasurement of defined benefit pension plans				
Other comprehensive income [1]	**0**	**0**	**0**	**0**
Net loss				-2,383
Comprehensive income	**0**	**0**	**0**	**-2,383**
Dividend payments				-948
Change in treasury shares		-146	-207	
Employee participation plan			-90	
Transaction with non-controlling interests				0
Owner-related changes	**0**	**-146**	**-297**	**-948**
Total shareholders' equity at 31 December 2017	**5,000**	**-5,872**	**-5,804**	**117,387**

1) The share of discontinued operations on other comprehensive income in equity is diclosed in Note 40.

Net unrealised gains/losses on financials assets available for sale	Foreign exchange translation difference	Remeasurement defined benefit pension plans	Total equity shareholders of the Valartis Group AG	Non-controlling interests	Foreign exchange effect on non-controlling interests	Total non-controlling interests	Total shareholders' equity
5,821	**-44,404**	**-612**	**117,888**	**41,714**	**6**	**41,720**	**159,608**
-1,858			-1,858	-29		-29	-1,887
	38,362		38,362		-680	-680	37,682
		582	582			0	582
-1,858	**38,362**	**582**	**37,086**	**-29**	**-680**	**-709**	**36,377**
			-43,250	5,145		5,145	-38,105
-1,858	**38,362**	**582**	**-6,164**	**5,116**	**-680**	**4,436**	**-1,728**
						0	0
			133			0	133
			-37			0	-37
			556	-27,681		-27,681	-27,125
0	**0**	**0**	**652**	**-27,681**	**0**	**-27,681**	**-27,029**
3,963	**-6,042**	**-30**	**112,376**	**19,149**	**-674**	**18,475**	**130,851**
3,963	**-6,042**	**-30**	**112,376**	**19,149**	**-674**	**18,475**	**130,851**
2,686			2,686			0	2,686
	4,508		4,508		-36	-36	4,472
		831	831			0	831
2,686	**4,508**	**831**	**8,025**	**0**	**-36**	**-36**	**7,989**
			-2,383	597		597	-1,786
2,686	**4,508**	**831**	**5,642**	**597**	**-36**	**561**	**6,203**
			-948			0	-948
			-353			0	-353
			-90			0	-90
			0	-459		-459	-459
0	**0**	**0**	**-1,391**	**-459**	**0**	**-459**	**-1,850**
6,649	**-1,534**	**801**	**116,627**	**19,287**	**-710**	**18,577**	**135,204**

CONSOLIDATED CASH FLOW STATEMENT

in CHF 1,000	31.12.2017	31.12.2016 [1]
Net loss after taxes from continued operations	-2,746	-11,988
Net loss after taxes from discontinued operations	960	-26,117
Net loss	**-1,786**	**-38,105**
Depreciation of property, plant and equipment	84	90
Gain from sale of property, plant and equipment		-4,347
Net result from fair value adjustment and foreign currency effect on investment property	-259	-987
Share of results of associated companies	-5,403	9,058
Change in valuation adjustments and provisions	1,684	88
Income from sale of participations		-18,585
Loss from sale of banking business Austria		9,823
Transfer of foreign currency differences from equity to profit and loss statements	3,539	39,901
Finance result, net	-1,105	-13,242
Income taxes	844	-1,854
Other non-cash income and expenses	-1,162	-250
Operating cash flow before changes in the working capital and taxes	**-3,564**	**-18,410**
Due from third parties	3,992	-497,769
Accrued and deferred assets	496	-2,135
Accounts payables	-1,160	-3,311
Other current liabilities	-3,498	-11,143
Taxes paid	-697	-4,716
Cash flow from operating activities	**-4,431**	**-537,484**
Trading portfolio assets (including derivative financial instruments)	-8,414	-8,830
Other financial assets at fair value including available for sale	-745	208,858
Financial assets held to maturity		161,017
Non-current receivables	2,276	-10,710
Interest and dividends received	3,197	5,356
Purchase of property, plant and equipment, investment property and intangible assets	-273	-49
Sale of property, plant and equipment, investment property and intangible assets		233
Acquisition of associated companies	-354	-2,189
Sale of associated companies	13,189	
Acquisition of subsidiaries less acquired cash	-2,133	
Sale of banking business Austria less corresponding cash and cash equivalents		-158,762
Sale of subsidiaries less attributable cash [2]	11,277	-780,617
Cash flow from investment activities	**18,020**	**-585,693**

1) Adjusted to new structure.
2) Consistent payments in current year from escrow accounts related to sale of banking business in Liechtenstein and Austria from previous year.

in CHF 1,000	31.12.2017	31.12.2016 [1]
Proceeds from/(repayments of) current financial liabilities [2]	-9,061	-49,914
Proceeds from/(repayments of) non-current financial liabilities [2]	-265	-19,374
Interest paid	-1,674	-3,058
Dividends paid to shareholders of the Company	-948	
Change in treasury shares	-353	133
Purchase of non-controlling interests in equity	-330	409
Increase of capital	0	558
Cash flow from financing activities	**-12,631**	**-71,246**
Effect of foreign exchange translation differences (including non-controlling interests)	260	-226
Increase/(decrease) in cash and cash equivalents	**1,218**	**-1,194,649**
Position at 1 January	24,527	1,219,176
Position at 31 December	25,745	24,527

1) Adjusted to new structure.
2) Details for proceeds from and repayments of financial liabilities see note 44.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DESCRIPTION OF BUSINESS

Valartis Group is an internationally active financial group whose parent company, Valartis Group AG, is domiciled in Baar, Canton Zug, Switzerland, and listed on the SIX Swiss Exchange. The Group's core competence in the Private Clients business segment has so far been asset management. Since the sale of the private banks and bank participations, the focus has been on the other participations. Other business activities include the development, implementation and management of innovative niche investment products and the provision of specialized financial services. Geographically, the Group is active in Switzerland and Eastern Europe.

ACCOUNTING PRINCIPLES

The consolidated financial statements of Valartis Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the listing regulations of the Swiss Stock Exchange. Until 20 September 2016, part of Valartis Group, the subgroup Valartis Finance Holding AG, Liechtenstein, was subject to consolidated supervision by the Liechtenstein Financial Market Authority (FMA). Following the sale of the banking business in Austria and the investment in Valartis Bank (Liechtenstein) AG, consolidated supervision was terminated on 20 September 2016.

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

CHANGES TO ACCOUNTING POLICIES

Implemented International Financial Reporting Standards and interpretations

The following new or revised standards and interpretations have been in force since 1 January 2017 and had no effect on the financial statements of Valartis Group at the time of their first application or were of no significance to it:

- IAS 7 – Disclosure Initiative;
- IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements 2014 to 2016.

Standards and interpretations not yet implemented

Various new and revised IFRS and interpretations should be applied for financial years beginning after 1 January 2016. Valartis Group has not availed itself of the possibility of early application of these revised standards and interpretations.

IFRS 9 – Financial instruments

The finalised version of IFRS 9 was published in July 2014 and replaces IAS 39. IFRS 9 is subdivided into three phases: classification and evaluation, impairment, and hedge accounting. The classification and evaluation of financial assets is dependent on the instrument's contractual payment flows and the business model under which the instrument is held.

The following categories apply to debt instruments:

- Recognition in the balance sheet at amortised cost using the effective interest method;
- Recognition in the balance sheet at fair value, with changes in fair value being recognised in other comprehensive income and transferred to the income statement if the instrument is sold;
- Recognition in the balance sheet at fair value, with changes in fair value being recognised in the income statement.

All equity capital instruments are valued at their fair value. Changes in fair value are always reported as affecting net income. If an equity capital instrument is not held for trading purposes, for first-time reporting it may irrevocably be classed as an instrument which is reported at fair value, but for which all income components, with the exception of dividends, are reported in "other income" and never – even upon disposal – transferred to the statement of income.

IFRS 9 assumes the regulations on classification and evaluation of financial obligations from IAS 39. However, a new regulation has been included; the effect of changes in own credit risks in connection with financial obligations to which the fair value option is applied, is reported in "other income".

The new impairment model primarily applies to financial assets which are valued at amortised cost or for which changes in fair value are reported in "other income". IFRS 9 also governs hedge accounting, in which case, unification of risk management and accounting is desirable.

The new standard takes effect from 1 January 2018. The previous year need not be adjusted. IFRS 9 has to be applied from 1 January 2018. The Valartis Group does not expect any material effects of the new provisions.

IFRS 15 – Income from contracts with clients

In May 2014, the IASB published new regulations on revenue recognition which replace in their entirety the existing US GAAP and IFRS regulations on reporting of revenue from sales. Revenue is recognised to depict the transfer of goods or services to clients at an amount which reflects the consideration to which the supplier expects to be entitled in exchange for those goods or services. IFRS 15 comprises a five-step model for recognition of revenue, whereby the type of transaction and industry sector are irrelevant.

The standard also stipulates additional disclosures and has to be applied from 1 January 2018. Based on current analyses, Valartis Group does not expect the new provisions to have any significant overall impacts. Overall, Valartis Group does not expect any material effects of the new provisions. Valartis Group does not anticipate that the new standard will have an impact on the revenues reported for 2017. Therefore, no retrospective adjustment of these amounts will be necessary.

IFRS 16 – Leasing

IIn January 2016, the IASB published the new standard for the financial reporting of leases. The new standard introduces a new lessee accounting model that eliminates the classification of leases as either finance leases or "operating leases". For all leases, the lessee recognises a leasing liability for its obligation to make future lease payments. At the same time, the lessee capitalises the right to use the underlying asset, which basically corresponds to the present value of future lease payments plus directly attributable costs. Exemptions apply in the case of short-term leases and low-value lease assets. IFRS 16 replaces IAS 17 and the related interpretations and is to be applied for the first time to financial years beginning on or after 1 January 2019. Based on the analyses to date, with the exception of the rental agreements previously treated as operating leases (rental agreements for Valartis Group locations), which are now reported as finance lease liabilities or real estate, Valartis Group does not expect any material overall effects of the new provisions.

Other not yet implemented standards and interpretations:
- IAS 40 – Transfers of investment property;
- IFRS 2 – Classification and measurement of share-based payment transactions;
- IFRIC 22 – Foreign currency transactions and advance consideration;
- IFRIC 23 Uncertainty regarding income tax treatment;
- Adjustment to IFRS 9: VEarly repayment arrangement with negative settlement payment;
- Adjustment to IAS 28: Long-term investments in associates and joint ventures;
- Annual Improvements 2014–2016.

Following the sale of the private banking business, Valartis Group made the following adjustments in the 2017 Annual Report with regard to the structure of the annual financial statements and the disclosures in the notes to the consolidated financial statements:

Changes in structure of income statement, statement of financial position and cash flow statement

Income statement and statement of financial position of Valartis Group have been structured based on the private banking business activities until now. After the disposal of the private banking business in 2016, the structure of the statements no longer corresponds to the current strategic alignment and business activities. Therefore presentation and classification in the income statement, statement of financial position and cash flow statement have been changed based on IAS 1.45(a) and 1.46. The changes have been made as of 1 January 2017. The comparative information of the previous period for income statement, statement of financial position, cash flow statement and related notes were reclassified accordingly.

There were no changes for comprehensive income statement and statement of changes in equity.

Impact on valuation of balance sheet positions

There were no changes for the measurement of balance sheet positions.

Changes in accounting principles

Accounting principles are omitted or have been streamlined, when these principles were related to the private banking business and have no relevance for the current or future business activities of Valartis Group.

The significant changes in the structure of the income statement are as follows:
- The previous Commission income has been renamed Income from management services. Income from management services consists of fees for the management of real estate property of third parties and for real estate project management, as well as revenues from financial services.
- Income from investment property as well as the Share of results of associated companies is reported as a separate line in the income statement and not anymore as part of the Other ordinary income.
- Previously reported Gross profit or Gross loss are named Earnings before depreciation, value adjustments, provisions, interest and taxes.
- The subtotal Earnings before interest and taxes (EBIT) has been newly added. This new subtotal is intended to make it easier for the financial report reader, to assess the results of Valartis Group before interest and taxes.
- Financial income and financial expense are now disclosed after EBIT and not anymore as Income from interest and dividends as one of the main components of the Operating income form banking business. Income from trading was disclosed separately and is now part of Finance income or Finance expenses.

New structure of income statement

in CHF 1,000	1.1.–31.12.2016 new structure	Reclassification	1.1.–31.12.2016 previous structure
Interest and dividend income		1,195	-1,195
Income from commission and service fees		-5,083	5,083
Income from trading		-4,656	4,656
Other ordinary income		-8,149	8,149
Income from management services	5,083	5,083	
Income from investment property, net	6,777	6,777	
Share of results of associated companies	690	690	
Other ordinary income	2,289	2,289	
Total operating income	**14,839**		**16,693**
Personnel expense	-8,966		-8,966
General expense	-10,653	134	-10,787
Administrative expense	**-19,619**		**-19,753**
Earnings before depreciation, valuation adjustments, provisions, interests and taxes (before: "Gross profit/(loss)"	**-4,780**		**-3,060**
Depreciation/amortisation of property, plant and equipment and intangible assets	-90		-90
Valuation adjustments, provisions and losses	-6,079		-6,079
Earnings before interest and taxes (EBIT)	**-10,949**		
Financial income	6,570	6,570	
Financial expenses	-4,850	-4,850	
Net loss from continued operations before taxes	**-9,229**		**-9,229**
Income taxes	-2,759		-2,759
Net loss from continued operations	**-11,988**		**-11,988**
Net result from discontinued operations after taxes	-26,117		-26,117
Net loss	**-38,105**	**0**	**-38,105**
Net loss attributable to shareholders of Valartis Group AG	-43,250		-43,250
Net gain attributable to non-controlling interests	5,145		5,145

The structure of the balance sheet was essentially changed in the following way:

- Classification is made for current and non-current balance sheet items and not anymore based on liquidity. For current and non-current assets as well as for liabilities, new subtotals are disclosed.
- The previous positions "Cash balance" and "Due from banks" have been combined and are disclosed as "Cash and cash equivalents".
- Other assets were split into Non-current receivables and Assets under development, which includes a real estate development project of the group company ENR Russia Invest SA (ENR).
- The previous positions "Due to banks" and "Other short-term financial liabilities are combined and reported as"Current financial liabilities».
- The previous position "Other liabilities" is split into "Trade payables", "Other current liabilities", "Non-current financial liabilities" and "Defined benefit obligations"

– Balance sheet total is substantially lower after the sale of the banking business 2016 and the composition of assets and liabilities has changed significantly. The new structure is intended to enable a better understanding for the financial report reader regarding classification and content of the assets and liabilities of Valartis Group following the sale of said banking business.

New structure of balance sheet

in CHF 1,000	31.12.2016 new structure	Reclassification	31.12.2016 previous structure
Due from banks		-24,639	24,639
Cash and cash equivalents	24,640	24,639	1
Trading portfolio assets	31,052		31,052
Derivative financial instruments	204		204
Other financial assets at fair value	462		462
Due from third parties	29,273	11,277	17,996
Accrued and deferred assets	2,787		2,787
Total current assets	**88,418**		
Assets under development	5,868	5,868	
Financial assets available for sale	19,458		19,458
Property, plant and equipment	292		292
Investment property	35,643		35,643
Goodwill and other intangible assets	2,292		2,292
Associated companies	17,054		17,054
Non-current receivables	7,827	7,827	
Other assets		-24,972	24,972
Deferred tax assets	536		536
Total non-current assets	**88,970**		
	177,388	**0**	**177,388**
Assets classified as held for sale	11,274	0	11,274
Total assets	**188,662**	**0**	**188,662**

New structure of balance sheet (continued)

in CHF 1,000	31.12.2016 new structure	Reclassification	31.12.2016 previous structure
Trade payables	1,974	1,974	
Due to banks		-32,004	32,004
Current financial liabilities	39,159	32,004	7,155
Derivative financial instruments	1,838		1,838
Current income taxes	636		636
Accrued and deferred liabilities		-5,331	5,331
Other current liabilities	7,756	7,756	
Current provisions	173	173	
Total current liabilities	**51,536**		
Other liabilities		-8,955	8,955
Non-current financial liabilities	2,308	2,308	
Defined benefit obligations	2,248	2,248	
Deferred tax liabilities	1,161		1,161
Non-current provisions	558	558	
Provisions		-731	731
Total non-current liabilities	**6,275**		
	57,811	**0**	**57,811**
Liabilities directly associated with assets classified as held for sale	0		0
Total liabilities	**57,811**	**0**	**57,811**
Shareholders' equity of the shareholders of Valartis Group AG	**112,376**	**0**	**112,376**
Non-controlling interests	18,475	0	18,475
Total shareholders' equity (including non-controlling interests)	**130,851**	**0**	**130,851**
Total liabilities and shareholders' equity	**188,662**	**0**	**188,662**

The cash flow statement has been adapted primarily in the following points.

- Cash flows from financial instruments (Trading portfolio assets, Financial assets available for sale, Other financial assets at fair value etc.) will not anymore be represented in the section of net change in assets/liabilities of the banking business but as cash flow from investment activities.
- The previous positions Due from/to banks, Due from/to clients and Other assets/liabilities are no longer required (banking business).
- The names of the various positions have been adapted to the changed terms of the balance sheet and the income statement.

New structure of cash flow statement

in CHF 1,000	31.12.2016 new structure	Reclassification	31.12.2016 previous structure
Net loss before tax	-39,959		-39,959
Income tax [3]	1,854	1,854	
Net loss after tax	**-38,105**	**1,854**	
Various non-cash income and expenses (with no reclassifications)	34,791		34,791
Net financial (income)/expenses [1]/income from financial Instruments [2]	-13,242	-14,679	1,437
Income taxes [1]/change in deferred taxes [2]	-1,854	-8,778	6,924
Operating cash flow before changes in working capital and taxes	**-18,410**	**-21,603**	**3,193**
Trading portfolio assets (incl. derivative financial instruments)		14,487	-14,487
Financial assets available for sale		-208,338	208,338
From/due to clients		46,407	-46,407
From/due to banks		535,022	-535,022
Other assets/other liabilities		12,869	-12,869
Due from third parties	-497,769	-497,769	
Accrued and deferred assets	-2,135		-2,135
Accounts payables	-3,311	-3,311	
Other current liabilities	-11,143	-441	-10,702
Taxes paid	-4,716		-4,716
Cash flow from operating activities	**-537,484**	**-122,677**	**-414,807**
Trading portfolio assets (incl. derivative financial instruments)	-8,830	-8,830	
Other financial assets at fair value including available for sale	208,858	208,858	
Financial assets held to maturity	161,017	349	160,668
Non-current receivables	-10,710	-10,710	
Interest and dividends received	5,356	5,356	
Purchase/sale of property, plant and equipment, investment property	-49		-49
Sale of property, plant and equipment	233		233
Acquisition of associated companies	-2,189		-2,189
Sale of banking business Austria less corresponding cash and cash equivalents	-158,762		-158,762
Sale of subsidiaries less attributable cash	-780,617		-780,617
Cash flow from investment activities	**-585,693**	**195,023**	**-780,716**
Proceeds from/(repayments of) current financial liabilities	-49,914	-49,914	
Proceeds from/(repayments of) non-current financial liabilities	-19,374	-19,374	
Interest paid	-3,058	-3,058	
Change in treasury shares	133		133
Change in non-controlling interests in equity	409		409
Increase of capital	558		558
Cash flow from financing activities	**-71,246**	**-72,346**	**1,100**
Effect of foreign exchange translation differences	-226		-226
(Decrease)/increase in cash and cash equivalents	**-1,194,649**	**0**	**-1,194,649**

1) New name of position 2) Prior name of position 3) whereof continued operations TCHF -2,759, non-continued operations TCHF 4,613

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The 2017 consolidated financial statements were released by the Board of Directors on 28 March 2018. The consolidated financial statements are subject to the approval of the Shareholders' Meeting on 15 May 2018.

MAJOR ACCOUNTING PRINCIPLES

Consolidation principles

Subsidiaries

The consolidated financial statements comprise the accounts of Valartis Group AG, Baar, canton of Zug, Switzerland, and its subsidiaries as at 31 December 2017. A controlling relationship is deemed to exist if the following conditions are met cumulatively: Valartis Group has power over the other company; it is exposed to variable returns from its involvement with the other company; and it has the ability to affect the amount of those returns through its power over the other company.

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

Consolidation of a subsidiary begins at the date the Group obtains control over that subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the reporting period are included on the balance sheet and in the statement of comprehensive income from the date the Group obtains control of the subsidiary until the date the Group ceases to control the subsidiary. If Valartis Group loses control over a company, any retained interest is recognised as an investment in an associate or as a financial instrument under IAS 39.

Investments in associates and joint ventures

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

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

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

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

Structured entities

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

Method of consolidation

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

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

Changes in the scope of consolidation

There were the following changes in the scope of consolidation in 2017:

On 6 July 2017 Valartis Group acquired all shares in Eastern Property Partners II LP (EPP II) from Eastern Property Holdings Ltd. EPP II holds a 50 percent stake in Vestive Limited (Vestive), which

owns and operates a parking garage in Moscow via the Russian company Inkonika LLC (Inkonika).

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

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

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

On 18 December 2017, all shares in the associated company Panariello Enterprises Ltd. were sold to Kolianco Holdings Ltd.

Changes in the scope of consolidation in the previous year:

On 1 April, Valartis Bank (Austria) AG's banking business was divested to Wiener Privatbank SE within the framework of an asset deal. The asset deal included the sale of the Group entity Valartis Asset Management Kapitalanlagegesellschaft mbH.

Following divestment of the banking business, on 30 September 2016, Valartis Bank (Austria) AG and Valartis (Wien) GmbH were merged by means of a merger by absorption with Valartis (Austria) GmbH, which remained in the consolidation scope.

On 20 September 2016, the holding in Valartis Bank (Liechtenstein) AG was sold to Citychamp Watch & Jewellery Group Ltd. As a result of the sale, the subsidiaries and sub-subsidiaries of Valartis Bank (Liechtenstein) AG also left the consolidation scope.

Via Group entity, Parking Clé de Rive SA, Valartis Group has been involved for several years in a project to construct a new parking garage in Geneva. In September 2016, 49 per cent of shares were sold to a third-party investor, who also generated additional equity capital amounting to CHF 1 million in the form of a capital increase in the company. Valartis Group's share in Parking Clé de Rive SA has therefore been reduced from 100 per cent to 51 per cent.

Discontinued operations

The results of the associated companies RHS GmbH and Darsi, which were sold in financial year 2017, are shown in the consolidated financial statements as discontinued operations. In the previous year, RHS GmbH and Darsi were already part of the discontinued operations.

The private banking business in Austria and Liechtenstein, which was sold in 2016, is also part of the discontinued operations in 2016.

The results and carrying amounts of these discontinued operations are presented separately from the continuing operations in these consolidated financial statements for fiscal 2017. The results of continuing and discontinued operations are also shown separately in the consolidated income statement and the consolidated balance sheet for the previous year

Consolidation period

The consolidation period for all Group companies is the calendar year. The closing date for the consolidated financial statements is 31 December 2017.

General principles

Currency translation

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

In the individual financial statements of the Group companies, transactions in foreign currencies are recognised at the corresponding daily exchange rates. Monetary assets are translated and booked in the income statement at the exchange rates valid on the balance sheet date. Non-monetary items recorded at historical cost in a foreign currency are translated at the historical exchange rate.

Not realised foreign exchange differences of equity investment available for sale are part of the change of its entire fair value and are recognised in the shareholders equity.

The following exchange rates are used for the major currencies::

	2017 Balance sheet-date rate	2017 Annual average ratre	2016 Balance sheet-date rate	2016 Annual average ratre
EUR	1.1691	1.1159	1.0737	1.0900
USD	0.9753	0.9827	1.0190	0.9852
RUB	1.6900	1.6908	1.6750	1.4782
DZD	0.8423	0.8814	0.9222	0.9003

Segments

Determination of the operating segments is based on the management approach. The management approach reflects the way in which management organises the entity for making operating decisions and for assessing performance, based on specific financial

information. Therefore, the adoption of the management approach results in the disclosure of information for segments in substantially the same manner as they are reported internally and used by the entity's chief operating decision maker for purposes of evaluating performance and making resource allocation decisions.

Cash and cash equivalents

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

Domestic and non-domestic positions

Domestic includes positions in Liechtenstein.

Accrual of earnings

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

Determination of fair value

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

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

Level 1 instruments

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

Level 2 instruments

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

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

Level 3 instruments

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

The procedure for determining the fair values of the conditional purchase price payments from the sale of Eastern Property Holdings Ltd. included in "Other financial assets at fair value" is described in Note 33.

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

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

Financial instruments

Basic principle

Purchases and disposals of financial instruments are recognised in the balance sheet at the trade date. At the time of initial recognition, financial assets and liabilities are, in accordance with IAS 39, attributed to the corresponding categories and measured on the basis of their classification.

Valartis Group classifies financial instruments, which include traditional financial assets and liabilities and equity instruments, as follows:

- Trading securities and liabilities from trading
- Financial assets or financial liabilities measured at fair value through profit and loss ("Other financial assets/liabilities at fair value")
- Financial assets available for sale
- Financial investments held to maturity.
- Loans that are neither held for trading nor designated as financial assets available for sale and that are not measured at fair value in the income statement

Trading securities

Trading securities include money market papers, other debt instruments including marketable loans and equity instruments (long positions). A financial asset is designated as held for trading if the asset was bought mainly with the goal of a short-term sale or repurchase and if it is part of a clearly identifiable portfolio for which there are indications of short-term profit-taking in the recent past. Trading securities are reported at fair value. Profits and losses from sale or redemption and changes in fair value are recognised under "Income from trading". Interest and dividend income or interest and dividend expense from trading are recorded in "Income from interest and dividend business".

Financial assets available for sale

The category "Financial assets available for sale" consists of financial instruments that are held for an indefinite period. Their sale allows management to react to liquidity squeezes respectively movements in interest rates, exchange rates, or share prices. These financial instruments can comprise equity instruments, including specific private equity investments, and debt instruments.

Financial assets available for sale are reported at fair value. Unrealised gains or losses from financial assets available for sale are recognised in shareholders' equity (after deferred taxes) under the position "Unrealised income from financial assets available for sale" until the financial assets are de-recognised or impaired. Foreign currency translation gains and losses are recorded as trading income in the case of monetary items (debt instruments) and are recorded as a component of the change in fair value in other comprehensive income in the case of non-monetary items (equities).

As soon as a financial asset available for sale is classified as permanently impaired, the accumulated, unrealised loss that had hitherto been recognised in equity (corresponding to the difference between historical cost and the current fair value, less any impairment of the asset which may previously have been recognised in the income statement) is transferred to the income statement under "Other ordinary income". Equity instruments are classified as impaired if their market value remains significantly or for an extended period of time beneath their historical cost. Debt instruments are impaired if there is a significant deterioration in the corresponding borrower's creditworthiness or if there are other signs of problems with the borrower.

If a subsequent event shows that there is no or only a partial lasting impairment, the value may be written up. In the case of equity instruments, any write-up is recognised in comprehensive income in shareholders' equity. In the case of debt instruments, on the other hand, the impairment is reversed through the position "Other ordinary income".

After the sale of financial assets available for sale, the accumulated unrealised gain or loss which had previously been recognised in equity is transferred to the position "Other ordinary income" for the reporting period.

Interest and dividend income is accrued according to the effective interest rate method and recorded under "Income from interest and dividend".

Financial assets held to maturity

Financial investments held to maturity are investments with fixed or determinable payments and a fixed maturity which the Group has the intention and capability of holding until maturity. Shares, participation certificates and fund units cannot be classified as financial investments held to maturity because they do not expire. Convertible bonds also do not qualify as financial investments held to maturity because the definition of this term does not correspond to their characteristics.

A financial asset held to maturity is recognised at amortised cost using the effective interest rate method, unless it is impaired. Financial investments are considered impaired if there are objective indications that the full contractually agreed amount may not be recovered. If an impairment has been made, the carrying amount is reduced to the recoverable amount and recognised in the income statement. Interest and dividend income are accrued according to the effective interest rate method and recognised in "Income from interest and dividend".

Other financial instruments at fair value (fair value option)

On initial recognition, a financial instrument may be assigned to the category "Other financial instruments at fair value" and recognised in the balance sheet under "Financial assets at fair value" or "Financial liabilities at fair value". Profits and losses from sale or redemption and changes in fair value are recognised under "Income from trading".

Derivative financial instruments

All derivative financial instruments are reported as positive or negative replacement values. Derivatives that are embedded in underlying contracts count as hybrid instruments and originate from the issue of structured debt instruments. For these products, Valartis Group applies the fair value option; accordingly, there is no need to separate the embedded derivative components for measurement purposes. Consequently, recognition takes place under the positions "Financial assets at fair value" or "Financial liabilities at fair value".

Valartis Group uses derivative financial instruments for trading purposes. Changes in the fair value of derivatives are recognised in the income statement under "Income from trading".

Embedded derivatives in connection with investment real estate

Rental contracts on the investment real estate Petrovsky Fort in St. Petersburg, Russia, are in USD. Rents have been agreed in a currency which differs from the tenants' currency and from the functional currency used by the Russian company Petrovsky Fort LLC. Rents are dependent on trends in the USD against the ruble, whereby rents are limited to a minimum and a maximum amount. These inherent put and call options in the rental contracts are treated as embedded derivatives in accordance with IFRS. Evaluation of these embedded derivatives is based on the Black-Scholes model.

The embedded derivatives on the asset side are linked with the cash flow generated by the investment real estate and are therefore posted as additional value components in the balance sheet position Investment real estate and as a part of fair value adjustments on investment real estate in "Other income" in the profit and loss account. The embedded derivatives on the liabilities side are posted to the balance sheet position "Derivative financial instruments".

Value adjustments are posted in the profit and loss account in "Income from investment property, net".

Loans

Loans include loans that the Group grants directly to a borrower.

Initial measurement is at fair value, which corresponds to the cash expended for the issue of the loans including transaction costs. Subsequent measurement is at amortised cost less any specific value adjustment for credit risks.

Any difference between the original amount and the amount to be repaid at maturity is amortised using the effective interest rate method and accrued as interest and discount income.

At each balance sheet date, a credit assessment is made to see if there are objective indications that the contractually owed amount may not be recovered in full. If there are such indications, specific value adjustments for credit risks are made on these impaired loans. Specific value adjustments for credit risks are recognised in the balance sheet as write-downs of the carrying amount of the loan in question. The value adjustment is measured on the basis of the difference between the carrying amount of the receivable and the prospective recoverable amount, discounted at the effective interest rate determined in the initial recognition in consideration of the net proceeds from the realisation of any collateral. Loans with variable interest rates are discounted at the current effective interest rate. If there are changes with regard to the amount and the timing of expected future cash flows com pared to previous estimates, the value adjustment for credit risks is adjusted and recognised in the income statement under "Valuation adjustments, provisions and losses".

Non-performing loans are receivables for which the contractually agreed capital and/or payments are overdue by more than 90 days and where there are no clear indications that they may be recovered by later payments or the sale of collateral. Interest is still charged on non-performing loans. Loans are fixed without interest when their collectability is so doubtful that an accrual can no longer be considered reasonable. Non-performing loans that are classified as completely or partially unrecoverable are eliminated and charged to a specific value adjustment if one exists. Impaired receivables are reclassified at full value if the outstanding capital and interest is once again paid on time according to contractual agreements and if further credit risk requirements are fulfilled. The recovery of loans that had previously been written down and taken off the books is recorded in the income statement. The existing procedures for the determination and calculation of specific value adjustments results in a comprehensive assessment of loans; accordingly, portfolio value adjustments are generally unnecessary.

Assets under development

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

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

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

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

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

Property, plant and equipment

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

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

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

Investment properties

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

Investment properties in finance leasing

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

Goodwill

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

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

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

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

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

Provisions

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

Taxes and deferred taxes

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

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

Operating Leasing

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

Treasury shares

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

Employee benefits

Short-term employee benefits

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

Pension plans

Valartis Group makes contributions for its employees to various pension plans that provide benefits in the event of death, disability, retirement, or termination of employment. As at 31 December 2016, following divestment of the private banks, there is only one performance-related plan for Swiss employees. In the case of defined benefit plans, the period costs are determined by an independent recognised actuary. The benefits provided by these plans are generally based on the years of insurance, age, and pensionable salary. The net liability or net asset for each defined benefit plan is measured on the basis of the present value of the pension obligations determined using the projected unit credit method and the present value of the plan asset and reported in the balance sheet. These calculations are carried out annually by the actuary on the basis of the estimated future benefits based on the years of service. If the calculation shows an over-funding, the net asset to be recorded is limited to the present value of an economic benefit.

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

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

Share-based payment

The bonus model of Valartis Group stipulated that performance-related remuneration in excess of CHF 50,000 is paid out as follows: 50 per cent of the total bonus is paid out immediately in cash. An additional 25 per cent is allocated in the form of shares in the company (Bonus Shares) which are eligible after one year and which are blocked for two years. The remaining portion of the bonus of 25 per cent, also in the form of shares in the company (Super Bonus Shares), vests after three years and is dependent on the performance of Valartis Group over this period.

The remuneration model as described basically applies to all employees in Switzerland. When implemented in other countries, local practices and regulations are followed. In terms of the Bonus Shares and Super Bonus Shares, the market-related volumes are fixed at the time the rights to these shares are acquired and are not adjusted for the entire length of the vesting period. By contrast, the parameters that cannot be observed on the market are continually reassessed during the vesting period based on current developments. The estimated expense for the Bonus Shares and Super Bonus Shares as at the balance sheet date is charged pro rata temporis to personnel costs and the shareholders equity for the entire vesting period.The last programme of this kind expired on 1 April 2017.

ESTIMATES, ASSUMPTIONS, AND EXERCISE OF DISCRETION BY MANAGEMENT

Basic principle

In applying the accounting principles, management is required to make numerous estimates and assumptions which can influence the disclosures made in the consolidated income statement, consolidated balance sheet and notes to the consolidated financial statements. The actual results can deviate from these estimates. Valartis Group is confident that the consolidated financial statements present a true and fair view of the assets, financial, and income situation. Management reviews the estimates and assumptions on a continuous basis and adapts them to new knowledge and circumstances. This can have an effect on aspects of the consolidated financial statements including the following:

Fair value of financial instruments

If the determination of the fair value of financial assets and liabilities is not based on quoted market prices or price quotes by brokers, the fair value is calculated by means of valuation methods, e. g., discounted cash flow models. As far as possible, input parameters for modelling are based on observable market data. If there are no observable market data available, discretionary decisions and estimates are used taking into account parameters such as liquidity risk, default risk, and volatility risk. Changes in these estimates may have an effect on the fair value of such financial instruments. For further details see "General principles, Determination of fair value" on page 59.

Fair value of contingent purchase price consideration

Valartis Group sold its strategic stake of around 40 per cent in Eastern Property Holdings Ltd. (EPH) on 19 December 2012. Valartis Group received part of the sales considerations in cash in 2012. Another part is connected to the successful completion of

development projects of EPH. The determination of the fair value of the deferred contingent purchase price consideration of the EPH transaction is still to a large extent based on a semi-annual project evaluation based on the expected cash flows and the resultant net asset value (NAV). If these parameters change due to changes in the economic situation or new market conditions, future results may deviate from the calculated NAV. Such deviations may impact the valuation of the contingent purchase price consideration. The contingent purchase price payment is currently valued at CHF 0.4 million.

Value adjustments on credit position

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

Investment properties

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

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

Goodwill and intangible assets

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

Provisions

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

Actuarial assumptions

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

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

Associated companies

Associated companies are accounted for using the equity method. Norinvest Holding SA publishes its financial figures after Valartis Group. Valartis Group estimates the share in the result of Norinvest Holding SA for the accounting of the associated participation taking into account publicly available information. Differences between the actual results and these estimates are corrected if available in the Valartis Group's consolidated financial statements for the following year. For the valuation of the associated companies in the 2017 financial year, see the additional explanations in Note 20 Associated companies.

Restrictions on capital outflows

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

Income taxes

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

NOTES ON RISK MANAGEMENT

STRUCTURE OF RISK MANAGEMENT

Overview

With the sale of all private banks over time and with the sale of the Group's last private bank at the end of 2016, the requirements for consolidated banking supervision of Valartis Group have ceased to exist – Valartis Group has not been subject to any supervision by a banking supervisory authority since then – thus requirements and risk density for risk management and controlling have fallen significantly due to the significant reduction of risks on the assets side.

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

Organization of risk management

Following divestment of Valartis Group's banking activities, risk management was adjusted to better conform with the new situation. The former cooperation between decentralised and centralised risk management departments was replaced by a streamlined, centralised risk management organisation.

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

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

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

The foreign currency risk is currently the main risk to be assessed.

MARKET RISK

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

Market price fluctuations on equity holdings

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

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

Valartis Group is subjected to these types of risk via its holdings. In 2017, these risks mainly arose in connection with the holding in Athris Holding AG (financial investments available for sale) and the trading portfolio comprising investments in Russian equities.

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

in CHF 1,000	2017	2016
Volume participation Athris Holding AG	23,462	19,265
Sensitivity 15% based on SIX volatility p. a.	+/-3,519	+/-2,890
Volume trading position equities	6,108	5,984
Sensitivity 30% based on RTX volatility p. a.	+/-1,832	+/-1,795

Interest rate risks

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

Table 2: Sensitivity analysis of interest rate risks

in CHF 1,000	2017	2016
Volume trading positions Debt instruments	31,712	23,300
Sensitivity +/-1%	+/-317	+/-233

Currency risks

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

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

Table 3: Sensitivity analysis of currency risks

in CHF 1,000	2017	2016
Net currency position in EUR	24,988	18,804
Sensitivity +/- 4% EUR	1,000	752
Net currency position in USD	41,581	16,022
Sensitivity +/- 4% USD	1,663	641
Net currency position in RUB	5,921	5,868
Sensitivity +/- 7% RUB	414	411

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

LIQUIDITY RISK

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

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

Changes in liquidity are shown in the cash flow statement on page 46.

CREDIT RISK

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

Management of credit risks

Following divestment of all banking activities, Valartis Group no longer grants credit to clients. Credit risk according to security will therefore no longer be disclosed, as of FY 2016.

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

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

in CHF 1,000	Switzerland	Europe	Other	Total
Geographical credit risk 2017				
Cash and cash equivalents	23,808	1,219	718	25,745
Trading portfolio assets	921	8,271	28,810	38,002
Derivative financial instruments	109			109
Other financial assets at fair value	1,250		446	1,696
Due from third parties		6,371	7,460	13,831
Accrued and deferred assets	1,983	1,324	85	3,392
Financial assets available for sale	23,462			23,462
Non-current receivables	1,287		4,278	5,565
Total at 31 December 2017	**52,820**	**17,185**	**41,797**	**111,802**
Geographical credit risk 2016				
Cash and cash equivalents	17,904	6,582	154	24,640
Trading portfolio assets	1,296	29,756	0	31,052
Derivative financial instruments	204			204
Other financial assets at fair value			462	462
Due from third parties	30	4,277	24,966	29,273
Accrued and deferred assets	1,080	1,707		2,787
Financial assets available for sale	19,265	193		19,458
Non-current receivables	2,330	1,856	3,641	7,827
Deferred tax assets		536	0	536
Total at 31 December 2016	**42,109**	**44,907**	**29,223**	**116,239**

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

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

in CHF 1,000	Banks	Public sector entities	Other	Total
Breakdown by counterparty 2017				
Cash and cash equivalents	25,745			25,745
Trading portfolio assets	9,519	28	28,455	38,002
Derivative financial instruments			109	109
Other financial assets at fair value			1,696	1,696
Due from third parties			13,831	13,831
Accrued and deferred assets			3,392	3,392
Financial assets available for sale			23,462	23,462
Non-current receivables	1,288	413	3,865	5,565
Total at 31 December 2017	**36,552**	**441**	**74,810**	**111,802**
Breakdown by counterparty 2016				
Cash and cash equivalents	24,640			24,640
Trading portfolio assets	1,527	35	29,490	31,052
Derivative financial instruments	204			204
Other financial assets at fair value			462	462
Due from third parties	2,145		27,128	29,273
Accrued and deferred assets	1,080	1,707		2,787
Financial assets available for sale			19,458	19,458
Non-current receivables	2,242	1,856	3,729	7,827
Deferred tax assets		536		536
Total at 31 December 2016	**31,838**	**4,134**	**80,267**	**116,239**

Table 6: Credit risk – quality of assets

in CHF 1,000	AAA to AA-	A+ to BBB-	BB+ or lower	No external rating	Total
Quality of assets 2017					
Cash and cash equivalents		844		24,901	25,745
Trading portfolio assets	1,210	19,481	3,255	14,056	38,002
Derivative financial instruments				109	109
Other financial assets at fair value				1,696	1,696
Due from third parties	1,098			12,733	13,831
Accrued and deferred assets				3,392	3,392
Financial assets available for sale		0		23,462	23,462
Non-current receivables		413		5,152	5,565
Total at 31 December 2017	**2,308**	**20,738**	**3,255**	**85,501**	**111,802**
Quality of assets 2016					
Cash and cash equivalents	147	7,411		17,082	24,640
Trading portfolio assets	1,527	35		29,490	31,052
Derivative financial instruments				204	204
Other financial assets at fair value				462	462
Due from third parties				29,273	29,273
Accrued and deferred assets				2,787	2,787
Financial assets available for sale				19,458	19,458
Non-current receivables	1,856			5,971	7,827
Deferred tax assets	536				536
Total at 31 December 2016	**4,066**	**7,446**	**0**	**104,727**	**116,239**

As in the previous year, there are no overdue receivables without value adjustments for the 2017 financial year.

OPERATIONAL RISK

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

Management of operational risk

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

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

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. INCOME FROM MANAGEMENT SERVICES

in CHF 1,000	1.1.–31.12.2017	1.1.–31.12.2016
Revenue from management services	3,660	5,083
Revenue from management services	**3,660**	**5,083**

2. INCOME FROM INVESTMENT PROPERTY, NET

in CHF 1,000	1.1.–31.12.2017	1.1.–31.12.2016
Rental income	4,677	4,332
Impact of embedded derivatives in rental contracts	1,897	2,630
Gross rental income	**6,574**	**6,962**
Land lease expense	-219	-192
Operating expenses	-833	-733
Repair and maintenance costs	-322	-113
Property tax and non-recoverable VAT	-457	-134
Net rental income from real estate	**4,744**	**5,790**
Net result from fair value adjustment and foreign currency for investment property	**259**	**987**
Total income from investment property	**5,003**	**6,777**
Income from fair value adjustment and foreign currency effects on investment property		
Fair value adjustment on investment property including effects from foreign currency translation	915	-2,543
Fair value adjustment on embedded derivatives (asset)	-103	-2,287
Subtotal	812	-4,830
Result from foreign exchange translation on banking loan for investment property	-553	5,817
Subtotal	-553	5,817
Net result from fair value adjustment and foreign currency effect on investment property	**259**	**987**

ENR Russia Invest SA – with functional currency CHF – holds an investment property in St. Petersburg, Russia. The rental income of the property is contractually linked to the USD/ruble exchange rate. According to IFRS, the result from foreign currency translation must be booked together with the fair value valuation of the property at the balance sheet date

The debt financing for this investment property is a bank loan in USD. The net effect from the foreign currency translation of the investment property of CHF 0.8 million (previous year: CHF -4.8 million) and the foreign currency translation of the financing of CHF -0.6 million (previous year: CHF -0.6 million) are therefore not taken into account: CHF 5.8 million). The fluctuations in value in the current financial year were significantly lower than in the previous year, due in particular to the lower volatility of the Russian rouble against the USD.

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

3. SHARE OF RESULTS OF ASSOCIATED COMPANIES

	1.1.–31.12.2017	1.1.–31.12.2016
Share in net profit	428	991
Impairment	-81	-301
Result from associated companies	**347**	**690**

The associated companies have contributed to the pro rata profit Norinvest Holding SA in the amount of CHF 0.3 million and Société des Carrières SA contributed CHF 0.1 million. The impairment concerns Panariello Enterprises Ltd. (see Note 40).

4. OTHER ORDINARY INCOME

in CHF 1,000	1.1.–31.12.2017	1.1.–31.12.2016
Income from the sale of financial assets available for sale	572	88
Other income	833	2,501
Other expenses	-230	-300
Total other ordinary income	**1,175**	**2,289**

Details of income from financial assets available for sale		
Sale of equity instruments	572	88
Income from the sale of financial assets available for sale	**572**	**88**

Other income from third parties includes TCHF 220 compensation from a legal dispute from a third party for expenses in previous years and income of around TCHF 400 from the settlement of the remaining balances taken over from Valartis Bank (Austria) AG. The buyer of banking assets and liabilities Valartis Bank (Austria) AG did not want to assume certain receivables and liabilities at that time.

In the previous year, other income mainly included reversals of provisions and accruals not required due to the successful completion of restructuring measures.

5. PERSONNEL EXPENSE

in CHF 1,000	1.1.–31.12.2017	1.1.–31.12.2016
Salaries and bonuses	-4,667	-6,613
Social security benefits	-693	-813
Contributions to occupational pension plans	-319	-59
Share-based payments	-25	-143
Other personnel expense	-423	-1,338
Total	**-6,127**	**-8,966**

6. GENERAL EXPENSE

in CHF 1,000	1.1.-31.12.2017	1.1.-31.12.2016
Occupancy expense	-1,455	-1,607
IT and information expense	-511	-246
Consultancy/audit expenses and public relations	-3,309	-6,658
Other general expense	-580	-2,142
Total	**-5,855**	**-10,653**

7. DEPRECIATION

in CHF 1,000	1.1.-31.12.2017	1.1.-31.12.2016
Depreciation of property, plant and equipment	-84	-90
Total	**-84**	**-90**

8. VALUE ADJUSTMENTS, PROVISIONS AND LOSSES

in CHF 1,000	1.1.-31.12.2017	1.1.-31.12.2016
Other impairments	-2,091	-5,554
Impairment reversals	544	16
Losses		-223
Change in provisions	-137	-318
Total	**-1,684**	**-6,079**

Other impairment losses relate to impairment losses on loans and receivables from the divested Darsi subgroup. The impairment losses correspond to the interest still accrued in 2017, additional transaction costs and foreign currency differences.

The reversals of impairment losses are explained in Note 39 Acquisition of Group companies and the changes in provisions in Note 26.

9. FIANCIAL RESULT

in CHF 1,000	1.1.–31.12.2017	1.1.–31.12.2016
Interest and dividend income from the trading portfolio	1,633	1,199
Other interest income third parties	1,564	715
Total interest income	**3,197**	**1,914**
Net gain on:		
Trading portfolio assets		4,656
Total financial income	**3,197**	**6,570**
Other interest expense		-3,109
Interest expenses for financial liabilities due to banks	-1,674	-1,741
Total interest expense	**-1,674**	**-4,850**
Net losses on:		
Held for trading instruments	-417	
Total financial expenses	**-2,091**	**-4,850**
Total financial result, net	**1,106**	**1,720**

The majority of the proceeds from the sale of the private banks in 2016 were invested in fixed-interest securities in the year under review, resulting in higher interest income compared with the previous year. The increase in other interest income results primarily from loans and receivables from associated companies.

After substantial repayments of financial liabilities, interest expenses in 2017 were significantly lower than in 2016.

10. INCOME TAXES

in CHF 1,000	1.1.–31.12.2017	.1.1.–31.12.2016
Current income taxes	-905	-5,070
Change in deferred taxes	61	6,924
Total income taxes	**-844**	**1,854**
Analysis of income tax charges		
Net loss from continued operations before tax	-2,459	-9,229
Net loss from discontinued operations before tax	1,517	-30,730
Net loss before tax	-942	-39,959
Expected income tax rate [1)]	14.5%	14.2%
Expected income taxes	136	5,670
Reconciliation from expected to effective income taxes		
Difference between expected and actual tax rate	-1,466	3,529
Prior-year adjustments	-10	-1,580
Tax-exempted income (incl. income from investments)	1,290	698
Not recognised tax loss carry-forwards	-2,179	-2,983
Impairment on tax assets	0	-300
Use of not recognised tax loss carry-forwards	1,414	7,649
Non-tax-deductible expenses	-47	-9,823
Other effects	18	-1,006
Effective income taxes	**-844**	**1,854**
Income tax as disclosed in the consolidated income statement	-287	-2,759
Income tax attributable to discontinued operations	-557	4,613
Effective income taxes	**-844**	**1,854**

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

Deferred taxes

in CHF 1,000	2017	2016
Development of deferred tax (assets)/liabilities, net		
Position at 1 January	625	-221
Changes affecting the income statement	-60	794
Changes not affecting the income statement		-60
Foreign exchange translation differences	-12	112
Position at 31 December tax liabilities/(assets), net	**553**	**625**
Expiry of non-capitalised tax allowances for losses		
Within 1 year	1,454	
From 1 to 5 years	151,123	17,827
After 5 years	9,341	154,068
Total	**161,918**	**171,895**
Expiry of non-capitalised tax allowances for losses from continued operations	-3,378	
Disposal of non-capitalised tax allowances for losses from discontinued operations		
Reconciliation deferred taxes		
Deferred tax assets		
Tax loss carry-forwards	4,530	3,595
Others		536
Netting	-4,530	-3,595
Total deferred tax assets	**0**	**536**
Deferred tax liabilities		
Contingent purchase consideration for Eastern Property Holdings Ltd. (note 13)	15	16
Property, plant and equipment and investment properties	5,068	4,740
Netting	-4,530	-3,595
Total deferred tax liabilities	**553**	**1,161**

11. TRADING PORTFOLIO ASSETS

in CHF 1,000	31.12.2017	31.12.2016
Debt instruments	31,712	23,301
Equity instruments	6,108	7,295
Investment fund units	182	456
Total trading portfolio assets	**38,002**	**31,052**

12. DERIVATIVE FINANCIAL INSTRUMENTS

in CHF 1,000	Positive replacement values	Negative replacement values	Contract volume
Currencies			
Forward contracts	109		9,795
Options (OTC)		1,751	6,504
Total at 31 December 2017	**109**	**1,751**	**16,299**
Forward contracts	204		20,246
Options (OTC)		1,838	6,863
Total at 31 December 2016	**204**	**1,838**	**27,109**
Total open derivative financial instruments at 31 December 2017	**109**	**1,751**	**16,299**
Total open derivative financial instruments at 31 December 2016	**204**	**1,838**	**27,109**

13. OTHER FINANCIAL ASSETS AT FAIR VALUE

in CHF 1,000	31.12.2017	31.12.2016
Debt instruments	446	462
Equity instruments	1,250	0
Total other financial assets at fair value	**1,696**	**462**

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

The contract – which runs until 1 January 2019 – governs a real estate project in Moscow which is due to be sold by the end of the contract.

The equity instruments relate to a new investment in an innovative company in the field of online asset management.

14. DUE FROM THIRD PARTIES AND ASSOCIATED COMPANIES

in CHF 1,000	31.12.2017	31.12.2016
Due from third parties and associated companies	21,092	23,467
Escrow accounts		11,277
Total due from third parties and associated companies gross	**21,092**	**34,744**
Valuation adjustments for default risk	-7,261	-5,471
Total due from third parties and associated companies net	**13,831**	**29,273**

The escrow receivables from the previous year were paid in full by the contractual partners in the year under review.

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

15. ASSETS UNDER DEVELOPMENT

in CHF 1,000	31.12.2017	31.12.2016
Assets under development	5,921	5,868
Total assets under development	**5,921**	**5,868**

ENR Russia Invest Group (ENR) is involved in a real estate project in the Moscow agglomeration. In this project, residential houses with condominiums are being built. To date, ENR has made payments of 350 million rubles to the project developer, which corresponds to a book value of CHF 5.9 million as at 31 December 2017 (31 December 2016: CHF 5.9 million). ENR will acquire ownership of the apartments upon completion and subsequently sell them. The project was stopped in 2016 because new construction specifications had to be agreed with the local authorities. The revised plans for the project have not yet been approved and the new building permit is not yet available0. Negotiations are currently underway between the project developer and the ENR to include other investors in the project who could acquire shares from the project developer. Until completion, ENR will invest a total of around 615 million rubles or CHF 10.4 million (based on the ruble/CHF exchange rate of 31 December 2017).

An impairment test was carried out as of December 31, 2017 and showed no need for impairment.

16. FINANCIAL ASSETS AVAILABLE FOR SALE

in CHF 1,000	31.12.2017	31.12.2016
Equity instruments	23,462	19,458
Total financial assets available for sale	**23,462**	**19,458**

The financial assets available for sale are the shares in Athris Holding AG.

17. PROPERTY, PLANT AND EQUIPMENT

in CHF 1,000	Fixtures in third-party properties	IT and telecom-munications	Other property, plant and equipment	Property	Total
Acquisition costs					
Carrying amount at 31 December 2015	218	1	367	178	764
Investments			49		49
Divestments				-3	-3
Foreign exchange translation differences	56		59		115
Carrying amount at 31 December 2016	**274**	**1**	**475**	**175**	**925**
Investments		66	3		69
Reclassification to ivestment properties				-175	-175
Foreign exchange translation differences	3		4		7
Carrying amount at 31 December 2017	**277**	**67**	**482**	**0**	**826**
Cumulative depreciation					
Carrying amount at 31 December 2015	-153	-1	-293	0	-447
Depreciation	-25		-65		-90
Divestments					0
Foreign exchange translation differences	-39		-57		-96
Carrying amount at 31 December 2016	**-217**	**-1**	**-415**	**0**	**-633**
Depreciation	-28	-7	-49		-84
Foreign exchange translation differences	-4		-2		-6
Carrying amount at 31 December 2017	**-249**	**-8**	**-466**	**0**	**-723**
Net carrying amount at 31 December 2017	**28**	**59**	**16**	**0**	**103**
Net carrying amount at 31 December 2016	**57**	**0**	**60**	**175**	**292**

Future liabilities from operating leases

in CHF 1,000	31.12.2017	31.12.2016
Future liabilities from operating leases		
Remaining term up to 1 year	1,188	1,330
Remaining term from 1 to 5 years	1,562	2,892
Remaining term over 5 years	0	0
Total	**2,750**	**4,222**
Future receivables from operating leases		
Remaining term up to 1 year	1,316	1,787
Remaining term from 1 to 5 years	168	798
Remaining term over 5 years	0	0
Total	**1,484**	**2,585**

Operating Leasing

As at 31 December 2017, there were various operating leases for real estate and other property, plant and equipment, used for the business activities. The most important leases have extension options and termination clauses.

The expense for operating leases is recorded in general expense and amounts to CHF 1.3 million (prior year: CHF 1.4 million).

The rental income from operating leasing of about CHF 6.6 million (prior year: CHF 7.0 million) is part of other income (see Note 2) and is related to the investment property Petrovsky Fort (see Note 18).

18. INVESTMENT PROPERTY

in CHF 1,000	Investment property building	Embedded derivatives	Investment property financial leasing	Investment property under construction	Total
Carrying amount at 31 December 2015	28,150	3,547	1,456	0	33,153
Investments					0
Disposals	-233				-233
Fair value adjustments including foreign currency effects	-2,543	-2,287			-4,830
Foreign exchange translation differences	6,632	578	343		7,553
Carrying amount at 31 December 2016	**32,006**	**1,838**	**1,799**	**0**	**35,643**
Carrying amount at 31 December 2016	32,006	1,838	1,799	0	35,643
Investments	67			136	203
Transfer from property, plant and equipment				175	175
Fair value adjustments including foreign currency effects	915	-103			812
Foreign exchange translation differences	287	16	15		318
Carrying amount at 31 December 2017	**33,275**	**1,751**	**1,814**	**311**	**37,151**

Valuation

ENR Group holds the business center real estate Petrovsky Fort in St. Petersburg, Russia. Rental incomes of the investment property are contractually linked to USD/ruble rates. The translation to functional currency results in a significant impact on the fair value of the investment property. The fair value is appraised by an independent expert yearly.

As per 31 December 2017, the fair value based on the valuation report has increased by USD 3 million but was partially compensated by a negative development of the USD/ruble foreign currency rate during 2017. The fair value adjustments as disclosed in the table are caused by the translation of the USD-valued investment property into the ruble-based balance sheet of the company and by the fair value change of the embedded derivative. Based on the input parameters of the valuation method used, the measurement of fair value is categorised under level-3-instruments. .

Embedded derivatives

The majority of the rental contracts for Petrovsky Fort are coupled to trends in the USD/ruble rate. They contain a corridor for the USD/ruble rate which governs the level of rents, which are paid in rubles. The inherent put and call options on the purchase- and sale of foreign currency are classified as embedded derivatives because the USD is not the functional currency of the Petrovsky Fort LLC company, or the tenants. The anticipated income used to value the real estate does not include the effects of these embedded derivatives, which is why they are incorporated as separate components in the overall value of the real estate. At the same time, the derivatives are reported as a derivative financialinstrument with negative replacement value on the liabilities side.

Investment property under construction

Investment property under construction is a Valartis Group project in Geneva.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

in CHF 1,000	Goodwill	Intangible assets with finite useful lives	Total
Acquisition costs			
Carrying amount at 31 December 31 December 2015	**14,399**	**1,940**	**16,339**
Investments			0
Discontinued operations (Note 40)	-12,562	-1,940	-14,502
Foreign exchange translation differences	455		455
Carrying amount at 31 December 2016	**2,292**	**0**	**2,292**
Investments			0
Foreign exchange translation differences	21		21
Carrying amount at 31 December 2017	**2,313**	**0**	**2,313**
Cumulative amortisation/impairment			
Carrying amount at 31 December 2015	**-12,562**	**-1,940**	**-14,502**
Divestments			0
Discontinued operations (Note 40)	12,562	1,940	14,502
Foreign exchange translation differences			0
Carrying amount at 31 December 2016	**0**	**0**	**0**
Divestments			0
Foreign exchange translation differences			0
Carrying amount at 31 December 2017	**0**	**0**	**0**
Net carrying amount at 31 December 2017	**2,313**	**0**	**2,313**
Net carrying amount at 31 December 2016	**2,292**	**0**	**2,292**

Allocation and carrying amounts of goodwill and intangible assets

As of 31 December 2017, the carrying amounts of goodwill and intangible assets for continued operations are allocated to the corresponding cash-generating units (CGUs) as follows:

2017 in CHF 1'000	Goodwill	Intangible assets with finite useful lives	Intangible assets with indefinite useful lives	Total	Approach for determining the recoverable abmount
CGU Petrovsky Fort (Investment property)	2,313			2,313	Fair Value less cost of disposal
Total	**2,313**	**0**	**0**	**2,313**	

2016 in CHF 1'000	Goodwill	Intangible assets with finite useful lives	Intangible assets with indefinite useful lives	Total	Approach for determining the recoverable abmount
CGU Petrovsky Fort (Investment property)	2,292			2,292	Fair Value less cost of dispsal
Total	**2,292**	**0**	**0**	**2,292**	

Goodwill and intangible assets are tested for impairment

The cash-generating units are measured annually as at 31 December or twice (30.6./31.12.) if there are indications of possible impairment, were subjected to an impairment test. The carrying amount of the cash-generating unit to which the goodwill and intangible assets were allocated is compared with the recoverable amount. If the carrying amount of the cash-generating unit exceeds the recoverable amount, an impairment loss is recognized

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

The goodwill of the continuing operations was tested for impairment as of December 31, 2017 and is explained below.

CGU Petrovsky Fort

The acquisition of Romsay Properties Ltd and Stainfield Ltd by ENR Group in 2014 resulted in goodwill (goodwill Petrovsky Fort). The goodwill amounts at 31 December 2017 kCHF 2,313 (previous year: kCHF 2,292). The increase of kCHF 21 compared to prior year can be attributed to exchange-rate differences arising from the development of the Russian ruble

Recognised goodwill is based on the structure of the three entities acquired, which hold the investment property Petrovsky Fort. Goodwill can primarily be attributed to recognised deferred taxes which are linked with the investment property and the company structure. Impairment testing of goodwill is based on a comparison between the market value of deferred taxes and their book value. In 2016 as well as for prior year, there was no need for impairment.

20. ASSOCIATED COMPANIES

in CHF 1,000	31.12.2017	31.12.2016
Position at 1 January	17,054	37,125
Additions		2,189
Disposals	-20	0
Re-classification to discontinued operations (see Note 40)		-22,950
Impairment	-81	
Share in net profit	428	690
Position at 31 December	**17,381**	**17,054**

Norinvest Group

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

Vestive Limited.

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

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

Société des Carrières SA

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

Darsi-Gruppe

As of December 31, 2017 (as in the previous year), the investment in the Darsi Group is allocated to discontinued operations. As of 4 April 2017, Valartis Group sold its shareholding in a shopping, leisure and business centre in Algeria to another existing investor under a share purchase agreement (SPA). The contract was executed on September 26, 2017 with the transfer of the purchase amount. Subsequent negotiations are currently being held with the purchasers on an additional purchase price receivable in favour of Valartis Group (see Note 40) due to currency developments

The Darsi subgroup consisted of two companies: Darsi Investment Ltd. and Société des Centres Commerciaux d'Algérie SPA (SCCA), Algiers. Through this subgroup, the group was involved in a shopping, leisure and business center in Algiers, the "Bab Ezzouar". As at 31 December 2016, Valartis Group held 32.4 percent of Darsi Investment Ltd, a financial company based in Tortola, British Virgin Islands. Darsi Investment Ltd. in turn held a 53.9 percent controlling interest in Société des Centres Commerciaux d'Algérie SPA, which held the shopping center in Algiers, Algeria.

Panariello Enterprises Ltd.

At the end of 2013, ENR Russia Invest SA (ENR) invested in a private equity investment, Panariello Enterprises Ltd. As of December 2017, ENR sold its shareholding under a Share Purchase Agreement (SPA) (see Note 40).

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

Details on associated companies

in CHF 1,000	Norinvest Group [1]		Vestive Ltd		Société des Carrières SA	Other associated companies
	31.12.2017	31.12.2016	31.12.2017	6.7.2017 [3]	31.12.2017	31.12.2016
Revenue	23,934	59,000	326	n/a	4,213	0
Income from continued operations	-896	4,000	284	n/a	-312	0
Other comprehensive income	-3,104	-31	-1,299	n/a	-1	0
Total comprehensive income	-4,000	3,969	-1,015	n/a	-313	0
Dividends received						
Current assets	1,437,687	1,642,278	164	525	3,090	516
Non-current assets	327,794	319,811	8,661	7,861	12,723	271
Current liabilities	1,697,219	1,885,034	39,802	38,348	13	942
Non-current liabilities	6,942	12,295			15,301	689
Shareholder's equity at 31 December	61,320	64,760	-30,977	-29,962	499	-844
Non-controlling interests					-66	
Total shareholders' equity (excluding non-controlling interests)	**61,320**	**64,760**	**-30,977**	**-29,962**	**433**	**-844**
Share of the Group [2]	26.9%	25.0%	50.0%	50.0%	33.3%	49.0%
Total carrying amount associated companies	16,488	16,189	0	0	142	0
Goodwill	751	751				401
Impairment						-301
Net carrying amount	17,239	16,940	0	0	142	100

1) Norinvest Holding SA is reporting its financial results after Valartis Group. Therefore, Valartis Group estimates its share on the result of Norinvest Group for the equity accounting of this associated company, based on public available information. Any differences between these estimates and actual results will be adjusted in the Group's 2017 consolidated financial statements when available.
2) As Norinvest Holding SA has acquired treasury shares, Valartis Group AG's share in the issued shares has increased to 26.9%.
3) The associated company Vestive Ltd. was acquired on 6 July 2017.

For details on the purchase of the associated interest in Vestive Ltd., please refer to note 39.

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

21. NON-CURRENT RECEIVABLES

in CHF 1,000	31.12.2017	31.12.2016
Tax receivables	429	1,413
Other receivables	5,136	6,414
whereof escrow accounts	4,772	5,883
Total non-current receivables	**5,565**	**7,827**

As escrow accounts, residual purchase prices owed by the buyer of Valartis Bank AG Switzerland of approximately CHF 1.7 million are still due.(as at 31 December 2016: CHF 2.2 million) and from the sale of the investment in Eastern Property Holdings Ltd. of around CHF 3.7 million (31 December 2016: CHF 3.6 million). The claim of CHF 1.7 million will be settled in several tranches until 2020. The receivable from the buyers of Eastern Property Holdings Ltd. relates to a third party. The development of this position has not affected Valartis Group since 2015.

22. CURRENT FINANCIAL LIABILITIES

in CHF 1,000	31.12.2017	31.12.2016
Due to banks	21,841	32,004
Other current financial liabilities	7,075	7,155
Current financial liabilities	**28,916**	**39,159**

Liabilities to banks include a loan of CHF 14.4 million (31 December 2016: CHF 23.8 million) from UniCredit Bank to finance the Petrovsky Fort investment property.

From 1 January 2016, UniCredit Bank had granted facilities to comply with certain credit clauses for the loan to finance the Petrovsky Fort investment property until 31 July 2017 (see Note 18). For the period from 1 August 2017 until the ordinary end of the loan agreement on 30 July 2018, the ENR Group has entered into a credit agreement with the UniCredit Bank concluded a new agreement to facilitate certain credit clauses. Under the new agreement, ENR is no longer required to hedge the interest rate risk on this loan. ENR also voluntarily repaid the loan from USD 22.42 million to USD 15 million and UniCredit Bank reduced its interest margin from 6.75 percent to 5.90 percent.

23. OTHER CURRENT LIABILITIES

in CHF 1,000	31.12.2017	31.12.2016
Value added tax and other indirect tax liabilities	828	2,425
Accrued and deferred liabilities	4,245	5,331
Total other current liabilities	**5,073**	**7,756**

24. NON-CURRENT FINANCIAL LIABILITIES

in CHF 1,000	31.12.2017	31.12.2016
Liabilities from financial leasing	1,826	1,814
Other non-current liabilities	233	494
Total non-current financial liabilities	**2,059**	**2,308**

Details on liabilities from finance leases

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

in CHF 1,000	31.12.2017	31.12.2016
Sum of future leasing payments (nominal value)		
Up to one year	222	220
More than one and up to five years	890	882
More than five years	6,451	6,614
Total	**7,563**	**7,716**
Sum of future leasing payments (present value)		
Up to one year	4	4
More than one and up to five years	23	20
More than five years	1,799	1,790
Total	**1,826**	**1,814**

The finance lease originates from the building lease on the Petrovsky Fort investment property in St. Petersburg.

25. DEFINED BENEFIT OBLIGATIONS

Although contributions are paid by the employer and employees in the case of Swiss pension plans, they are considered to be defined benefit plans owing to the guaranteed interest rate and the pre- scribed conversion rate. In the fourth quarter 2015, the employee pension plans for the employees in Switzerland were transferred from the independent pension fund to a Group insurance contract of AXA Winterthur. There are no pension plans in place for the Valartis Group employees in Russia. The last actuarial calculation for performance-related plans took place on 31 December 2017, with the following results:

in CHF 1,000	31.12.2017	31.12.2016
Defined benefit obligations	1,458	2,248
Total defined benefit obligations	**1,458**	**2,248**

Statement of balance sheet item

in CHF 1,000	31.12.2017	31.12.2016
Present value of pension liabilities	10,025	13,401
Market value of plan assets	8,567	11,153
Pension liabilities/(pension assets)	**1,458**	**2,248**
Impact of the limitation as per IAS 19.64 b)		
Total pension liabilities/(pension assets)	**1,458**	**2,248**

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

in CHF 1,000	2017	2016
Net liabilities/(assets) at 1 January	2,248	3,284
Defined benefit cost recognised in personnel expense	319	-13
Defined benefit cost recognised in other comprehensive income	-831	-582
Employer contributions	-278	-441
Foreign exchange losses/(gains)		
Net liabilities/(assets) at 31 December	**1,458**	**2,248**

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

in CHF 1,000	2017	2016
Components of pension costs in personnel expense		
Annual pension costs	305	620
Passive service-costs		745
Curtailment		-1,405
Net interest expense/(income)	14	27
Pension costs for defined benefit plans	**319**	**-13**
Employer's pension expense for defined contribution plans		72
Total pension costs	**319**	**59**
whereof discontinued operations		
Total pension costs recognised in personnel expense	**319**	**59**
Defined benefit cost recognised in other comprehensive income		
Actuarial (gain)/loss on liabilities	-783	-416
Actuarial (gain)/loss on assets	-48	-166
Total remeasurement recognised in other comprehensive income	**-831**	**-582**

Change in pension liabilities

in CHF 1,000	2017	2016
Present value of pension liabilities at 1 January	13,401	26,650
Annual pension costs	305	620
Employee contributions	186	294
Interest on pension liabilities	83	230
Paid (out)/in benefits and vested benefits	-3,167	-2,453
Actuarial (gains)/losses	-783	-416
of which from adjustment to financial assumptions		200
of which from adjustment to demographic assumptions		-116
of which from adjustment to experience-based assumptions	-783	-500
Past service-costs		745
Settlement of a defined benefit plan		-3,981
De-consolidation retired employees		-8,288
Present value of pension liabilities at 31 December	**10,025**	**13,401**

Change in pension assets

in CHF 1,000	2017	2016
Market value of available pension assets at 1 January	11,153	23,366
Employee contributions	186	294
Employer contributions	278	441
Paid (out)/in benefits and vested benefits	-3,167	-2,453
Expected return on plan assets	69	203
Actuarial loss/(gain)	48	166
De-consolidation retired employees		-8,288
Settlement of a defined benefit plan		-2,576
Market value of available pension assets at 31 December	**8,567**	**11,153**

Main groups of the pension fund assets

in per cent	31.12.2017	31.12.2016
Liquidity	4.3	4.7
Bonds	65.0	0.0
Real estate	18.0	0.0
Shares and convertibles [1]	2.5	0.4
Others [2]	10.2	94.9

1) There are no treasury shares of Valartis Group AG in the pension fund assets.

2) Assets named "Others" are consisting of assets invested by group insurance foundation AXA at AXA Life Insurance Ltd. based on limitation of BVG/LLP regulations.

Actuarial assumptions

in per cent	31.12.2017	31.12.2016
Discount rate (Switzerland)	0.7	0.7
Expected rate of salary increases Switzerland	1.5	1.5
Pension adjustments Switzerland	0.0	0.0

Demographic assumptions (e. g. probabilities of death, disability and turnover) are based on the BVG/LLP 2015 actuarial tables (prior year on BVG/LLP 2010 actuarial tables). These generational tables are based on observations of large pools of insured persons in Switzerland over several years.

Estimate of contributions for the following year

in CHF 1,000	2017	2016
Employee contributions	143	155
Employer contributions	213	233

Sensitivity

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

	31.12.2017	Proportion in per cent
Current actuarial calculation of the defined benefit obligation	10,025	100
Discount rate		
Increase of 50 basis points	-337	-3.4
Reduction of 50 basis points	379	3.8
Salary trend		
Increase of 50 basis points	92	0.9
Reduction of 50 basis points	-88	-0.9

Current pension obligations have been transferred from the independent Pension Fund to Axa Winterthur. If Valartis Group would terminate the contract with the Group insurance for employee benefits and sign a new contract with another provider, these current pension obligations would stay with Axa Winterthur. Therefore, no sensitivity analysis for changes in longevity is disclosed.

26. PROVISIONS

in CHF 1,000	Provision for other business risks	Total according to balance sheet 2017	Total according to balance sheet 2016
Position at 1 January	731	731	1,679
Utilised/released in accordance with designated purpose	-32	-32	-92
Newly formed and charged to income statement	137	137	318
Released and credited to income statement	-165	-165	-1,312
Foreign exchange translation differences	23	23	138
Position at 31 December	**694**	**694**	**731**
Maturity of the provisions			
Within one year	245	245	173
More than one year	449	449	558

Provisions decreased slightly from kCHF 731 in the previous year to kCHF 694 as of 31 December 2017. A provision was formed for costs in connection with the planned liquidation of a company no longer required.

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

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

In 2017, there were no contingent liabilities as set down in IAS 37 (prior year: nil).

27. SHARE CAPITAL AND TREASURY SHARES

Share capital

in CHF	31.12.2017	31.12.2016
Share capital, fully paid-in	5,000,000	5,000,000
Number of registered shares [1)]	5,000,000	5,000,000
Nominal value per share	1	1
Equity per share (attributable to shareholders of Valartis Group AG, before appropriation of profit)	24.8	23.7

1) According the the decision of the general assembly from 16 May 2017, the bearer shares were converted into registered shares.

For the financial year 2016, the Board of Directors proposes to the Shareholders' Meeting to pay a dividend of CHF 0.2 per share (previous year: CHF 0.2 per share).

Treasury shares

	Number of shares
Position at 1 January 2016	**283,158**
Purchases	0
Sales (at an average price of CHF 7.11 with a historical average price of CHF 21.65 each)	-18,670
Position at 31 December 2016	**264,488**
Purchases (at an average price of CHF 9.14 each)	51,780
Sales (at an average price of CHF 7.96 with a historical average price of CHF 21.65 each)	-15,102
Position at 31 December 2017	**301,166**
Historical cost value in TCHF	5,872,173
Historical average rate in CHF	19.50

28. EARNINGS PER SHARE

	2017	2016
Net loss attributable to the shareholders of Valartis Group AG in CHF 1,000	-2,383	-43,250
Net loss from continued operations attributable to the shareholders of Valartis Group AG, in CHF 1,000	-3,343	-17,133
Net gain/(loss) from discontinued operations attributable to the shareholders of Valartis Group AG, in CHF 1,000	960	-26,117
Weighted average number of shares	5,000,000	5,000,000
less weighted average number of treasury shares	-281,551	-273,677
Undiluted weighted average number of shares	4,718,449	4,726,323
Diluted weighted average number of shares	4,718,449	4,726,323
Earnings per share	in CHF	in CHF
Undiluted, attributable to shareholders of Valartis Group AG	-0.51	-9.15
Diluted, attributable to shareholders of Valartis Group AG	-0.51	-9.15
Earnings per share from continued operations		
Undiluted, attributable to shareholders of Valartis Group AG	-0.71	-3.62
Diluted, attributable to shareholders of Valartis Group AG	-0.71	-3.62
Earnings per share from discontinued operations		
Undiluted, attributable to shareholders of Valartis Group AG	0.20	-5.53
Diluted, attributable to shareholders of Valartis Group AG	0.20	-5.53

29. SHAREHOLDER STRUCTURE

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

The following is a summary of the items for 3 percent in Valartis Group AG, based on the published reports.

in per cent	31.12.2017	31.12.2016
MCG Holding SA, Baar ZG	50.2	50.2
Nebag AG, Zurich (according to their reporting from 2 September 2016)	3.2	3.2
Gustav Stenbolt	0.9	0.9
Philipp LeibundGut	0.5	0.5

As per 31 December 2017 the beneficial owners of MCG Holding SA are Gustav Stenbolt, Geneva, Tidesea Ltd., Baar (100 per cent controlled by Gustav Stenbolt, Geneva), Philipp LeibundGut, Zurich and Tudor Private Portfolio LLC, Greenwich, USA. The following are deemed to be holders of qualified participations: a) Gustav Stenbolt, who holds 72.8 per cent of the voting rights (63.9 per cent of the share capital) of MCG Holding SA (partly held through Tidesea Ltd., Baar), b) Philipp LeibundGut, who holds 14.9 per cent of the voting rights (19.8 per cent of the share capital) of MCG Holding SA, and c) Tudor Private Portfolio LLC, Greenwich, USA, which holds 12.3 per cent of the voting rights (16.3 per cent of the share capital) of MCG Holding SA.

Tudor Private Portfolio LLC is wholly controlled by Tudor Group Holdings LLC, Greenwich, USA, which is in turn controlled by Paul Tudor Jones of Greenwich, USA

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

30. SHARE-BASED PAYMENT

Number	2017	2016
Holdings of rights at 1 January	14,568	34,307
Granted during the year (reduction)	-14,568	-19,739
Holdings of rights at 31 December	**0**	**14,568**
Fair value of the outstanding rights in CHF 1,000 [1)]		99
Average price of shares upon allotment, in CHF		20.94

in CHF 1,000	2017	2016
Charged as personnel expense in the year under review	-25	-143
of which continued operations	-25	-143
of which discontinued operations		
Estimated charge to personnel expense for the remaining vesting periods		-25
Maximum anticipated charge to personnel expense for the remaining vesting periods		-25

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

The content and procedures for determining the remuneration and the participation programs are described in the remuneration report. Under the accounting principles set out in the notes to the consolidated financial statements on page 64 show the presentation of the shareholdings based compensation in the financial statements. As of December 31, 2017, there were no ongoing employee programs.

31. CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS BY CURRENCY

2017 in CHF 1,000	CHF	EUR	USD	Others	Total currencies
Assets					
Cash and cash equivalents	11,647	12,040	1,339	719	25,745
Trading portfolio assets	4,587	3,312	28,816	1,287	38,002
Derivative financial instruments	109				109
Other assets at fair value	1,250	65	381		1,696
Due from third parties	960	8,930	3,687	254	13,831
Accrued and deferred assets	693	2,315	299	85	3,392
Total current assets	**19,246**	**26,662**	**34,522**	**2,345**	**82,775**
Assets under development				5,921	5,921
Financial assets available for sale	23,462				23,462
Property, plant and equipment	60			43	103
Investment property	310		35,026	1,815	37,151
Goodwill and other intangible assets				2,313	2,313
Associated companies	17,239	142			17,381
Non-current receivables	1,240	6	3,477	842	5,565
Total non-current assets	**42,311**	**148**	**38,503**	**10,934**	**91,896**
On-balance-sheet assets	**61,557**	**26,810**	**73,025**	**13,279**	**174,671**
Assets classified as held for sale					2,735
Total assets					**177,406**
Claims arising from forex spot and forward trans.					0
Total at 31 December 2017	**61,557**	**26,810**	**73,025**	**13,279**	**177,406**
Liabilities and shareholders' equity					
Accounts payables	397	53		364	814
Current financial liabilities	7,265	5	21,646	0	28,916
Derivative financial instruments	0			1,751	1,751
Current tax liabilities	35	849			884
Other current liabilities	3,542	490	3	1,038	5,073
Current provisions		245			245
Total current liabilities	**11,239**	**1,642**	**21,649**	**3,153**	**37,683**
Non-current financial liabilities		180		1,879	2,059
Defined benfit obligations	1,458				1,458
Deferred tax liabilities	16			537	553
Provisions		0		449	449
Total non-current liabilities	**1,474**	**180**		**2,865**	**4,519**
Shareholders' equity	135,204				135,204
On-balance-sheet liabilities	**147,917**	**1,822**	**21,649**	**6,018**	**177,406**
Total liabilities					**177,406**
Oblig. arising from forex spot and forward trans.			9,795		9,795
Total at 31 December 2017	**147,917**	**1,822**	**31,444**	**6,018**	**187,201**
Net position per currency 31 December 2017	**-86,360**	**24,988**	**41,581**	**7,261**	

2016 in CHF 1,000	CHF	EUR	USD	Others	Total currencies
Assets					
Cash and cash equivalents	13,649	7,564	3,245	182	24,640
Trading portfolio assets	3,894	234	25,820	1,104	31,052
Derivative financial instruments	204				204
Other assets at fair value	65		397		462
Due from third parties	18,861	10,399	13		29,273
Accrued and deferred assets	1,519	749	416	103	2,787
Total current assets	**38,192**	**18,946**	**29,891**	**1,389**	**88,418**
Assets under development				5,868	5,868
Financial assets available for sale	19,265	193			19,458
Property, plant and equipment	189			103	292
Investment property			33,844	1,799	35,643
Goodwill and other intangible assets				2,292	2,292
Associated companies	16,940	114			17,054
Non-current receivables	2,242	1,026	3,657	902	7,827
Deferred tax claims		536			536
Total non-current assets	**38,636**	**1,869**	**37,501**	**10,964**	**88,970**
On-balance-sheet assets	**76,828**	**20,815**	**67,392**	**12,353**	**177,388**
Assets classified as held for sale					11,274
Total assets					**188,662**
Claims arising from forex spot and forward trans.					0
Total at 31 December 2016	**76,828**	**20,815**	**67,392**	**12,353**	**188,662**
Liabilities and shareholders' equity					
Accounts payables	1,231	439		304	1,974
Current financial liabilities	8,296	3	30,860	0	39,159
Derivative financial instruments	0			1,838	1,838
Current tax liabilities	493	143			636
Other current liabilities	5,573	786	254	1,143	7,756
Current provisions		173			173
Total current liabilities	**15,593**	**1,544**	**31,114**	**3,285**	**51,536**
Non-current financial liabilities		467	10	1,831	2,308
Defined benfit obligations	2,248				2,248
Deferred tax liabilities	17			1,144	1,161
Provisions		0		558	558
Total non-current liabilities	**2,265**	**467**	**10**	**3,533**	**6,275**
Shareholders' equity	130,851				130,851
On-balance-sheet liabilities	**148,709**	**2,011**	**31,124**	**6,818**	**188,662**
Total liabilities					**188,662**
Liab. arising from forex spot and forward trans.			20,246		20,246
Total at 31 December 2016	**148,709**	**2,011**	**51,370**	**6,818**	**208,908**
Net position per currency 31 December 2016	**-71,881**	**18,804**	**16,022**	**5,535**	

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

2017 in CHF 1,000	Demand	Subject to notice	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after 5 years	Total
Assets							
Cash and cash equivalents	25,745						25,745
Trading portfolio assets	38,002						38,002
Derivative financial instruments			109				109
Other assets at fair value			0	1,315	381		1,696
Due from third parties	275		11,700	1,856			13,831
Accrued and deferred assets	140		230	3,022			3,392
Total current assets	**64,162**	**0**	**12,039**	**6,193**	**381**	**0**	**82,775**
Assets under development					5,921		5,921
Financial assets available for sale					23,462		23,462
Property, plant and equipment				10	93		103
Investment property						37,151	37,151
Goodwill and other intangible assets						2,313	2,313
Associated companies						17,381	17,381
Non-current receivables					5,565		5,565
Total non-current assets	**0**	**0**	**0**	**10**	**35,041**	**56,845**	**91,896**
On-balance-sheet assets	**64,162**	**0**	**12,039**	**6,203**	**35,422**	**56,845**	**174,671**
Assets classified as held for sale							2,735
Total at 31 December 2017	**64,162**	**0**	**12,039**	**6,203**	**35,422**	**56,845**	**177,406**
Liabilities and shareholders' equity							
Accounts payables				814			814
Current financial liabilities		3,257	47	25,612			28,916
Derivative financial instruments				1,751			1,751
Current tax liabilities			18	866			884
Other current liabilities			25	5,048			5,073
Current provisions				245			245
Total current liabilities	**0**	**3,257**	**90**	**34,336**	**0**	**0**	**37,683**
Non-current financial liabilities					233	1,826	2,059
Defined benfit obligations						1,458	1,458
Deferred tax liabilities					16	537	553
Provisions					449		449
Total non-current liabilities	**0**	**0**	**0**	**0**	**698**	**3,821**	**4,519**
Total liabilities							**42,202**
Contingent liabilities							
Total at 31 December 2017	**0**	**3,257**	**90**	**34,336**	**698**	**3,821**	**42,202**

2016 in CHF 1,000	Demand	Subject to notice	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after 5 years	Total
Assets							
Cash and cash equivalents	21,110	3,416			114		24,640
Trading portfolio assets	31,052						31,052
Derivative financial instruments			204				204
Other assets at fair value				65	397		462
Due from third parties			16,594	1,281	11,398		29,273
Accrued and deferred assets	17		601	2,169			2,787
Total current assets	**52,179**	**3,416**	**17,399**	**3,515**	**11,909**	**0**	**88,418**
Assets under development					5,868		5,868
Financial assets available for sale					19,458		19,458
Property, plant and equipment			38		254		292
Investment property						35,643	35,643
Goodwill and other intangible assets						2,292	2,292
Associated companies						17,054	17,054
Non-current receivables					7,827		7,827
Deferred tax claims			536				536
Total non-current assets	**0**	**0**	**574**	**0**	**33,407**	**54,989**	**88,970**
On-balance-sheet assets	**52,179**	**3,416**	**17,973**	**3,515**	**45,316**	**54,989**	**177,388**
Assets classified as held for sale							11,274
Total at 31 December 2016	**52,179**	**3,416**	**17,973**	**3,515**	**45,316**	**54,989**	**188,662**
Liabilities and shareholders' equity							
Accounts payables				1,974			1,974
Current financial liabilities	3,416		1,362	34,381			39,159
Derivative financial instruments				1,838			1,838
Current tax liabilities			610	26			636
Other current liabilities	2,008	0	247	5,501	0	0	7,756
Current provisions				173			173
Total current liabilities	**5,424**	**0**	**2,219**	**43,893**	**0**	**0**	**51,536**
Non-current financial liabilities					494	1,814	2,308
Defined benfit obligations						2,248	2,248
Deferred tax liabilities					17	1,144	1,161
Provisions						558	558
Total non-current liabilities	**0**	**0**	**0**	**0**	**511**	**5,764**	**6,275**
Total liabilities							**57,811**
Contingent liabilities							0
Total at 31 December 2016	**5,424**	**0**	**2,219**	**43,893**	**511**	**5,764**	**57,811**

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

in CHF 1,000	31.12.2017			31.12.2016		
	Book value	Fair value	Deviation	Book value	Fair value	Deviation
Assets						
Cash and cash equivalents	25,745	25,745		24,640	24,640	
Due from third parties	13,831	13,831		29,273	29,273	
Accrued and deferred assets	3,392	3,392		2,787	2,787	
Non-current receivables	5,565	5,565		7,827	7,827	
Financial assets at amortised costs	**48,533**	**48,533**	**0**	**64,527**	**64,527**	**0**
Trading portfolio assets	38,002	38,002		31,052	31,052	
Derivative financial instruments	109	109		204	204	
Other financial assets at fair value	1,696	1,696		462	462	
Financial assets available for sale	23,462	23,462		19,458	19,458	
Financial assets at fair value	**63,269**	**63,269**	**0**	**51,176**	**51,176**	**0**
Liabilities						
Trade payables	814	814		1,974	1,974	
Current financial liabilities	28,916	28,916		39,159	39,159	
Current income taxes	884	884		636	636	
Other current liabilities	5,073	5,073		7,756	7,756	
Non-current financial liabilities	2,059	2,059		2,308	2,308	
Financial liabilities at amortised costs	**37,746**	**37,746**	**0**	**51,833**	**51,833**	**0**
Derivative financial instruments	1,751	1,751		1,838	1,838	
Financial liabilities at fair value	**1,751**	**1,751**	**0**	**1,838**	**1,838**	**0**

The following table shows the assets and financial liabilities measured at fair value, classified by a fair value hierarchy of three levels. For an explanation of the levels, please refer to the accounting principles, p. 59.

2017 in CHF 1,000	Quoted market prices (level 1)	Valuation method based on market data (level 2)	Valuation method not based on market data (level 3)	31.12.2017
Assets				
Trading portfolio assets	34,375		3,627	38,002
Derivative financial instruments		109		109
Other financial assets at fair value			1,696	1,696
Financial assets available for sale			23,462	23,462
Investment property (excl. embedded derivatives)			35,400	35,400
Embedded derivatives on investment property			1,751	1,751
Total investment property			37,151	37,151
Assets at fair value	**34,375**	**109**	**65,936**	**100,420**
Liabilities				
Derivative financial instruments			1,751	1,751
Total financial liabilities at fair value	**0**	**0**	**1,751**	**1,751**

2016 in CHF 1,000	Quoted market prices (level 1)	Valuation method based on market data (level 2)	Valuation method not based on market data (level 3)	**31.12.2016**
Assets				
Trading portfolio assets	25,679	234	5,139	31,052
Derivative financial instruments		204		204
Other financial assets at fair value			462	462
Financial assets available for sale			19,458	19,458
Investment property			33,805	33,805
Embedded derivatives on investment property			1,838	1,838
Total investment property			35,643	35,643
Assets at fair value	**25,679**	**438**	**60,702**	**86,819**
Liabilities				
Derivative financial instruments			1,838	1,838
Total financial liabilities at fair value	**0**	**0**	**1,838**	**1,838**

2017 in CHF 1,000	1.1.2017	Recognised in the income statement [1]	Net income recognised in shareholders' equity [2]	Transfer from level 1 and level 2	Purchase	Sales	31.12.2017
Trading portfolio assets	5,139	1				-1,513	3,627
Financial assets available for sale	19,458	572	2,686		1,511	-765	23,462
Other financial assets at fair value	462	-16			1,250		1,696
Investment property (excl. embedded derivatives)	33,805	915	302		378		35,400
Embedded derivatives on investment property	1,838	-103	16				1,751
Total assets at fair value (level 3)	**60,702**	**1,369**	**3,004**	**0**	**3,139**	**-2,278**	**65,936**
Derivative financial instruments	1,838	-103	16				1,751
Total financial liabilities at fair value (level 3)	**1,838**	**-103**	**16**	**0**	**0**	**0**	**1,751**

2016 in CHF 1,000	1.1.2016	Recognised in the income statement [1]	Net income recognised in shareholders' equity [2]	Transfer from level 1 and level 2	Purchase	Sales	31.12.2016
Trading portfolio assets	5,579	-440					5,139
Financial assets available for sale	21,128		-1,670				19,458
Other financial assets at fair value	2,063	-834				-767	462
Investment property (excl. embedded derivatives)	29,606	-2,543	6,975			-233	33,805
Embedded derivatives on investment property	3,547	-2,287	578				1,838
Total assets at fair value (level 3)	**61,923**	**-6,104**	**5,883**	**0**	**0**	**-1,000**	**60,702**
Derivative financial instruments	3,547	-2,287	578				1,838
Total financial liabilities at fair value (level 3)	**3,547**	**-2,287**	**578**	**0**	**0**	**0**	**1,838**

1) The unrealised trading loss recorded in the income statement for the trading portfolio held at year-end amounts to TCHF -202 (previous year TCHF -427) and the unrealised loss of other financial assets at fair value to TCHF -16 (previous year: TCHF -1,424).

2) The unrealised gain on financial assets available for sale held at year-end recorded in shareholders equity amounts to TCHF -2,686 (previous year's unrealised loss TCHF -1,670).

Explanation of significant unobservable input parameters
The valuation of trading positions and financial assets available for sale level 3 is based on the annual financial statements of the corresponding securities and individual transactions observable on the market.

As at the balance sheet date, available for sale financial instruments mainly comprise the investment in Athris Holding AG, whose shares are traded sporadically on the OTC platform of Berner Kantonalbank (book value as at 31 December 2017: CHF 23.5 million; prior year: CHF 19.3 million.

Trading in these securities is not liquid. The company is dominated by a majority shareholder and provides its shareholders with financial information on the past year every second quarter.

The traded prices show a discount to the reported equity of the company. The discount is generally within a range of 10 to 15 percent, which is not unusual for minority interests of this type. The fair value of Athris shares as of December 31, 2017 (same procedure as in the previous year) is based on the prices traded on the OTC platform and includes the assumption that the discount to the equity value of the company is within the aforementioned range. Once the financial information is available, the system checks retrospectively whether this valuation assumption is still correct. If the discount were to increase or decrease significantly, the valuation approach would be adjusted for subsequent years. An increase or reduction of the discount by 5 percent would have resulted in a change in value of approximately +/- CHF 1.4 million (previous year +/- CHF 1.2 million) in the Athris investment accounted for as an available for sale financial instrument.

"Other financial assets at fair value" includes the existing contingent purchase price payment from the sale of Eastern Property Holdings Ltd. (EPH) of TCHF 381 (prior year: TCHF 398) is reported under Level 3. The amount of this remaining purchase price receivable depends on the completion and sale of an EPH real estate project. The valuation of the remaining purchase price receivable is based on an estimate of the real estate project by an external independent expert and a supplementary management assessment

An increase or a decrease of 1 percent in the underlying used would lead to an increase (or a decrease) of the remaining purchase price receivable of TCHF 3.

Significant unobservable input parameters for the valuation of investment property and embedded derivatives.

Significant, unobservable inputs in the evaluation of the investment property Petrovsky Fort	31.12.2017	31.12.2016
Fair value of Petrovsky Fort (property)		
in TUSD	34,117	31,410
in TCHF	33,275	32,006
Capitalisation rate for income capitalisation	11.5%	n/a
Discount rate for discounted cash flow	14.5%	12.5%
Embedded derivatives on investment property; Black-Scholes		
Fair value of embedded derivatives in kCHF	1,751	1,838
	USD/Rubel	USD/Rubel
Range of USD/Ruble exchange rate corridor in lease contracts	51.84–63.36	54.59–66.72

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

Effects of changes in input parameters on fair value
The fair values of the investment property resulting from an increase or reduction in the rental price per m^2 are shown in the following table. The fair value of the investment property is USD 34,117,000 at December 31, 2017 and USD 31,410,000 at December 31, 2016.

2017		2016	
Rental income per year in USD/m (net after VAT)	Fair Value	Rental income per year in USD/m (net after VAT)	Fair Value
USD	**USD**	**USD**	**USD**
195	34,960,000	195	32,680,000
190	34,117,000	190	32,040,000
185	33,274,000	185	31,410,000
180	32,431,000	180	30,770,000
175	31,588,000	175	30,140,000

An increase in the vacancy rate from 10 percent to 15 percent would have reduced the fair value of the property from USD 34.1 million to USD 32.1 million (previous year: reduction of the fair value from USD 31.4 million to USD 29.9 million).

An increase or reduction of the USD/ruble corridor in the rental agreements by 10 percent would result in an increase or reduction of CHF 0.5 million or ruble 28.7 million of the fair value of the embedded derivatives (previous year: CHF 0.5 million or ruble 27.7 million).

34. NETTING-AGREEMENTS

In order to reduce credit risks in connection with derivatives transactions, Valartis Group concludes global netting agreements or similar agreements with its counterparties (netting agreements). These include clearing agreements for derivatives such as the ISDA Master Netting Agreement and regulations for derivatives exchanges.

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

Financial assets with netting agreements

in CHF 1,000	Amount before balance sheet off-setting	Balance sheet off-setting	Book value	Financial instruments not off-set	Collateral received	Net exposure
Derivative financial instruments	109		109			109
Total 31 December 2017	**109**	**0**	**109**	**0**	**0**	**109**
Derivative financial instruments	204		204			204
Total 31 December 2016	**204**	**0**	**204**	**0**	**0**	**204**

Financial liabilities with netting agreements

in CHF 1,000	Amount before balance sheet off-setting	Balance sheet off-setting	Book value	Financial instruments not off-set	Collateral provided	Net exposure
Derivative financial instruments			0			0
Total 31 December 2017	**0**	**0**	**0**	**0**	**0**	**0**
Derivative financial instruments	0		0		0	0
Total 31 December 2016	**0**	**0**	**0**	**0**	**0**	**0**

35. RELATED PARTIES AND COMPANIES

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

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

in CHF 1,000	31.12.2017	31.12.2016
Receivables		
Key management and relatives		
Associated companies	15,961	19,247
Other related entities	159	173
Total	**16,120**	**19,420**
Liabilities		
Key management and relatives	108	
Associated companies	1	6,926
Other related entities	270	
Total	**379**	**6,926**
Expenses		
Key management and relatives		-4,244
Associated companies	-6,149	-135
Other related entities	-271	-1
Total	**-6,420**	**-4,380**
Income		
Key management and relatives		
Associated companies	2,434	779
Other related entities	3,102	4,321
Total	**5,536**	**5,100**

Valartis International Ltd, a Valartis Group company, is responsible for some of EPH's investment management functions under a management contract. Receivables and income from this agreement are included in the table above under "Other related parties".

On 6 July 2017 Valartis Group acquired Eastern Property Partners II LP including its subsidiaries from EPH. Gustav Stenbolt is a member of the Board of Directors of EPH and Chairman of Valartis Group AG and ENR Russia Invest SA. He was not involved in the decision on the sale or purchase of Eastern Property Partners II LP, respectively went into suspension. The transaction is disclosed in Note 39, Acquisitions of Group companies and associates.

On 30 June 2017, Valartis Group acquired shares of 0.9 percent in ENR Russia Invest SA from the pension fund for around CHF 0.35 million. The purchase price was based on the current market price less a small discount of around TCHF 60.

Expenses for and liabilities to other related parties include an amount of kCHF 270, which is attributable to the following circumstances:

After the additional time burden for a Chairman of the Board of Directors and Delegate of the Board of Directors due to the very large reduction of staff in the Group service organisation has increased significantly and in 2017 included tasks which traditionally are not directly performed by these two functions, a consulting agreement was concluded between a Valartis Group company and a Swiss stock corporation privately held by the Chairman of the Board of Directors at arm's length terms. This agreement provides for the provision of (national and international) advisory services in the areas of the Group's investment policy and strategy and asset management, in particular short-term cash management, business development and project development. The contract was concluded with Valartis International Ltd. because this company uses most of these consulting and management services. The fee from the consulting contract amounts to TCHF

300 plus VAT per year. CHF 270,000 was expensed for the 2017 financial year (for the period from 1 March 2017 to 31 December 2017). The fee is included in the total remuneration of the Chairman of the Board of Directors and the Delegate of the Board of Directors and is disclosed in the remuneration report on page 31.

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

2017

Members of the Board of Directors	Gustav Stenbolt, Chairman & Delegate of BoD (CEO)	Christoph N. Meister, Vice chairman	Philipp LeibundGut, Member	Total
Numbers of shares	1,874,601	4,821	398,333	2,277,755
Numbers of shares (allotted) [1]				0
Loans and advances in CHF				0
Loans and advances in CHF to related parties				0

2017

Executive Management	Stefan Häberle CEO [3]	George M. Isliker, CFO/CRO		Total
Numbers of shares [4]		15,285		15,285
Numbers of shares (allotted) [1]				0
Loans and advances in CHF				0
Loans and advances in CHF to related parties				0

1) Allotted shares means shares which have been granted to members of Board of Directors or Group Executive Management as bonus component of current year or in prior years, but which have not yet been reached the vesting date.
2) Gustav Stenbolt had served as Group CEO since 2007 until his election as Chairman of the Board of Directors by the Annual General Meeting on June 2, 2015. Stephan Häberle was CEO of Valartis Group from 3 June 2015 until he left the Group in February 2017, and Gustav Stenbolt took over as Delegate of the Board of Directors in March 2017.
3) Of the newly allocated shares in the year under review, 4,179 shares for Gustav Stenbolt and 1,174 shares for Philipp LeibundGut are from a bonus plan based on the result for the 2013 financial year. The remaining additions are due to changes in the ownership structure of MCG Holding SA.
4) The shares newly allocated in the year under review stem from a bonus plan based on the result for the 2013 financial year.

2016 Members of the Board of Directors	Gustav Stenbolt, Chairman	Christoph N. Meister, Vice chairman	Philipp LeibundGut, Member [1]	Total
Numbers of shares	1,862,733	4,821	395,565	2,263,119
Numbers of shares (allotted) [1]	4,179		1,194	5,373
Loans and advances in CHF				0
Loans and advances in CHF to related parties				0

2016 Executive Management	Stephan Häberle, CEO [1]	George M. Isliker, CFO/CRO		Total
Numbers of shares		13,494		13,494
Numbers of shares (allotted) [3]		1,791		1,791
Loans and advances in CHF				0
Loans and advances in CHF to related parties				0

1) Philipp LeibundGut was newly elected to the Board of Directors at the Annual General Meeting on 2 June 2016. The number of shares as of December 31, 2016 corresponds to the number of shares as of the date of joining the Board of Directors.
2) Stephan Häberle was CEO of Valartis Group from 3 June 2015 until his departure in February 2017.
3) Allotted shares means shares which have been granted to members of Group Executive Management as bonus component of current year or in prior years, but which have not yet been reached the vesting date.

37. BUSINESS SEGMENTS

Following the sale of the Bank in Liechtenstein and the banking business in Austria, the former "Private Clients" segment no longer exists. The business activities and investments previously combined in the "Institutional Clients" segment remain. Due to the reduced size and the current organizational structure, there is only one management level in the sense of a leading decision-maker, the Delegate of the Board of Directors, for the management of the existing investments. Valartis Group now only has a single segment and, in accordance with IFRS 8, reporting is only for one component of the company.

Valartis Group's external segment reporting will be based on internal reporting as of 31 December 2016.

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

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

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

Information on regions

in CHF 1,000	1.1.–31.12.2017			1.1.–31.12.2016		
	Domestic	Non-domestic	Total	Domestic	Non-domestic	Total
Operating income	1,348	8,837	10,185	5,368	9,471	14,839
Total assets	64,354	110,317	174,671	60,083	117,305	177,388

Reporting is based on operating locations.

38. GROUP COMPANIES

In addition to the figures of Valartis Group AG, Baar, Canton Zug, the consolidated financial statements include the financial statements of the following fully consolidated companies and associated companiesn:

Fully consolidated entities	Domicile	Purpose	Currency	Share capital	Participation in per cent 31.12.2017	Participation in per cent 31.12.2016
Valartis International Ltd.	Tortola, BVI	Investment Advisor	USD	20,000,000	100.00	100.00
VLR Property Management Ltd.	Moscow, RU	Investment Advisor	RUB	100,000	99.99	99.99
ENR Russia Invest SA (Group)	Geneva, CH	Investment Company	CHF	32,790,585	63.22	62.26
ENR Investment Ltd.	Limassol, CY	Investment Company	EUR	6,576,660	63.22	62.26
ENR Private Equity Ltd.	Grand Cayman, CYM	Investment Company	USD	500	63.22	62.26
Stainfield Ltd.	Limassol, CY	Holding Company	EUR	3,420	63.22	62.26
ENR Development LLC	Moscow, RU	Real estate project Company	RUB	15,535,100	63.22	62.26
Petrovsky Fort LLC	Moscow, RU	Real estate Company	RUB	18,000	63.22	62.26
Romsay Properties Ltd.	Limassol, CY	Holding Company	EUR	1,710	63.22	62.26
Eastern Property Partners II LP	Grand Cayman, CYM	Holding Company	USD	67,831,133	100.00	
EPP GP Ltd.	Grand Cayman, CYM	Holding Company	USD	50,000	100.00	
Parking Clé de Rive SA	Geneva, CH	Real estate project Company	CHF	148,500	51.00	51.00
Valartis Finance Holding AG	Vaduz, FL	Holding Company	CHF	100,000	100.00	100.00
Valartis AG	Baar, CH	Holding Company	CHF	100,000	100.00	100.00
Vaba1 Holding GmbH in liquidation (formerly Valartis (Austria) GmbH)	Vienna, AT	Holding Company	EUR	35,000	100.00	100.00
MCT Luxembourg Management S.à.r.l.	Luxembourg, L	Investment Advisor	EUR	12,085	100.00	100.00
Valartis Advisory Services SA	Geneva, CH	Investment-Advisory- and Corporate-Center-functions	CHF	1,896,210	100.00	100.00
Valartis Immobilier AG	Baar, CH	Real estate Company	CHF	100,000	100.00	100.00
Valartis Group Foundation	Vaduz, FL	Trust	CHF	30,000	100.00	100.00

Associated companies	Domicile	Purpose	Currency	Sharecapital	Participation in per cent 31 December 2017	Participation in per cent 31 December 2016
Norinvest Holding SA	Geneva, CH	Holding Company	CHF	25,689,000	26.90[1)]	25.00
Darsi Investment Ltd.	Tortola, BVI	Real estate project Company	EUR	7,476,190	38.81	32.44
Société des Carrières SA	Luxembourg, L	Holding Company	EUJR	33,000	33.33	33.33
Vestive Limited	Nicosia, CY	Holding Company	EUR	5,000	50.00	
Inkonika LLC	Moscow, RU	Real estate Company	Rubel	16,510,836	50.00	

1) Because Norinvest Holding SA acquired its own shares, Valartis Group AG's share in the issued shares rose to 26.90%.

Sold or merged participations						
Valartis Strategic Investments S.à.r.l.	Luxembourg, L	Holding Company	EUR		liquidate	100.00
Valartis Bank (Liechtenstein) AG	Bendern, FL	Bank	CHF			sold
Valartis Bank (Austria) AG, Valartis (Wien) GmbH, Valartis Asset Management Kapitalanlagegesellschaft m.b.H.	Vienna, AT	Bank	EUR			sold
Société des Centres Commerciaux d'Algérie SPA	Algiers, DZ	Real estate Company	DZD		sold	20.00
Gebäudebesitz Rathausstrasse 20 GmbH	Vienna, AT	Real estate Company	EUR		sold	49.90
Panariello Enterprises Ltd.	Nicosia, CY	Investment Company	EUR		sold	49.00

39. ACQUISITION OF ASSOCIATED COMPANIES

On 6 July 2017, Valartis Group acquired all shares in Eastern Property Partners II LP (EPP II) from Eastern Property Holdings Ltd. via its Group company ENR Russia Invest SA. This company holds a 50 percent stake in Vestive Limited (Vestive), which owns and operates a parking garage in Moscow via the Russian company Inkonika LLC (Inkonika). All shares were acquired by EPH for the purchase price of TCHF 2,133 (TUSD 2,225) as part of this transaction. In addition to the purchase of the shares, Valartis Group also assumed liabilities of the acquired units towards the seller and paid EPH a price of TCHF 1,366 (TUSD 1,425) in return. The total purchase price for the transaction thus amounts to TCHF 3,500 (TUSD 3,650).

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

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

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

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

in CHF 1,000	6.7.2017	6.7.2017
	EPP II Ltd.	Vestive Ltd.
Current assets, including cash & cash equivalents	2,133	525
Non-current assets, including investment property	0	7,861
Total assets	**2,133**	**8,385**
Current liabilities		38,347
Non-current liabilities		0
Total liabilities	**0**	**38,347**
Equity	**2,133**	**-29,962**
Proportion of the Group's ownership in per cent	100	50
Group's share of equity	2,133	-14,981
Unrecognized Group's share of equity	n/a	-14,981
Carrying amount of the investment in associated company	n/a	0
Purchase price paid cash	2,133	
Goodwill		
Net cash outflow	**-2,133**	**n/a**

Aquisition of loans due from Inkonika LLC, a 100 per cent subsidiary of Vestive Limited, from Eastern Property Holdings Group as per		6.7.2017
Loans due from Inkonika LLC (fair value)		1,366
Purchase price paid cash		1,366
Net cash outflow		**-1,366**

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

Since its inclusion in the scope of consolidation of Valartis Group on 6 July 2017, EPP II has generated financial income of TCHF 0 and a profit of TCHF 39. Financial income consists exclusively of intercompany interest income and is therefore eliminated in the consolidated financial statements. The profit achieved is attributable to the reversal of write-downs on a loan to the associated company.

If EPP II had already been included in the scope of consolidation of Valartis Group at the beginning of the business year, Valartis Group would have reported financial income of TCHF 0 and a profit of CHF 39

The transaction costs for the acquisition amount to kCHF 70 and were charged to other operating expenses in the 2017 result.

40. SALE TRANSACTIONS AND DISCONTINUED OPERATIONS

Disposals during the financial year

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

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

Sale of associated company Gebäudebesitz Rathausstrasse 20 GmbH	
in CHF 1,000	2.1.2017
Disposal of net assets	
Sales price	**5,369**
Gain from sale of subsidiary before currency translation differences and income tax	5,369
Transfer of cumulated foreign currency translation difference from equity to income statement	
Income tax on sale	-557
Gain from sale of associated company	**4,812**
Sales price received in cash	5,369
Net inflow of funds	**5,369**

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

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

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

	Darsi Investment Ltd.	SCCA SPA	Total
in CHF 1,000			26.9.2017
Disposal of net assets	**3,136**	**8,549**	**11,685**
Sales price for shares of SCCA SPA	**9,028**	**8,638**	**17,665**
Repayment of liabilties	-6,294	-	-6,294
Net gain from sale	**2,734**	**8,638**	**11,372**
Gain from sale of associated company before currency translation differences		89	89
Loss from associated company before currency translation differences	-402		-402
Transfer of cumulated foreign currency translation difference from equity to income statement	-3,539		-3,539
Loss from associated company / Gain from sale of associated company	**-3,941**	**89**	**-3,853**
Net gain from sale	2,734	8,638	11,372
Whereof already received in cash by Valartis Group		7,801	7,801
Thereof still recognised as receivable from the buyer or included in the still existing associated company Darsi Group	2,734	836	3,570
Net inflow of funds as per 31.12.2017			**7,801**

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

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

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

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

Sale of associated company Panariello Enterprises Ltd.

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

Disposal in the same period of the previous year

Valartis Bank (Austria) AG

On 18 December 2015, Valartis Bank (Austria) AG and Wiener Privatbank SE signed a purchase agreement governing the acquisition of the main business activities of Valartis Bank (Austria) AG, the owner-occupied property and a subsidiary (asset purchase agreement). The closing of the sale transaction took place as planned on April 1, 2016 after all conditions precedent had been fulfilled.

Until this date, the results of the sold banking operations and the sold subsidiary Valartis Asset Management Kapitalanlagegesellschaft m. b. H. are included in the result of discontinued operations.

The transaction consists of the following components:

- The assets and liabilities of the banking operations were transferred to Wiener Privatbank SE (asset deal). The employees were also taken over by Wiener Privatbank SE with a few exceptions.
- The property in Vienna held by Valartis Bank (Austria) AG was sold to a previously established real estate company, Gebäudebesitz Rathausstrasse 20 GmbH (RHS GmbH) (asset deal). Valartis Bank (Austria) AG holds 49.9 percent and Wiener Privatbank SE 50.1 percent of this company. Expenses and income are allocated to the shareholders in accordance with the proportionate shareholding.
- The share in Valartis Asset Management (Austria) Kapitalanlagegesellschaft m. b. H. was sold to Wiener Privatbank SE (share deal). The holding in Valartis Asset Management (Austria) Kapitalanlagegesellschaft m.b.H. amounted to 100 percent and was held by Valartis Bank (Austria) AG

Valartis Bank (Austria) AG was subsequently merged with its two parent companies in Austria to form Valartis (Austria) GmbH. The few assets and liabilities not taken over by the buyer are reported in the continuing operations.

Valartis Bank (Liechtenstein) AG

Valartis Finance Holding AG signed with Citychamp Watch & Jewellery Group Ltd (Citychamp) from Hong Kong on
On March 29, 2016, a purchase agreement for the shares of Valartis Bank (Liechtenstein) AG (Share Purchase Agreement) was signed. The sale was completed on September 20, 2016.

Citychamp acquired the shares held by Valartis Group (70.04 percent of the capital shares) and additional shares from minority interests.

Details of the sales transactions completed in Austria on 1 April 2016 and in Liechtenstein on 20 September 2016 are shown below.

Completion of sale of banking business and real estate of Valartis Bank (Austria) AG as of 1 April 2016

in CHF 1,000			1.4.2016
Balance sheet at closing date	Sale of assets/liabilities banking business	Sale of real estate	Total
Assets			
Cash and Cash and cash equivalents	168,510		
Due from clients	10,772		
Financial assets available for sale	142,552		
Property, plant and equipment	277	17,453	
Accrued and deferred assets including other assets	3,659		
Total assets	**325,770**	**17,453**	**343,223**
Due to banks	6,260		
Due to clients	319,011		
Accrued and deferred liabilities including other liabilities	589		
Provisions	4,060		
Total liabilities	**329,920**	**0**	**329,920**
Net assets/(liabilities) sold	**-4,150**	**17,453**	**13,303**
Sales price			
Payment to acquirer in cash for settlement of liabilities surplus – not affecting income	-2,228		
Payment to acquirer in cash for settlement of liabilities surplus – affecting income	-1,921		
Additional lump sum payment to acquirer for purchase of banking operations	-7,630		
Final adjustment of contingent considerations due to the acquirer	-272		
Received from acquirer in cash and cash equivalents		21,800	21,800
Subtotal of payments affecting income/gain from sale of real estate	**-9,823**	**4,347**	**-5,476**
Elimination of not yet realised gain from sale of real estate		-1,732	-1,732
(Loss)/gain from sale 2016 before currency translation difference	**-9,823**	**2,615**	**-7,208**
Transfer of cumulated foreign currency translation difference since 2008 from equity of Valartis Group to income statement			-38,959

Income from the sale (book loss), consisting of the book loss from the sale in 2016 of minus kCHF 7,208 and the reclassification of cumulative currency differences of kCHF minus 38,959 from equity of Valartis Group to the income statement since 2008, totalled minus kCHF 46,167.

The change in cash and cash equivalents from the sale of the banking business and the real estate is as follows:
As the seller, Valartis Group received CHF 21.8 million in cash from the buyer for the property and paid the buyer CHF 11.8 million for taking over the banking business (surplus of liabilities). The assets sold included CHF 168.5 million in cash and cash equivalents and receivables from banks in the operating banking business. The net outflow of funds within the meaning of the IFRS disclosure thus amounts to CHF 160.7 million.

Valartis Bank (Austria) AG paid Wiener Privatbank SE a lump sum of CHF 7.7 million (EUR 7 million) and the settlement of the surplus of liabilities in the amount of CHF 4.2 million for the transfer of assets and liabilities from banking operations. Finally, following a settlement procedure, it was agreed to transfer a further CHF 0.3 million in favour of the buyer. The assets and liabilities not transferred and the equity of Valartis Bank (Austria) AG remained with Valartis Group.

The property was sold to RHS GmbH for EUR 20 million. The sale resulted in a book profit of CHF 4.4 million. Because Valartis Bank (Austria) AG acquired a 49.9 percent stake in the buyer RHS GmbH, the book profit as at 31 December 2016 was still at the same level (49.9 percent). not realized. The accounting regulations stipulate that the unrealised profit between de Valartis Bank (Austria) AG and RHS GmbH must be eliminated. This elimination must be made against the investment in the newly founded RHS GmbH (i.e. against the investment value). Since the investment in RHS GmbH is lower than the unrealized book profit, the unrealized book profit was only eliminated to the extent of the investment in RHS GmbH.

An amount of EUR 2 million was retained in favour of Valartis Bank (Austria) AG from the transactions listed in a blocked account as relinquishment of liability to secure the usual performance guarantees for such transactions until 1 April 2017. This amount was transferred in full to Valartis Bank (Austria) AG on 1 April 2017 without any warranty claims.

Sale of shares in Valartis Asset Management Kapitalanlagegesellschaft m.b.H. on 1 April 2016

in CHF 1,000	1.4.2016
Balance sheet at closing date	Valartis Asset Management Kapitalanlagegesellschaft m.b.H.
Assets	
Cash and due from banks	773
Financial assets available for sale	2,342
Accrued and deferred assets including other assets	90
Liabilities	
Accrued and deferred liabilities including other liabilities	-93
Provisions	-131
Disposal of net assets	**2,982**
Sales price in cash and cash equivalents	**2,733**
Loss from sale of subsidiary before currency translation differences	**-249**
Transfer of cumulated foreign currency translation difference since 2008 from equity of Valartis Group to income statement	-1,130
Loss from sale of subsidiary	**-1,379**
Sales price received in cash and cash equivalents	2,733
Cash and cash equivalents disposed of	-773
Net inflow of funds	**1,960**

Wiener Privatbank SE paid a purchase price of EUR 2.5 million for the shares in Valartis Asset Management Kapitalanlagegesellschaft m. b. H. After reclassification of currency differences from equity, the sale of the company resulted in a book loss of CHF 1.4 million for the financial year.

Completion of sale of shares in Valartis Bank (Liechtenstein) AG as of 20 September 2016

in CHF 1,000	20.9.2016
Balance sheet at closing date	
Cash and due from banks	1,435,384
Due from clients	97,667
Trading portfolio assets	1,176
Financial assets available for sale	16,165
Other financial assets at fair value	45,750
Property, plant and equipment	22,077
Derivative financial instruments	309
Accrued and deferred assets including other assets	9,308
Goodwill and other intangible assets	6,986
Total assets	**1,634,822**
Due to banks	-2,497
Due to clients	-1,518,196
Derivative financial instruments	-282
Accrued and deferred liabilities including other liabilities	-11,996
Issued debt instruments	-10,942
Provisions	-821
Total liabilities	**-1,544,734**
Disposal of net assets	**90,088**
whereof non-controlling interests	-26,519
Gain from sale of subsidiaries	18,834
Sales price	**82,403**
whereof in cash and cash equivalents	73,295
whereof as contingent considerations	9,108
Total sales price	**82,403**

The balance sheet as at the date of sale comprises the consolidated balance sheet values of Valartis Bank (Liechtenstein) AG and its subsidiaries.

In the purchase agreement, the sale price was divided into several tranches. When the purchase contract was signed, 10 percent of the purchase price was paid into an escrow account. On 20 September 2016, the buyer transferred CHF 71.0 million to Valartis Group. In December 2016, a further payment of CHF 2.2 million was made from the escrow account to Valartis Group. The deferred sales price receivable of approximately CHF 9.1 million as of December 31, 2016 consisted of a purchase price portion of a further CHF 5.0 million (closing account) and the remaining escrow account of CHF 4.1 million. The amount of CHF 5.0 million was transferred after the balance sheet date in January 2017. The escrow account of CHF 4.1 million was released by the buyer in December 2017 without any warranty claims and paid in full to Valartis Group.

The sale price of CHF 82.4 million less the sold operating cash and receivables from banks from the banking operations of Valartis Bank (Liechtenstein) AG results in a net cash outflow of CHF -780.6 million.

Results of discontinued operations

The discontinued operations break down as follows:

Fiscal year 2017

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

Associated company Building ownership Rathausstrasse GmbH (RHS GmbH)

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

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

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

Darsi Grup

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

Fiscal year 2016

In fiscal 2016, the results of the discontinued operations include the associated companies RHS GmbH and the Darsi Group and the following business units, which were sold in 2016:

Banking business of Valartis Bank (Austria) AG, including its subsidiary Valartis Asset Management Kapitalanlagegesellschaft m. b. H.

For 2016, the results were allocated to discontinued operations until the closing of the purchase agreement on April 1, 2016. The sale of the Austrian banking business resulted in a book loss for Valartis Group of CHF 2.4 million and CHF 42.5 million without reclassification of currency losses, including the reclassification of currency losses. No further impairment losses from revaluation at fair value less costs to sell had to be recognized in fiscal 2016.

Valartis Bank (Liechtenstein) AG, incl. their affiliates

The result of discontinued operations includes the income statement items of the Liechtenstein private banking group from 1 January 2016 until their disposal from the scope of consolidation as at 20 September 2016.

The sale of the Liechtenstein private banking business resulted in a book profit of CHF 18.8 million for Valartis Group. Neither in the 2016 business year nor in the previous year did a write-down from revaluation at fair value less costs to sell have to be booked.

Income statement, statement of comprehensive income and cash flow of discontinued operations (GB)

in CHF 1,000			2017				2016
Income statement of discontinued operations	Darsi Group	RHS GmbH	Total	BU Austria	BU Liech-tenstein	Associated companies	Total
Operating income	-314	5,369	5,056	-4,965	39,508	1,958	36,501
Administrative expense				-2,368	-22,622	-	-24,990
Gross income	**-314**	**5,369**	**5,056**	**-7,333**	**16,886**	**1,958**	**11,511**
Valuation adjustments, provisions and losses					-146		-146
Impairment loss recognised on the revaluation to fair value less costs to disposal	-	-	-			-11,724	-11,724
Earnings before interest and taxes (EBIT)	-314	5,369	5,056	-7,333	16,740	-9,766	-359
Financial result				240	9,543		9,783
(Loss) from reclass of cumulated foreign currency translation differences formerly booked in equity	-3,539		-3,539	-40,089	-65		-40,154
Net profit/(loss) from discontinued operations before tax	**-3,853**	**5,369**	**1,517**	**-47,182**	**26,218**	**-9,766**	**-30,730**
Income taxes	-	-557	-557	4,657	-44		4,613
Income tax effects from measurement to fair value less cost to distribute (deferred tax)			-				0
Net profit/(loss) from discontinued operations	**-3,853**	**4,812**	**960**	**-42,525**	**26,174**	**-9,766**	**-26,117**
whereof (loss) from reclass of cumulated foreign currency translation differences formerly booked in equity	-3,539	-	-3,539	-40,089	-65		-40,154
whereof result of discontinued operations before reclass of cumulated foreign currency differences	-314	4,812	4,499	-2,436	26,239	-9,766	14,037
Other comprehensive income of discontinued operations							
Unrealised gains/(losses) from financial assets available for sale				13	-101		-88
Foreign exchange translation difference	3,539		3,539	40,089	65	-179	39,975
Total recognised in other comprehensive income	**3,539**		**3,539**	**40,102**	**-36**	**-179**	**39,887**
Cash flow from discontinued operations							
From operating activities				-11,276	-329,822		-341,098
From investment activities	7,801	5,369	13,170	-100	160,539		160,439
From financing activities			0				-
Net cash flow	**7,801**	**5,369**	**13,170**	**-11,376**	**-169,283**	**0**	**-180,659**

The Valartis Group has held a stake in SCCA SPA through the Darsi Group since 2008. Until the sale of the investment in SCCA SPA, which included the operating business consisting of operating the shopping, leisure and business center in Algeria, the translation of the book value of the associated company from Algerian dinar and EUR into the Group currency CHF was recorded as a reduction in the Group equity level in the currency differences item due to falling exchange rates. IFRS requires these cumulative currency differences to be reclassified from the Group's equity to its income statement on sale over the years. As shown in the table above, this resulted in a loss of CHF 3.5 million for Valartis Group as at 31 December 2017.

In the previous year, due to the same circumstances, the sale of Valartis Bank (Austria) AG in December 2008 at an exchange rate of EUR/CHF of 1.49 and sale of the banking operations in April 2016 at an exchange rate of 1.06, a reclassification of currency differences from equity to the income statement of CHF -40.1 can be made.

The income from associated companies totaling kCHF 1,958 reported in the income statement for the discontinued operations in the previous year is composed of the income from the Darsi Group of kCHF 2,403 and the pro rata business result of RHS GmbH of kCHF -445. The impairment loss of TCHF -11,724 is attributable to the Darsi Group.

Assets and liabilities classified as held for sale

in CHF 1,000		31.12.2017		31.12.2016
Balance Sheet	Darsi Group	Total 2017	Darsi Group	Total 2016
Associated companies	2,735	2,735	11,274	11,274
Total assets classified as held for sale	**2,735**	**2,735**	**11,274**	**11,274**
Liabilities directly associated with the assets classified as held for sale				
Total liabilities directly associated with the assets classified as held for sale	**0**	**0**	**0**	**0**
Net assets/(liabilities)	**2,735**	**2,735**	**11,274**	**11,274**

41. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Restrictions on the use of assets

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

in CHF 1,000	Parking Clé de Rive SA		ENR Russia Invest SA	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Share of non-controlling interests in per cent				
Participation	49.00%	49.00%	36.78%	37.74%
Voting rights	49.00%	49.00%	36.78%	37.74%
Total asset	366	820	72,987	81,723
Total liabilities	148	22	24,588	35,576
Net asset	218	798	48,399	46,147
Carrying amount of non-controlling interests	**107**	**390**	**18,470**	**18,085**
Operating income	-560	113	4,236	5,698
Profit/loss	-581	-98	2,395	5,810
Other comprehensive income			-144	-1,842
Total comprehensive income	**-581**	**-98**	**2,251**	**3,968**
(Loss)/profit allocated to non-controlling interests	-283	-48	880	2,193
Other comprehensive income allocated to non-controlling interests			-36	-695
Cash flow from operating activities	-461	-381	5,937	-5,414
Cash flow investing from investment activities	-136	4	-2,133	
Cash flow from financing activity	-	1,000	-8,157	-2,225
Foreign currency translation effects	-	-3	-132	-684
Net cash flow	**-597**	**620**	**-4,485**	**-8,323**
Paid dividends to non-controlling interests				

In June 2017, Valartis Group acquired additional shares in ENR Russia Invest SA amounting to 0.9 percent of the issued shares, which is why the non-controlling interests were reduced to 36.78 percent.

In 2016, 49 percent of the shares in Parking Clé de Rive SA in Geneva were sold to a group of investors.

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

Changes in non-controlling interests

in CHF 1,000	Parking Clé de Rive SA 2016	ENR Russia Invest SA 2016
Non-controlling interests at 1 January	**0**	**16,587**
Gains/losses from financial assets available for sale	0	0
Foreign exchange translation differences	0	-695
Other comprehensive income	**0**	**-695**
Net (loss)/profit	-48	2,193
Total comprehensive income	**-48**	**1,498**
Transaction with non-controlling interests	-51	0
Increase in capital	490	0
Owner-related changes	**438**	**0**
Total non-controlling interests at 31 December	**390**	**18,085**

	Parking Clé de Rive SA 2017	ENR Russia Invest SA 2017
Non-controlling interests at 1 January	**390**	**18,085**
Gains/losses from financial assets available for sale		0
Foreign exchange translation differences	0	-36
Other comprehensive income	**0**	**-36**
Net (loss)/profit	-283	880
Total comprehensive income	**-283**	**844**
Transaction with non-controlling interests		-459
Increase in capital		
Owner-related changes	**0**	**-459**
Total non-controlling interests at 31 December	**107**	**18,470**

42. STRUCTURED ENTITIES

The Valartis Group acts as investment advisor as of 31 December 2017 to a collective investment instrument that meets the definition of IFRS 12 for structured entities. As Valartis Group acts as an agent in the interests of investors, this investment instrument is not consolidated. As of December 31, 2017, there are no contractual or constructive obligations to provide financial or other support to the investment fund. Valartis Group takes on various administrative tasks for the collective investment instrument. For these services, it is compensated with customary market fees. Gross income from services for the collective investment instrument amounted to CHF 0.2 million for the 2017 financial year (previous year: CHF 0.2 million). Shares in own investment funds held by Valartis Group are treated as financial instruments.

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

in CHF 1,000	Trading portfolio assets [1] 2017	Trading portfolio assets [1] 2016
Carrying amount 1 January	**268**	**271**
Purchase		
Sales	-48	
Recognised in the income statement	-220	-3
Total as at 31 December	**0**	**268**

1) The income recognised in income statement is disclosed as income.

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

in CHF 1,000	31.1.2017		31.12.2016	
	Market value	Effective commitment	Market value	Effective commitment
Trading securities and financial assets available for sale	13,848	7,000	0	0
Investment property	33,275	14,622	32,006	23,761
Total	**47,123**	**21,622**	**32,006**	**23,761**

44. ADDITIONL INFORMATION ON THE CASH FLOW STATEMENT

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

in CHF 1,000	2016		Non-Cash changes			2017
Movements in financial liabilities		Cash flows	Changes in scope of consolidation	Translations differences	Changes of fair value	
Current financial liabilities	39,159	-9,061		-1,182		28,916
Non-current financial liabilities	2,308	-265		16		2,059
Total	**41,467**	**-9,326**	**0**	**-1,166**	**0**	**30,975**

45. EVENTS AFTER THE BALANCE SHEET DATE

None.

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

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

STATUTORY AUDITOR'S REPORT

To the General Meeting of Valartis Group AG, Baar

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Valartis Group AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 40 to 123) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

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

Other Matter

The consolidated financial statements of Valartis Group AG for the year ended 31 December 2016, were audited by another auditor who expressed an unmodified opinion on those statements on 3 April 2017.

Key Audit Matters

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

Key Audit Matter	How our audit addressed the key audit matter
Valuation of the investment property "Petrovsky Fort"	
As of 31 December 2017, the investment property "Petrovsky Fort" is valued at KCHF 36'840 in the consolidated financial statements. This corresponds to 21 percent of the total assets as of 31 December 2017. On initial recognition (30 September 2014), investment properties are recognised at cost. For subsequent measurement, they are recorded at fair value and changes are recognised in profit or loss. The fair value is determined on the basis of an independent third party valuation. In our view, this key position was of particular importance due to the associated discretionary powers and estimates of the management and external experts. Valartis Group AG explains the accounting principles applied on page 62 of the annual report. Please also refer to notes 2, 18 and 33 to the consolidated financial statements.	We have examined the valuation on the basis of the report from a real estate expert. We assessed the objectivity, independence and expertise of the valuation specialist. With the support of our own internal specialists, we have verified the appropriateness of the valuation method and the underlying assumptions used. We also assessed the adequacy of the input factors used on the basis of externally available data. These input factors included rent, vacancy rate, interest rates and expected maintenance costs. We also focused on the adequacy of disclosures in the annual report in connection with this investment property.

Key Audit Matter	How our audit addressed the key audit matter
Valuation of assets under development	
The Valartis Group is involved in a real estate project in the agglomeration of Moscow, which as at 31 December 2017 is presented as assets under development with a total value of KCHF 5'921 in the consolidated financial statements. This corresponds to 3 percent of total assets as of 31 December 2017. In the financial year 2016, the project was suspended because the local authorities had to agree on new building specifications for the project. Although agreement was reached at the end of 2016, the planned construction activities were not continued in 2017 because the whole construction project has to be relaunched. After completion of the building, the group plans to sell the apartments. The management has determined the net realisable value of the balance sheet position as part of an impairment test. In our opinion, this significant position was of particular importance due to the complexity of the management's assumptions and estimates used to determine the net realisable value. Details of the Company's assets under development are described in note 15 of the consolidated financial statements.	We have assessed the underlying information and assumptions based on externally available data and have examined the valuation method chosen by management and the calculations made. Internal specialists have supported us with this work. We have also assessed the adequacy of disclosures and classification in relation with the valuation of assets under development.

Other Information in the Annual Report

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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going

concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

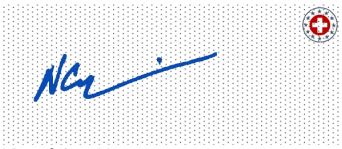
Report on Other Legal and Regulatory Requirements

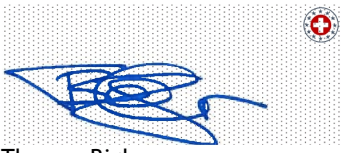
In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

Geneva, 9 April 2018

BDO Ltd





Nigel Le Masurier

Auditor in Charge
Licensed Audit Expert

Thomas Bigler

Licensed Audit Expert

INCOME STATEMENT OF VALARTIS GROUP AG

Income

in CHF	Note	1.1.–31.12.2017	1.1.–31.12.2016
Dividend income	3.1	67,681,565	4,200,000
Other financial income	3.2	2,151,136	3,027,444
Other operating income	3.3	20,950	493,493
Total income		**69,853,651**	**7,720,937**

Expenses

Personnel expenditure	3.4	-11,348	-5,519
Other operating expenses	3.5	-3,150,671	-3,759,895
(Impairment)/reversal of impairment losses on financial assets and securities shareholdings	3.6	-61,137,780	14,681,000
Financial expenditure	3.7	-491,060	-3,372,653
Result for the year before extraordinary and off-period income and taxesn		**5,062,792**	**15,263,870**
Extraordinary and out-of-period income	3.8	1,132	416,110
Extraordinary and out-of-period expenses	3.9		-117,723
Profit before tax		**5,063,924**	**15,562,257**
Direct Taxes			
Annual profit		**5,063,924**	**15,562,257**

STATEMENT OF FINANCIAL POSITION OF VALARTIS GROUP AG

Assets			
in CHF	Note	31.12.2017	31.12.2016
Current assets			
Due from banks		2,767,489	1,633,179
Shares		3,115,638	
Other short-term receivables	4.1	1,067,174	2,897,106
Prepaid expenses and accrued income		93,656	121,586
Total current assets		**7,043,957**	**4,651,871**
Non-current assets			
Financial assets	4.2	4,066,404	4,666,920
Participations	4.3	97,105,757	129,957,671
Total non-current assets		**101,172,161**	**134,624,591**
Total assets		**108,216,118**	**139,276,462**

Liabilities and Shareholders' equity			
Short-term liabilities			
Trade accounts payable	4.4	140,381	324,998
Short-term interest-bearing liabilities	4.5		5,300,000
Other short-term liabilities	4.6	2,146,079	792,426
Accrued expenses and deferred income		186,728	2,084,510
Total short-term liabilities		**2,473,188**	**8,501,934**
Long-term liabilities			
Long-term interest-bearing liabilities	4.7		27,122,380
Other long-term liabilities	4.8		2,025,409
Total long-term liabilities		**0**	**29,147,789**
Shareholders' equity			
Share capital	4.9	5,000,000	5,000,000
Legal retained earnings			
General legal retained earnings		1,000,000	1,000,000
Reserve for treasury shares	4.10	5,369,842	5,223,676
Voluntary retained earnings			
General voluntary retained earnings		26,485,101	26,631,267
Profit brought forward		63,326,394	48,711,870
Profit/(loss) for the year		5,063,924	15,562,257
Treasury shares	4.10	-502,331	-502,331
Total shareholders' equity		**105,742,930**	**101,626,739**
Total liabilities and shareholders' equity		**108,216,118**	**139,276,462**

1. GENERAL INFORMATION

Company/name, domicile

Valartis Group AG, Blegistrasse 11a, 6340 Baar, Schweiz. Unternehmens-Identifikationsnummer (UID) CHE-101.833.144

Number of full-time employees

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

2. ACCOUNTING PRINCIPLES

General information on the accounting principles

These financial statements were prepared at going concern values and in accordance with the provisions of Swiss accounting law (32nd title of the Swiss Code of Obligations). The main valuation principles that are not required by law are explained below.

Shareholdings

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

Share-based payment

The expense for Valartis Group AG shares allocated to members or former members of the Executive Board as part of a bonus payment is charged pro rata temporis to personnel expenses over the term. Until the shares are transferred to these members of the Executive Committee, the obligation under these programs is recognized at fair value under deferred income and accrued expenses. Details of the remuneration system are shown in the remuneration report (see also p. 27 ff).

Following the sale of Valartis Group's private banks over the last three years and the associated transformation to the current business model and the current size of the Group, the Compensation Committee decided at its meeting on 20 December 2016 to replace the bonus programme with an employee participation programme which is still to be completed in detail and adapted to the new situation (summer 2018).

Information on exchange rates

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

	31.12.2017	31.12.2016
USD balance-sheet date rate	0.9753	1.0190
USD average price	0.9827	0.9852
EUR balance-sheet date rate	1.1691	1.0737
EUR average price	1.1159	1.0900

Treasury shares

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

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

Long-term interest-bearing liabiliti

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

No cash flow statement and additional disclosures in the appendix

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

3. INCOME STATEMENT

in CHF	2017	2016
3.1 Dividend income		
Dividend of Valartis International Ltd.	6,543,785	4,200,000
Dividend of Valartis Finance Holding AG	61,137,780	0
Total	**67,681,565**	**4,200,000**

3.2 Other financial income		
Income from cash and marketable securities	141561	
Book profit from the sale of option rights		727,233
Interest income on receivables from investments		399,108
Income from translation differences and other financial income	2,009,575	1,901,103
Total	**2,151,136**	**3,027,444**

Valartis Group AG had an option to repurchase participation shares from employees and member of the Board of Directors of Valartis Bank (Liechtenstein) AG. The options have been exercised in 2016 when employees and member of the Board of Directors left before the sale of Valartis Bank (Liechtenstein) AG as per 20 September 2016. The gain from sale of options relates to these transactions.

3.3 Other operating income		
Other operating income	20,950	493,493
Total	**20,949**	**493,493**

Gain from sale of participations is related to the sale of 49 per cent of shares on real estate project company Parking Clé de Rive SA to an investor group.

3.4 Personnel expenses		
Personnel expenses from bonus stock programs	-11,348	-5,519
Total	**-11,348**	**-5,519**

Valartis Group AG did not employ its own staff either in the reporting year or in the previous year. Expenses in 2017 and 2016 included current costs for the 2012 and 2013 fiscal years for which the exercise date had not yet been reached. As of April 1, 2017, all remaining programs have reached the exercise date and are therefore closed.

3.5 Other operating expenses		
Consulting and auditing expenses	-319,914	-1,058,186
IT and telecommunications expenses	-28,262	-22,305
Other operating expenses	-2,802,495	-2,679,404
Total	**-3,150,671**	**-3,759,895**

Other operating expenses include intercompany cost allocations of CHF 2.6 million (previous year CHF 2.5 million).

3. INCOME STATEMENT (CONTINUED)

in CHF	2017	2016
3.6 Reversal of impairment losses/(value adjustments) on financial assets and investments		
Reversals of impairment losses on investments		34,481,000
Allowances for investments	-61,137,780	-19,800,000
Total	**-61,137,780**	**14,681,000**

Valartis Finance Holding AG sold in 2016 all shares on Valartis Bank (Liechtenstein) AG with a gain. Valartis Group AG could therefore recognise a reversal of impairment on participations on the book value of Valartis Finance Holding AG. The impairment losses on participations has been booked on a subsidiary, which intends to sell a minority participations.

3.7 Financial expenditure		
Interest expense on interest-bearing liabilities to third parties		-2,516,507
Interest expense from interest-bearing liabilities to participating interests	-367,528	-760,251
Price losses from marketable securities	-79,008	
Other financial expenses (incl. losses from foreign currencies)	-44,524	-95,895
Total	**-491,060**	**-3,372,653**

3.8 Extraordinary and out-of-period income		
Extraordinary income		
Income unrelated to accounting period)	1,132	416,110
Total	**1,132**	**416,110**

3.9 Extraordinary and out-of-period expenses		
Extraordinary expenses		
Expenses relating to other periods		-117,723
Total	**0**	**-117,723**

The prior-period income of CHF 0.4 million in the 2016 financial year is attributable to a clause in the purchase agreement for the investment in Norinvest Holding SA of September 2014. According to this contractual provision, the purchase price for the investment in Norinvest Holding SA had to be adjusted retrospectively if the Norinvest Group acquired a property above or below its carrying amount within three years from the acquisition date. 29 August 2014 (closing date for the sale of Valartis Bank AG, Switzerland, to Banque Cramer & Cie SA, a subsidiary of the Norinvest Group). In 2015, the Norinvest Group was able to sell a property at a price significantly above its book value at that time. This resulted in expenses of CHF 4.6 million for Valartis Group AG in the 2015 business year as a subsequent purchase price adjustment. This obligation was paid in 2016. The final settlement was around CHF 0.3 million lower than assumed in 2015, resulting in income unrelated to the accounting period of CHF 0.4 million in 2016.

4. BALANCE SHEET

4.1 Other current receivables

in CHF	31.12.2017	31.12.2016
Third parties	359,250	341,749
Group companies	707,924	2,555,357
Total	**1,067,174**	**2,897,106**

4.2 Financial assets

	31.12.2017	31.12.2016
Securities	3,379,373	3,379,373
Long-term receivables from companies in which the entities holds an investment	687,031	1,287,547
Total	**4,066,404**	**4,666,920**

Long-term receivables from participating interests also include a residual purchase price receivable from Banque Cramer & Cie SA from the sale of Valartis Bank AG and Valartis Wealth Management SA as short-term receivables of CHF 0.7 million (previous year: CHF 1.0 million) and as long-term receivables from participations of CHF 0.7 million (previous year: CHF 1.3 million). The periodic payments will be made in accordance with an agreed phased schedule running until 2020.

4.3 Participations

Name and domicile	Capital/ suffrageous quote 2017	Capital/ suffrageous quote 2016	Stock capital
Valartis AG, Baar, Schweiz	100%/100%	0%/0%	CHF 100,000
Valartis Finance Holding AG, Vaduz, Liechtenstein	100%/100%	100%/100%	CHF 100,000
Valartis Advisory Services SA, Genf und Zürich, Schweiz	100%/100%	100%/100%	CHF 1,896,210
Valartis International Ltd., Tortola, BVI	100%/100%	100%/100%	CHF 20,504,000
Valartis Immobilier AG, Baar, Schweiz	100%/100%	100%/100%	CHF 100,000
Parking Clé de Rive SA, Genf, Schweiz	51%/51%	51%/51%	CHF 148,500
MCT Luxembourg Management S.à.r.l., Luxembourg	100%/100%	100%/100%	EUR 12,085
ENR Russia Invest SA, Genf, Schweiz	0.96%/0.96%	0%/0%	CHF 32,790,585
Valartis Strategic Investments S.à.r.l., Luxembourg	liquidate	100%/100%	EUR 100,000

Significant changes

The shares in Valartis AG, still an indirect investment in the previous year, were transferred from Valatis Finance Holding AG to Valartis Group AG in the context of a dividend on assets for 2017. towards. The investments in ENR Russia Invest SA, Athris Holding AG and Norinvest Holding SA are held via Valartis AG (see table of significant indirect investments, p. 138). In the reporting year 2017, Valartis Group AG acquired an additional 0.96 percent stake in ENR Russia Invest SA from the pension fund of Valartis Group.

Valartis Finance Holding AG served as the holding company for the investment in Valartis Bank (Liechtenstein) AG sold in the previous year and the sold private banking business in Austria.

Significant indirect investments

Name and domicile	Parent company	Capital/ suffrageous quote 2017	Capital/ suffrageous quote 2016	Share capital/ Nominal capital
Vaba1 Holding GmbH in Liquidation, Wien, Österreich(vormals Valartis [Austria] GmbH)	Valartis Finance Holding AG	100%/100%	100%/100%	EUR 35,000
ENR Russia Invest SA, Genf, Schweiz	Valartis AG und Valartis Finance Holding AG	63.22%/63.22%	62.26%/62.26%	CHF 32,790,585
Norinvest Holding SA, Genf, Schweiz	Valartis AG	26.9%/26.9%[1)]	25%/25%	CHF 25,689,000
Darsi Investment Ltd., Tortola, BVI	Valartis International Ltd.	38.81%/38.81%	32.44%/32.44%	EUR 7,476,190
Société des Centres Commerciaux d'Algérie SPA, Algier, Algerien	Valartis International Ltd.	sold	20%/20%	DZD 703,333,000

1) As Norinvest Holding SA has acquired treasury shares, Valartis Group AG's share in the issued shares has increased to 26.9%.

4.4 Trade accounts payable

in CHF	31.12.2017	31.12.2016
Trade accounts payable to third parties	89,891	274,940
Trade accounts payable to governing bodies (auditors)	50,490	50,058
Total	**140,381**	**324,998**

4.5 Short-term interest-bearing liabilities to third parties

Short-term interest-bearing liabilities to third parties		
Short-term interest-bearing liabilities to participations		5,300,000
Total	**0**	**5,300,000**

4.6 Other current liabilities

Other current liabilities to third parties	12,043	17,726
Other current liabilities to participations	2,134,036	774,700
Total	**2,146,079**	**792,426**

4.7 Long-term interest-bearing liabilities

Other long-term interest-bearing liabilities to participations		27,122,380
Total	**0**	**27,122,380**

4.8 Other long-term liabilities

Other long-term liabilities to participations		2,025,409
Total	**0**	**2,025,409**

4.9 Stock capital

	31.12.2017	31.12.2016
Share capital (CHF)	5,000,000	5,000,000
Number of registered shares / bearer shares (previous year) [1]	5,000,000	5,000,000
Nominal value per share (CHF)	1	1

1) In the 2017 financial year, the bearer shares were converted into registered shares on the basis of the resolution of the General Meeting of May 16, 2017.

4.10 Treasury shares

	Quantity 2017	Quantity 2016	in CHF 2017	in CHF 2016
Balance at 1 January	264,488	283,158	5,726,007	6,130,201
Purchases	51,780		473,269	
Divestments	-15,102	-18,670	-327,103	-404,194
Balance at 31 Decemberr	**301,166**	**264,488**	**5,872,173**	**5,726,007**
thereof held directly by Valartis Group AG	23,203	23,203	502,331	502,331
thereof held by participations	277,963	241,285	5,369,842	5,223,676

	2017	2016
Average purchase price per share in the reporting period	9.14	
Average selling price per share in the reporting period	7.96	7.11
Average acquisition price per share as of balance sheet date	19.50	21.65

Sales in the year under review were only made in connection with the employee participation programs. Expenses in 2017 and 2016 included current costs for the 2012 and 2013 fiscal years for which the exercise date had not yet been reached. As of April 1, 2017, all remaining programs have reached the exercise date and are therefore closed. Details of the remuneration system are shown in the remuneration report (see also p. 27 ff).

Presentation in the equity

in CHF	31.12.2017	31.12.2016
Deduction from equity for treasury shares held directly	-502,331	-502,331
For Valartis Group AG shares held by participations, a reserve for treasury shares is reported.	5,369,842	5,223,676

5. ADDITIONAL INFORMATION

in CHF	31.12.2017	31.12.2016
Total amount of collateral provided for third-party liabilities		
Total amount of collateral provided for third-party liabilities	0	0
Total amount of assets used to secure own liabilities		
Total amount of assets used to secure own liabilities	0	0
Total assets under restricted control		
Total assets under restricted control	0	0

Shareholders

The share capital has been divided into registered shares (previously bearer shares) since 16 May 2017. According to the Swiss Financial Market Infrastructure Act (FinfraG), anyone holding shares in a company listed on the SIX is obliged to notify the company concerned and SIX as soon as their voting rights exceed or fall below certain thresholds. Under the Swiss Code of Obligations, the company is obliged to disclose the identity of all shareholders holding more than 5 percent of the shares in the notes to the annual financial statements.

The following is a summary of the positions above 3 percent in Valartis Group AG, based on the published reports.

in per cent	31.12.2017	31.12.2016
MCG Holding SA, Baar ZG	50.2	50.2
Nebag AG, Zürich	3.2	3.2
Gustav Stenbolt	0.9	0.9
Philipp LeibundGut	0.5	0.5

As at 31 December 2017, the beneficial owners of MCG Holding SA, Switzerland: Gustav Stenbolt, Geneva, Tidesea SA, Baar, Switzerland (wholly controlled by Gustav Stenbolt, Geneva), Philipp LeibundGut, Zurich, Switzerland, and Tudor Private Portfolio LLC, Greenwich, USA. Qualified participants are: a) Gustav Stenbolt, who holds 72.8 percent of the voting rights (or 63.9 percent of the capital) of MCG Holding SA (partially held via Tidesea SA, Baar); b) Philipp LeibundGut, who holds 14.9 percent of the voting rights (or 19.8 percent of the capital) of MCG Holding SA. MCG Holding SA, and c) Tudor Private Portfolio LLC, Greenwich, USA, which holds 12.3 percent of the voting rights (or 16.3 percent of the capital) of MCG Holding SA.

Tudor Private Portfolio LLC is fully controlled by Tudor Group Holdings LLC, Greenwich, USA, which in turn is controlled by Paul Tudor Jones, Greenwich, USA.

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

Nebag AG, Zurich, disclosed its participation on September 2, 2016.

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

2017	Gustav Stenbolt, Chairman and Delegate of the BoD [2) 3)]	Christoph N. Meister Vize President	Philipp LeibundGut, Member [3]	Total
Shareholdings held by and Loans/loans to Directors				
Number of shares held by	1,874,601	4,821	398,333	2,277,755
Number of shares (entitlements) [1)]				0
Loans and credits directly in CHF				0
Loans and credits to related parties in CHF				0

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

2016	Gustav Stenbolt, President	Christoph N. Meister, Vize President	Philipp LeibundGut[2)], Member	Total
Shareholdings held by and Loans/loans to Directors				
Number of shares held by	1,862,733	4,821	395,565	2,263,119
Number of shares (entitlements) [1)]	4,179		1,194	5,373
Loans and credits directly in CHF				0
Loans and credits to related parties in CHF				0

1) Shares which were allocated to members of the Board of Directors in their former function as members of the executive boards of Valartis Group companies as a bonus component of the year under review or in previous years but which have not yet been transferred as ownership) are shown as vested rights.
2) Philipp LeibundGut was newly elected to the Board of D rectors at the Annual General Meeting on 2 June 2016. The number of shares as of December 31, 2016 corresponds to the number of shares as of the date of joining the Board of Directors.

2017	Stephan Häberle, CEO [1]	George M. Isliker, CFO/CRO	Total
Shareholdings held by and loans/loans to members of the Executive Board			
Number of shares held by		15,285	15,285
Number of shares (entitlements) [2]			0
Loans and credits directly in CHF			0
oans and credits to related parties in CHF			0

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

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

2016	Stephan Häberle, CEO [1]	George M. Isliker, CFO/CRO	Total
Number of shares held by and loans/advances for the members of Executive Management			
Number of shares held by		13,494	13,494
Number of shares (entitlements) [2]		1,791	1,791
Loans and credits directly in CHF			0
Loans and credits to related parties in CHF			0

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

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

EVENTS AFTER THE BALANCE SHEET DATE

None.

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

The Board of Directors will submit the following proposal to the Ordinary General Meeting of Shareholders on 15. Mai 2018 in respect of the distribution of profit:

in CHF	2017	2016
Profit brought forward from previous year	63,327,025	48,711,870
Net profit	5,063,924	15,562,257
Retained earnings available for the general meeting of shareholders	68,390,949	64,274,127
Dividend on capital entitled to dividend payments [1]	-939,767	-947,102
Profit to be carried forward	**67,451,182**	**63,327,025**

1) Dividend of CHF 0.20 per share for 4,698,834 entitled shareholders Shares as of December 31, 2017 (excluding treasury shares). Previous year: Dividend of CHF 0.20 per share for 4,735,512 dividend payments as of December 31, 2016 (excluding treasury shares)

Dividend payments

The Board of Directors proposes a dividend of CHF 0.20 per registered share for the 2017 financial year (previous year: dividend of CHF 0.20 per bearer share)

REPORT OF THE STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS

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

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

STATUTORY AUDITOR'S REPORT

To the General Meeting of Valartis Group AG, Baar

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Valartis Group AG (pages 130 to 141), which comprise the balance sheet as at 31 December 2017 and the income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion the financial statements as at 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

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

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

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

Other Matter

The financial statements of Valartis Group AG for the year ended 31 December 2016, were audited by another auditor who expressed an unmodified opinion on those statements on 3 April 2017.

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

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

Key Audit Matter	How our audit addressed the key audit matter
Existence and valuation of participations	
As at 31 December 2017, the company shows participations in its financial statements with a total value of KCHF 97'106. Participations are accounted for at the lower of acquisition costs and net realisable value according to the principle of individual valuation. A potential impairment loss is determined by comparing the book value with the net asset value. This position represents 90 percent of total assets as of the balance sheet date and was therefore, in our opinion, of particular importance. Details of the Company's participations are described in Notes 2 and 4.3 to the financial statements of Valartis Group AG as at 31 December 2017.	We tested the existence of the participations recognized as of the balance sheet date by matching them with the shareholders registers of the respective companies. We assessed the valuation based on a net asset value analysis of the most recent annual financial statements of the respective companies. We analysed whether the net asset value was lower than the cost of acquisition. In the event of any changes in the value of the investments, we have also examined whether these changes are correctly reflected in the income statement. We also assessed the presentation and disclosures in the statutory financial statements of Valartis Group AG as at 31 December 2017.

Responsibility of the Board of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

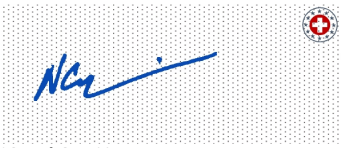
Report on Other Legal and Regulatory Requirements

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

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

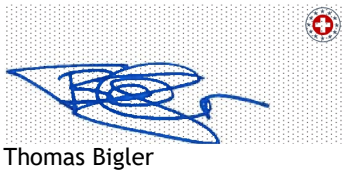
Geneva, 9 April 2018

BDO Ltd



Nigel Le Masurier

Auditor in Charge
Licensed Audit Expert



Thomas Bigler

Licensed Audit Expert

VALARTIS GROUP AG REGISTERED SHARE

in CHF	31.12.2013	31.12.2014	31.12.2015	31.12.2016	31.12.2017
Share capital Valartis Group AG	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Number of VLRT shares issued	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Number of outstanding VLRT shares, entitled to dividends	4,593,960	4,644,275	4,716,842	4,735,512	4,698,834
Nominal value of VLRT share	1.00	1.00	1.00	1.00	1.00
Closing price VLRT share	17.70	15.40	8.45	6.80	9.56
High for the year VLRT share	22.10	23.00	17.25	8.20	10.10
Low for the year VLRT share	15.80	15.35	6.40	6.10	6.67
Market capitalization	88,500,000	77,000,000	42,225,000	34,000,000	47,800,000
Dividend per share	0.00	0.00	0.00	0.20	0.20
Dividend yield	n/a	n/a	n/a	2.9%	2.1%
Price-to-book relationship	0.28	0.33	0.26	0.26	0.35

ADDRESSES AND IMPRINT

Group Office
Valartis Group AG
Blegistrasse 11a
CH-6340 Baar ZG
Tel. +41 41 760 70 20
Fax +41 41 760 70 19

Office Geneva
Valartis Advisory Services SA
2-4 place du Molard
CH-1211 Genf 3
Tel. +41 22 716 10 00
Fax +41 22 716 10 01

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

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

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

Investor & Media Relations
Valartis Group AG
Corporate Communications
Blegistrasse 11a
CH-6340 Baar ZG
Tel. +41 44 503 54 00
corporate.communications@valartis.ch

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

Valartis Group AG
Corporate Communications
Blegistrasse 11a
CH-6340 Baar ZG

Tel. +41 44 503 54 00
corporate.communications@valartis.ch

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