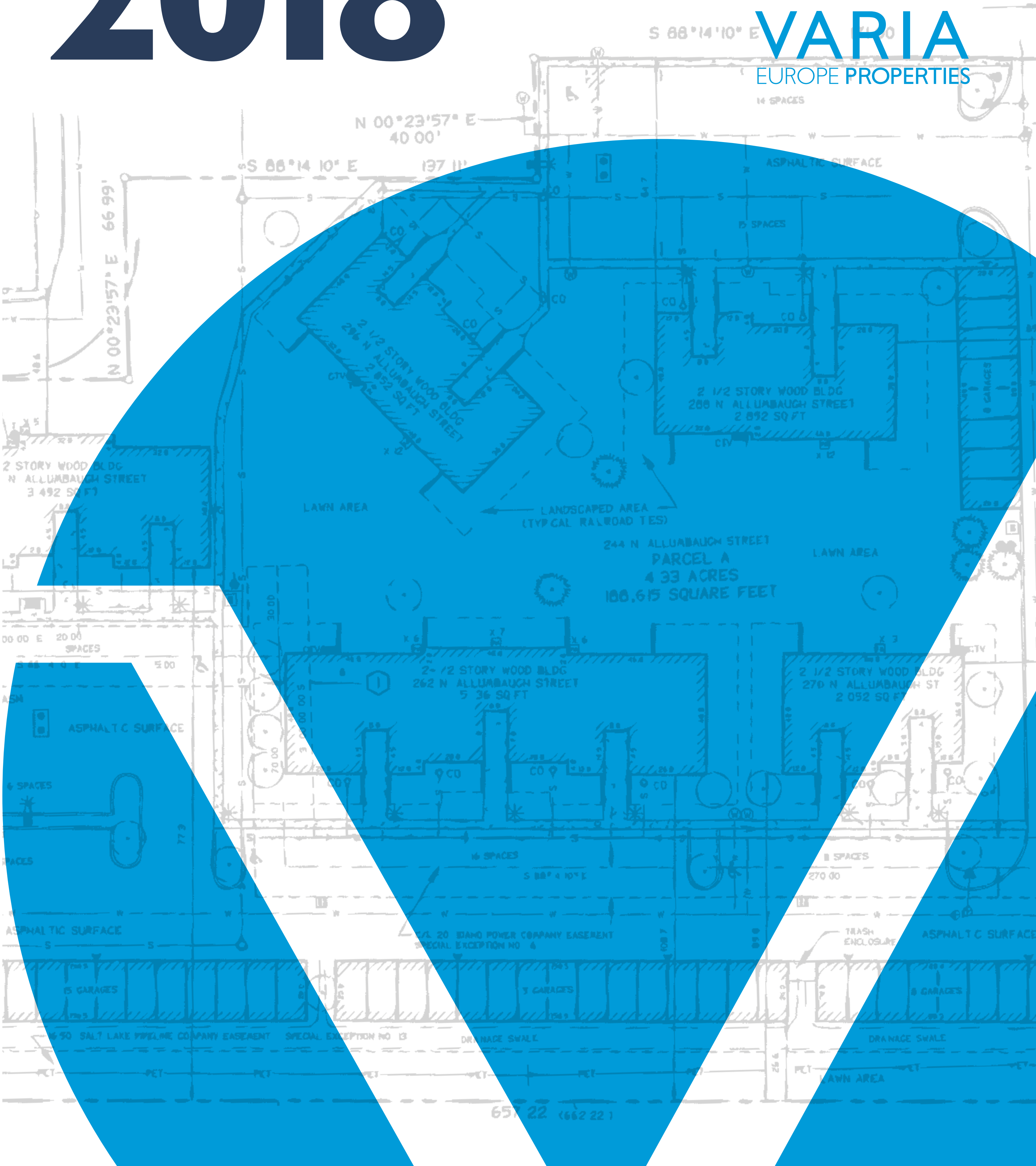
ANNUAL REPORT

2018

VARIA
EUROPE PROPERTIES



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“Varia Europe Properties AG is a young company in the early stages of establishing the invested portfolio and market presence.

2018 has been a year of success in laying the foundations for our investment approach and company level management processes.

The Company has a diversified portfolio of assets over four core strategies and as an investor, shareholder and Chairman of the Board, I take great comfort in our continued ability to source and secure attractive investment opportunities.”

Taner Alicehic
Chairman of the Board

COMPANY PORTRAIT

- Varia Europe Properties AG (“Varia Europe”) is a Swiss based company tailoring investment strategies to the European real estate market. The investment approach is to build a portfolio of real estate and real estate backed assets, with an initial focus in Italy and Spain.

- The Company is managed by a Board of Directors with strong experience within international real estate markets and our strategies are backed by the knowledge and expertise of Stoneweg SA (“Stoneweg”), the advisor within the investment structure and asset manager of the underlying investments.

- Our Ambition is to maintain best in class asset allocation by establishing a diversified pool of real estate, and real estate backed, investment assets which are expected to provide capital value growth and income potential. We have a dynamic bottom-up approach to project selection

- Through our dedicated Luxembourg compartment, VSO Europe Properties, Varia Europe invests into income generating value-added properties, real estate assets in distressed situations, bridge financing backed by real estate assets and the development of residential properties in key urban centers.

- With dedicated teams in our core markets of Italy and Spain, Stoneweg are responsible for sourcing and securing the opportunities in which we invest and for managing these projects through the entire investment lifecycle, including active asset management and subsequent disposal.

- As the value of the equity pool increases in size and the assets under management also develops, it is our ambition to gain greater exposure to individual investment opportunities

PORTFOLIO SUMMARY

as at December 31, 2018

PORTFOLIO VALUE

2017: CHF 2.2 million

CHF million **19.2**

NUMBER OF PROJECTS

2017: 6

14

NUMBER OF EXITS

2017: 0

1

CAPITAL / INCOME ALLOCATION

2017: 69 % Capital / 31 % Income

Capital **62%**

Income **38%**

COUNTRY ALLOCATION

2017: 66 % Spain / 34 % Italy

Spain **61%**

Italy **39%**

BRIDGE LOAN ALLOCATION

2017: 19 %

24%

DEVELOP-MENT ALLOCATION

2017: 47 %

50%

INCOME ASSETS ALLOCATION

2017: 12 %

14%

DISTRESSED SITUATIONS ALLOCATION

2017: 21 %

12%

SHAREHOLDER LETTER

"Despite currency headwinds during 2018, the Company saw positive returns across all strategies and markets, with a portfolio of greater depth and breadth.

Shareholder equity increased from CHF 2.2 million to CHF 19.2 million, while the NAV per share increased from CHF 1.43 in December 2017 to CHF 1.61 at year end 2018.

Our aim is to continue in our efforts to establish greater investment depth within the core markets as we move into 2019."

	December 31, 2018	December 31, 2017
NAV per Share (CHF)	1.61	1.43
Shareholders Equity (CHF)	19,235,045	2,187,083
Number of Shares	11,981,945	1,533,336
EUR/CHF Rate	1.1269	1.1702

**The average of ordinary shares outstanding as at December 31, 2018 was 10,130,480*

DEAR SHAREHOLDERS

It is with great pleasure that we present to you the 2018 Annual Report for Varia Europe Properties AG ("Varia Europe"). This is the first formal report produced since the Company was listed on Bern Swiss Exchange in November 2018. The intention of this letter is to provide an overview of the evolution of the portfolio during the year, as well as the financial performance and general activities of the Company over the last twelve months.

The Company strategy is to invest into real estate and real estate backed assets in Europe (excluding Switzerland), with an initial focus in Italy and Spain. Key investment segments include value-add commercial income properties, bridge financing backed by real estate assets, real estate assets in distressed situations and residential developments in key urban centers.

Varia Europe is invited to participate in each project sourced and secured through the formal investment processes of Stoneweg SA ("Stoneweg"), the advisor within the investment structure and asset manager of the underlying investments.

There are four main positive highlights we would like to draw to your attention in 2018.

The scope of our portfolio has expanded, providing us greater access to the core markets, allowing for a balance between income generating and capital gain projects. This was a result of our successful capital raising periods in January and November which resulted in an expansion of the investor base.

The listing of the Company on the Bern Swiss Exchange in November increased the visibility of the Company and will ease the processes during subscription periods. Finally, but not least, we welcome Pierre Grégoire Baudin as a new member of the board and Chairman of the Audit and Risk Committee.

Significant one-off costs associated with establishing the Company, including the listing on Bern, have been incurred; these included considerable legal, accounting and audit related fees, as well as other transaction related costs. In additional, there has been a negative impact based on currency fluctuation when translating the performance of the underlying investments, denominated in Euro, for a Company domiciled in Switzerland with the Swiss franc as a reporting currency.

PORTFOLIO

Starting the year with 6 underlying investments, in 2018 the Company invested into 9 additional new opportunities while increasing the portfolio allocation into 3 existing projects. Varia Europe also exited 1 Spanish based hospitality investment, bringing the total invested portfolio to 14 projects by year end.

The allocation to the Bridge Loan strategy increased from 19% to 24%, for Development projects from 47% to 50% and for Income Assets from 12% to 14%. Exposure to assets in distressed situations decreased from 21% to 12%, this was despite an increased allocation to Project Dela, Project Medio and new investment into Project Albatros, all of which are portfolios of non-performing loans.

The Company increased both the exposure and forms of strategies within the Italian market, to include development opportunities (Project Compagnoni 12 and Project Niccolini), as well as bridge financing (Project Barigello / Dinosaur).

The allocation between Spanish and Italian assets began the year with an allocation of 66% / 34%, evolving to a 61% / 39% split by year end, as a result of the increased exposure to Italian based projects.

PERFORMANCE

Being registered and domiciled in Switzerland, the reference currency for the Company is the Swiss franc (CHF), while the operational and investment currency is the Euro (EUR), based on the jurisdictions in which the Company invests (namely Italy and Spain). This difference in currency, between the Company level and underlying investments, leaves open the potential for currency risk, including currency fluctuations which may be affecting on a positive and / or negative way the performance of the portfolio.

During the period, there was a negative EUR/CHF currency impact on the performance of the portfolio based on the depreciation of the CHF against EUR; the currency moved from 1.1702 (December 31, 2017) to 1.1269 (December 31, 2018), or equivalent of -3.7% during the period. The principal financial statement items which were impacted by currency movements were a loss on the redemption of investments (CHF 23,775) and a loss on the fair value adjustment (CHF 353,784), with a total negative impacted on Company level profits to the value of CHF 377,363.

The Company raised capital twice during 2018. The first on January 29, 2018 where a total of 9,240,909 shares were issued resulting in share capital of CHF 9,240,909 and an increase in reserves from capital contribution of CHF 5,550,284. The total raised was CHF 15,247,500, with one-off transaction costs of CHF 456,307. The second issuance of additional shares took place on November 30, 2018, with a total raised of CHF 2,149,706 and one-off transaction costs of CHF 313,102; a total of 1,207,700 additional shares were issued resulting in share capital of CHF 1,207,700 and an increase in reserves from capital contribution of CHF 628,904.

It is noted that, as a newly built company, significant one-off costs have been incurred during this period, not least in legal, accounting and audit fees experienced through, among other things, the process of listing the Company on Bern. A total of CHF 769,409 was deducted from the share premium as a result of one-off, extraordinary, costs during the year.

At year end 2018, the Company had total shareholder equity of CHF 19,215,044 and voluntary retained earnings of CHF 400,677 recorded within the Swiss GAAP FER Financial Statements, with basic earnings per share of CHF 0.04. The average ordinary shares outstanding consisted 10,130,480 shares for the year.

In summary, 2018 has been a year for establishing the Company and portfolio, with achievements in listing on Bern, raising capital through additional shareholder subscriptions and increasing both the breadth and depth of the portfolio of projects. It is through these steps of laying the foundation for our future that we look forward with anticipation to continuing to build and grow the Company as we move into 2019.

Sincerely yours,

Taner Alicehic
Chairman & Executive Member

INVESTMENT APPROACH

The Company is a real estate investment company investing in residential and commercial real estate and real estate backed assets in Europe (other than in Switzerland), with an initial focus on Italy and Spain. The investment approach is based on identifying prospective markets and optimizing performance with tailor-made investment strategies.

The Company participates in real estate investments through participation in VSO compartments. VSO is a public limited company incorporated under the laws of the Grand Duchy of Luxembourg, organized as a securitization company.

VSO has different compartments with distinct real estate investment strategies in which the Company participates as a noteholder of these VSO compartments. The proceeds from the issuance of notes by the VSO compartments are used to carry out the investment strategies via special purpose vehicles created for each asset of the compartment with the sole purpose to implement the relevant investment strategy for the respective asset at the local level.

The investment edge of the Company offers Shareholders is the capacity to tailor investment strategies to the cycles within the real estate market by creating a diversified portfolio of real estate and real estate backed assets. We pursue a mid- to long-term investment perspective through the following individual strategies:

We have the capacity to combine these investment strategies into a balanced portfolio, with a diversified risk base and to develop new strategies within the core markets of Italy and Spain.

Key Strengths

The Company has a dedicated Board of Directors consisting of individuals with in-depth and extensive, longstanding, experience in real estate, banking, investment finance and investment structuring. The Company leverages this expertise when implementing the investment approach, given their established, broad, networks in Switzerland, Italy, Spain and across Europe.

The approach to project selection is purely bottom-up; regardless of market, or economic conditions, the Board of Directors only invest in attractive opportunities based on their acquisition, active asset management and exit strategy with defined return targets. The Board only acts upon investment recommendations whereby the underlying assumptions and data are based on property level fundamentals.

Income Generating Assets *with* **Value-Added Strategies**	**Distressed Situations**
Bridge Financing *backed by* **Real Estate Assets**	**Real Estate Developments** *with a focus on* **Residential**

With Stoneweg SA acting as the advisor within the investment structure and asset manager of the underlying investments. Prior to any investment being presented to the committee it will have already been through a comprehensive review process, to include opportunity analysis, initial review, due diligence, executive summary, senior management review, investment memorandum, followed by approval by the Stoneweg strategy specific investment committee and execution of the transaction.

We benefit from the structuring know-how of Stoneweg, leveraging on this know-how, allows the Company to choose the right appropriate investment structure for managing the investment portfolio.

INVESTMENT STRATEGIES

Value-Add, Income Generating Assets

The Company seeks good quality, high-yielding commercial assets with the potential to achieve capital uplift by engaging in pro-active asset management initiatives through improvement works, with resulting increase in capital values, or negotiation with tenants to extend lease lengths. The aim of both initiatives is to attract institutional investors to acquire the asset at an increased re-sale value. The key market for this type of product is Italy, where it is possible to acquire attractive commercial office assets in key economic centers, with tenants of strong covenants and providing net yields in excess of other key city markets in Europe.

The strategic aim of the Company is to re-finance projects at a lower cost than the current income yield of the asset, releasing initially invested equity while the rental income cover costs, including interest servicing and other financing costs, during the investment period; the approach to the acquisitions is to realize profits through capital value increases at the point of disposal.

The Company intends to improve the standard of the asset by value adding measures. Such measures may include cosmetic improvements of the asset as well as carrying out limited refurbishment and renovation works at optimized costs, but only based on pre-agreed, or likely, advantageous improvements in leasing terms (to include lease lengths and rental income). This strategy focuses on generating stable and secure cash flows prior to selling the asset and thus maximizing the realization of increased value through sales.

Assets in Distressed Situations

The Company aims to acquire portfolios of non-performing loans backed by real estate assets on a collateralization basis. Banking institutions are actively looking to reduce their exposure to these claims and the Company is fortunate as an investor in being able to work with these banks in two ways: buying from the bank non-performing loans at a discount to the GBV or partnering with the bank and taking control of the underlying asset.

When acquiring a portfolio of claims outright, banks will likely attempt to collate one prime collateral asset, with others inferior collateral assets, in order to find an exit, through disposal, of these less-desirable assets. The Company is selective in its approach to the acquisition of portfolios of claims, taking into consideration all relevant risk factors to ensure a clear path for active asset negotiation and exit, and that any claim purchased can be exited in a timely fashion with an appropriate level of risk / return. The target is to realise the initial invested equity within 12 months of the original purchase and for profits to be realized within 24 – 36 months.

As the holder of a claim, the Company has a negotiating position over the borrower in two ways. The first is the possibility of the borrower to negotiate to pay off the original debt at a discount to the stated GBV, but at a substantial profit for the Company in comparison to the claims original acquisition price. The second is the threat of a judicial process to take control of the underlying asset for subsequent re-structuring and re-sale. The potential for such action against the borrower provides considerable leverage vis-à-vis the counterparty, in terms of negotiating a settlement, as in such circumstances it may be possible for other creditors of the borrower to initiate bankruptcy proceedings, creating difficulty for the borrower to access capital markets and additional lines of credit.

In acquiring non-performing loans, the focus is on the purchase of first lien collateralization as the basis of any acquisition. Given that the most beneficial exits are based on a successful negotiation with the borrower, when there is sufficient comfort the Company may participate in the acquisition of loans secured by subsequent liens in order to strengthen the negotiating position vis-à-vis the borrower. The Company has also participated in the acquisition of additional liens of collateralization when that benefits a strategic aim of managing and take control of judicial processes.

The Company's most active market for non-performing loans, with a dedicated strategy, is in Italy with an anticipated investment time horizon of three to four years. From time to time development opportunities in Spain are also presented as a result of the sale of a non-performing loan which the VSO subsequently restructures in order to develop the underlying property. This is exercised on a case by case basis and the investment dynamics are anticipated to be of a similar order to standard Spanish residential projects with a period of three to four years investment horizon.

Bridge financing backed by real estate assets

The Board of Directors looks to have first-mover advantage when undertaking new strategies, detecting signs where there is a clear under-supply of a specific product, with resulting upward pricing pressures, or the ability to achieve advantages returns that would not be achieved in other locations, or markets. Spanish bridge financing backed by real estate assets is an example of an allocation based on this approach, whereby, given current institutional financial constraints and attitudes there is considerable demand for short-term bridge financing.

Loans are made on a first lien collateralization basis, aligned with a portfolio target of 50% LTV against the underlying asset with maturities available between 12 and 36 months, anticipated to average approximately 20 months across the portfolio. The range of loans values is expected to be between 40% to 70% of asset values depending on the attractiveness of the location, the quality of the asset and the covenant strength of the corporate borrower. The gross level of interest paid ranges from 13% to 15%, with the frequency of interest payments from the borrower dependent on a combination of factors including whether the asset is income producing and the planned exit strategy for repayment of original principal.

Stoneweg, as the local asset manager responsible for sourcing the opportunities, estimates that there is currently the capacity to deploy EUR 40 million per quarter in bridge financing. The Company takes comfort in the quality of assets held within the claims, the moderate level of LTV and the strength of the regular income streams this strategy generates.

Development of properties with a focus on residential assets

The Company develops properties with a focus on residential assets within major cities and key urban centers. The development market is highly cyclical in nature and the approach taken by the Board of Directors in their asset allocation to these opportunities will be dependent on their view of market timing, as well as the prospects for continued demand for such products. This is a capital gain orientated strategy with an anticipated investment lifecycle typically between three and your years. Both Italy and Spain present opportunities within this space, while the Company seeks to de-risk their investment during the development phase through pre-sales and the collection of non-refundable deposits.

In Spain and Italy, pricing dynamics have resulted in a buying opportunity in a growing economy and recovering real estate market in key urban centers to include Barcelona, Madrid and the Mediterranean coast, for Spain as well as Milan in Italy. The Company takes a positive view of the market based on economic fundamentals, demand / supply drivers and real estate pricing shifts which have taken place over the last two to three years.

The Spanish real estate market is highly fragmented, and it is only through an extensive network of contacts through Stoneweg, that the Company has the capacity to secure attractive development opportunities through off-market transactions and a consistent deal flow. There are a number of under-capitalized private owners and developers actively disposing of assets and seeking investment partners.

The Company actively seeks additional investment opportunities through a broad network of banking and financial institutions disposing of real estate development assets at discounts which have resulted from the desire to clear books of non-performing loans backed by these assets. This is the source of opportunities within both countries, where the projects result in the acquisition of assets at a substantial discount to GBV and subsequent restructuring in order to develop and realize the opportunity.

PORTFOLIO OVERVIEW

BREAKDOWN OF THE PORTFOLIO AS AT DECEMBER 31, 2018

During 2018 the portfolio increased dramatically in size with total shareholder equity moving from CHF 2.2 million to CHF 19.2 million at the close of the year. This created the backdrop from which the Board increased both the breadth and depth of the portfolio, with the total number of projects increasing from 6 to 14 opportunities.

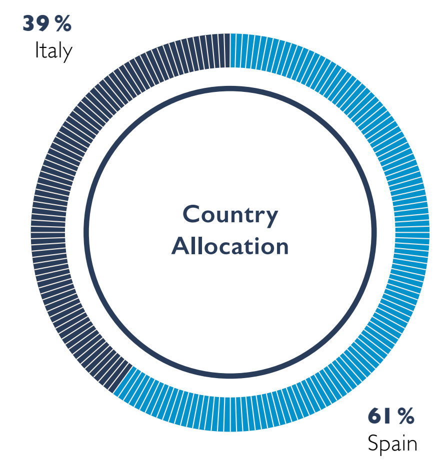
There has been an evolution of the portfolio with an increased allocation to income generating projects, from 69% capital and 31% income based at December 31, 2017 to 62% capital and 38% income-based opportunities at year end 2018. The country allocation moved from 61% Spain, 39% Italy, to 61% Spain and 39% Italy within the same period.

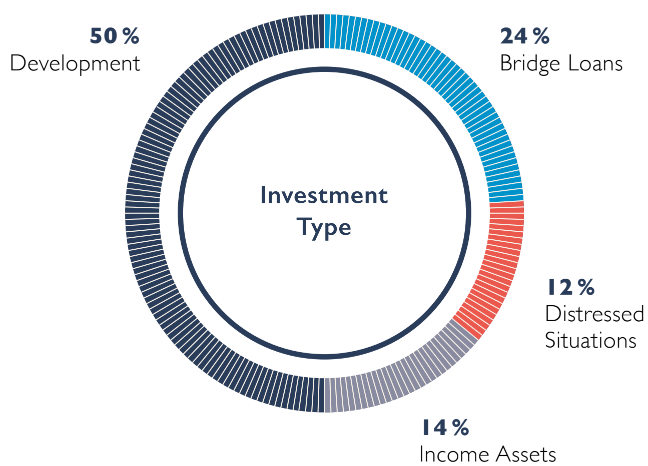
Within the four principal strategies, the allocation evolved from yearend 2017 to yearend 2018 as follows: from a 19% allocation into bridge financing to a 24% allocation, 47% development to 50%, 12% income assets to 14% and a 21% allocation into distressed situations to 12% by the close of 2018.

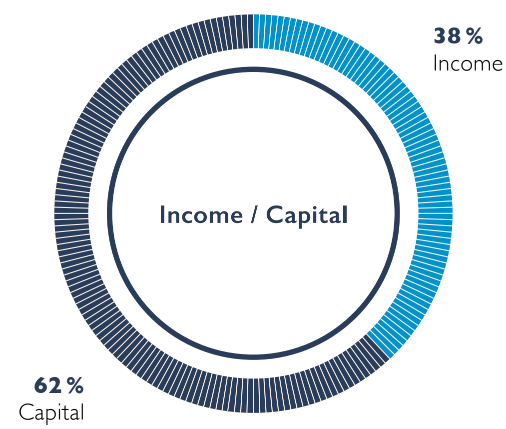
A key investment opportunity for Varia Europe in which a direct allocation into a project level VSO has been earmarked in Q4 2018, but will not be executed until 2019, is Porta Vittoria, a substantial mixed used site over 45,000 sqm in central Milan. The equity allocation for the project, held as cash at December 31, 2018, is EUR 2.0 million.

The project is a slight evolution from the core strategies of the Company given that the asset is being managed out of bankruptcy procedures and will be a break-up and sale operation for the underlying real estate. The asset is a recently completed complex of six residential tower blocks over 20,764 sqm, a hotel at 14,965 sqm, as well as office, retail and fitness center over a further 8,962 sqm; none of these assets have been occupied or sold since completion in 2014.

The allocation into Porta Vittoria has not been included within following charts, which includes those assets held within the Financial Statements. This is an Italian, capital gain opportunity with a break-up and sale strategy.







PORTFOLIO ALLOCATION DECEMBER 31, 2018

Transaction	Country	Investment Description	Return Strategy	Estimated Duration
Albatros/Guaraldi	Italy	Book of 18 NPL claims	Income/Capital	2 Years
Preziosi	Italy	ABB building (Genova), residence (Como)	Income/Capital	2 Years
Medio	Italy	Book of 10 NPL claims	Capital	3 Years
Compagnoni 12	Italy	Residential development (Milan)	Capital	3 Years
ENI	Italy	ENI building (Milan)	Income	4 Years
DELA	Italy	Book of 3 NPL claims	Capital	1, 3 & 5 Years
Niccolini	Italy	Residential development (Milan)	Capital	4 Years
Barigello/Dinosaur	Italy	2 Bridge loans	Income	12–18 Months
Porta Vittoria*	Italy	Mixed-use break up strategy (Milan)	Capital	4 Years
VSO V Bridge Loans	Spain	5 bridge loans	Income	12–24 Months
Iberia Income I	Spain	Portfolio of bridge loans	Income	12–36 Months
Iberia Income II	Spain	Portfolio of bridge loans	Income	12–36 Months
Spanish Phoenix II	Spain	Portfolio of residential developments	Capital	3–4 Years
Spanish Phoenix CAT	Spain	Portfolio of residential developments	Capital	3–4 Years
Project Skyline	Spain	Residential development (Madrid)	Capital	3–4 Years

**Porta Vittoria allocation was confirmed in Q4 2018, with a cash value of EUR 2.0 million held at VSO Europe Properties level in order to execute the transaction; this will not be processed until Q1 2019.*

Project Start Date	Target IRR (Project)	Current Total Project Equity (in million €)	Current Varia Europe Equity (in million €)	Varia Ownership
Q4 2017	15%–20%	13.3	0.7	5.0%
Q4 2017	15%–20%	13.9	1.6	11.5%
Q4 2017	10%–15%	17.4	0.5	3.1%
Q2 2018	15%–20%	12.1	1.1	8.9%
Q2 2017	15%–20%	48.2	0.2	0.5%
Q1 2017	25%–30%	11.3	0.4	3.8%
Q4 2016	15%–20%	14.1	0.2	1.8%
Q4 2018	11%–13%	8.2	0.5	6.1%
Q1 2019	15%–20%	65.0	2.0	3.1%
Q1 2017	11%–13%	5.9	0.2	3.2%
Q3 2017	11%–13%	79.4	1.6	2.0%
Q3 2018	11%–13%	77.1	1.0	1.3%
Q4 2017	15%–20%	41.9	2.5	5.9%
Q4 2017	15%–20%	28.9	2.0	6.9%
Q4 2018	15%–20%	80.0	1.0	1.2%

PORTFOLIO PROJECTS

PROJECT ALBATROS / GUARALDI

Investment Overview

Strategy	Distressed Situations: Book of 18 NPLs
Location	Italy: various
Structuring	VSO Europe Properties through VSO RE into the SPV
Acquisition Price	€ 15.9 million
Acquisition Date	December 2017
Varia Europe Equity (Current)	€ 671 K
Total Project Equity (Current)	€ 13.3 million
Varia Europe Ownership	5.0%
Investment Horizon	2 Years
Target IRR	10%–15%

Investment/Project Description

The investment comprises of a portfolio of eighteen non-performing loans with a nominal gross book value of €45.9 million, purchased from a pool of Italian banks at a discount of 65% of GBV vis-à-vis three separate entities, ultimately controlled by the same individual. The loans are collateralized by various real estate assets (office, retail and residential), to include highly secure government rented office assets.

Investment strategy envisages a restructuring of the sponsor (no additional injection of equity) with a subsequent monetization of the underlying assets. The focus of the process is the monetization of receivables mainly through the sale of real estate collateral, with negotiations ongoing with the borrower to define the exit calendar. Current negotiations include a full repayment plan and extension of personal guarantees.

The structure is based on a mix of 1st lien, 2nd lien mortgages (on the same properties) and personal guarantees from the individual controlling borrowing entities. There are fourteen assets directly attributed to the claims, with a further two assets through the personal guarantees from the individual controlling borrowing entities. Proceeds will be secured through negotiation with the borrowers, the current total expected recoverable amount is €27.0 million, with €3.4 million collected up to now; this is against an original total GBV of €45.9 million and price paid of €15.9 million.

Summary Update

Current standing relating to the five borrowers is as follows:

Futura Construzioni (Residential) was acquired for €6.5 million with a total expected recovery of €9.6 million, against an original GBV of €19.2 million. The total collections to date were €2.6 million and settlement negotiations are ongoing. Futura Construction (Office) had an original GBV of €0.6 million, was acquired for €0.2 million and has an expected recovery of and collection of €0.4 million.

Immobiliare Fiordaliso (office) was acquired at a price of €4.1 million, with an expected recovery of €7.8 million, against an original GBV of €11.7 million; the final settlement agreement is under negotiation. Immobiliaire Fiordaliso (Retail) had a GBV of €7.7 million at the point it was acquired for €2.7 million, with a current expected recovery of €5.4 million; the settlement is under negotiation.

There is an additional personal guarantee with an original GBV of €6.7 million, price paid was €2.3 million and an expected recovery of €3.8 million; the settlement for this agreement is under negotiation.

A securitization and refinancing process is ongoing in order to reduce, by 50%, the residual exposure.

PROJECT PREZIOSI

Investment Overview

Strategy	Income Asset / Value-Add: Commercial Offices / Residential
Location	Italy: Genova / Como
Structuring	VSO Europe Properties through VSO RE into the SPV
Acquisition Price	€ 23.4 million
Acquisition Date	March 2018
Varia Europe Equity (Current)	€ 1.6 million
Total Project Equity (Current)	€ 13.9 million
Varia Europe Ownership	11.5%
Investment Horizon	2 Years
Target IRR	15%–20%

Investment / Project Description

The investment comprises of an acquisition and share deal for two assets: a luxury residential real estate asset in Carimate (Como) and 100% share deal for the acquisition of an office building next to SS1 highway / Genova Airport, currently occupied by ABB. The acquisition price of the deal consists of € 23.4 million for the two assets, the ABB office asset for € 20.5 million and € 2.9 million for the residential in Carimate. The asset vendor was a private individual in need of debt restructuring. The preliminary share purchase agreement was signed in December 2017, with final deed of transfer in Q1 2018; €12.0 million of financing was achieved as part of a financial package for acquisition, with the assets pledged as security for the loan. The asset management and exit strategies for the two assets are differentiated.

Key profits from this acquisition come from the active asset management and subsequent disposal of the ABB asset, while the anticipation for the Carimate asset is a sale based on minimal efforts to cover administrative costs and some profits.

The office building in Genova was designed and built for ABB, who have been in occupation since completion of the asset and currently let on a passing rent of €1.9 million. The Company's strategy is to concentrate on their core business activities and, as a result, are not looking to own the asset directly; prior to the acquisition, they indicated their desire for continued occupation. Key to a successful disposal process is the signing of a new lease, creating increased security for institutional investors to acquire the asset. Such negotiations will likely include some form of incentive for ABB, either in the form favourable rental terms, or some contribution to capital expenditure. Both scenarios were forecasted as part of the investment acquisition processes.

With an initial acquisition price of €23.4 million, and release of €12.0 million through financing against the assets, the current LTV is 50% of total investment value.

Summary Update

Genova Office Asset: tenant agreement with ABB has been agreed in principal, with all terms negotiated; final sign-off due in 2019 at ABB board level. New rent at €1.75 million on a 6 + 6 year term and a capital contribution in the range of € 150K–€ 200K.

Carimate Residential: a mandate has been assigned to a local team to sell the asset, with an asking price of €2.5 million.

PROJECT MEDIO

Investment Overview

Strategy	Distressed Situations: Book of 10 NPLs
Location	Italy:
Structuring	Varia Europe into VSO XX (Medio) and VSO Europe Properties through VSO RE into the SPV
Acquisition Price	€ 36.0 million
Acquisition Date	December 2017
Varia Europe Equity (Current)	€ 0.5 million
Total Project Equity (Current)	€ 17.4 million
Varia Europe Ownership	3.1%
Investment Horizon	3 Years
Target IRR	10%–15%

Investment/Project Description

The investment comprises of a portfolio of eleven non-performing loans with a nominal gross book value of €58.2 million purchased from Mediocredito Italianno at a discount of 61% of GBV vis-à-vis seven borrowers, secured by mortgages on real estate assets. The collateral consists of eight 1st lien mortgages, two 2nd lien mortgages and one 3rd lien mortgage. The exit strategy envisages the negotiation of settlement agreement with the underlying borrowers, through both the collection of equity and sale of underlying assets. The total expected recovery is anticipated to be €48.3 million.

Collateral assets are of mixed use in various locations across Italy and include: hotel, retail, office, industrial and residential assets. The investment strategy envisages two scenarios: (i) monetization of the secured amount through judicial enforcement of the security package of the loans and sale of assets in a competitive process, or (ii) extrajudicial settlement agreement with the borrowers. Two settlements worth €6.4 million have already been agreed, with the total collected amount of €2.7 million received.

Summary Update

The Trabattoni loan was acquired for €8.0 million, with a GBV of €11.0 million and expected recovery of €11.0 million; the borrower is not respected the discounted payoff (DPO) settlement agreement signed in July 2018 and a writ of execution and deed of seizure notified to the borrower to start the judicial recovery. The total collected amount to date is € 0.2 million. The borrower Iniziative Industriali was acquired for €4.6 million, with an original GBV of € 8.9 million, the expected recovery is € 5.2 million, with total collected amount of €1.5 million; they are respecting DPO signed at the value of € 5.2 million

Mediterranea was acquired for €9.4 million, there are ongoing negotiations for a buyback from the original seller at a price of €11.0 million. Immobiliare Pontaccio settlement agreement has been reached at €3.0 million, based on an original GBV of €3.2 million and a price of €2.4 million paid; there is an ongoing judicial process against this asset. Pucci Via Veneto had an original GBV of €10.3 million when acquired for €7.7 million and it is anticipated that the recovery value of this transaction will be €10.3 million; this is currently under negotiation with the borrower and no proceeds have yet been recovered.

A settlement agreement has been reached with the borrower Archi, the original GBV was €4.6 million, against a price paid of €1.8 million and expected recovery of €2.8 million. A total of €0.1 million has been collected so far. Finally, Immobiliare Aplina was acquired for €2.2 million, against a GBV of €7.1 million and expected recovery of €3.0 million; exit from this loan will be through a sale of the claim.

PROJECT COMPAGNONI

Investment Overview

Strategy	Development: Residential Asset
Location	Italy: Milan
Structuring	VSO Europe Properties through VSO RE into the SPV
Acquisition Price	€ 14.8 million (including fiscal liability)
Acquisition Date	July 2018
Varia Europe Equity (Current)	€ 1.1 million
Total Project Equity (Current)	€ 12.1 million
Varia Europe Ownership	8.9%
Investment Horizon	3 Years
Target IRR	15%–20%

Investment/Project Description

The investment consisted in the acquisition of 100% shares of an Italian limited liability company Immobiliare CMC S.r.l., the owner of the real estate asset in Milano Via Compagnoni 12, with 8,719 sqm gross floor area (GFA) with historical planning approval by the Municipality of Milan. The business plan consists the demolition of the current light industrial units and the development of a new residential building, construction taking the same shape as the pre-existing municipality approvals which will reduce development timings and minimize development risk.

The project is strategically positioned within the city of Milan between the airport and the city center. The neighborhood is primarily residential in nature, close to the Corso XXII Marzo, the second main shopping street within central Milan. Preliminary project development plans maintain the external size and shape of the approved development, with three different blocks of accommodation envisaged. Revised preliminary architectural plans foresee a modification of the internal layout and design, to maximize revenues, with the development of 75 residential units, divided over 6 floors above ground, with a total surface of 11,200 sqm internal area, plus 120 parking places and 70 storage units located on below ground floor areas.

The acquisition included the asset plus assignment of fiscal liability at a cost of €14.8 million (€12.0 million and €2.8 million respectively). Total capital expenditure on the site is anticipated to be €29.8 million, of which a capex facility in anticipated to draw €23.3 million over the life of the development project (equivalent of 80% LTC of the capital expenditure). The LTC at project level is anticipated to be approximately 56%.

The project targets a three-year investment lifecycle. The final architectural plans are currently being drawn-up, with the demolition and environmental works following on. The terms for the CAPEX facility are also in negotiation. Construction and commercialization will begin immediately after these preliminary activities have been completed.

Summary Update

Preliminary approval for the project was obtained from the Municipality of Milan. Initial terms and conditions for the CAPEX plan to be received from BPER and BPM in 2019 for financing that stage of the project; urbanization costs are the first aspect to be covered by this.

Approval for the demolition and construction plan from the Municipality anticipated in Summer 2019.

VSO X: PROJECT ENI

Investment Overview

Strategy	Income Asset: Commercial
Location	Italy: Milan
Structuring	Varia Europe into VSO XX
Acquisition Price	€ 166.0 million
Acquisition Date	June 2017
Varia Europe Equity (Current)	€ 0.2 million
Total Project Equity (Current)	€ 48.2 million
Varia Europe Ownership	0.5%
Investment Horizon	4 Years
Target IRR	15%–20%

Investment/Project Description

The investment comprises an asset deal consisting in the acquisition of an office asset located in San Donato Milanese, which has a total indicative surface of 66,400 sqm currently let to Eni SpA with an original passing rent of €10.6 million. The lease agreement with Eni states that the passing rent will increase up to €13.1 million upon execution and completion of a capex plan of €20.0 million, with refurbishments due in 2020. The current lease started on January 1, 2016, with an expiry on December 31, 2032.

Located next to the Crown Plaza Hotel Milano Linate in the south-east of the city of Milan, the tenant, Eni SpA, is a multinational oil and gas company considered one of the global supermajors. Eni is an Italian company which is headquartered in Rome and operates in 79 countries; it is currently the world's 11th largest industrial company with a market capitalization of € 50.0 billion at the end of December 2018.

The original investment strategy envisaged an acquisition with a 70/30 debt-equity split, with the primary function of the rental income to cover debt servicing and other costs during the ownership of the asset, with the final exit creating the realization of profits through a subsequent capital gain. The capital gain coming as a direct result of the capex works, which trigger the additional rental income. The current LTV of the asset is 68%.

The acquisition took place as a Joint Venture (JV) between Stoneweg and a New York based, international hedge fund, with Varia Europe making an original allocation of €368,220, with a subsequent redemption of notes taking the total current equity investment to €232,220 (at cost).

Summary Update

Usage	Office
Passing rent	€ 10.6 million
Gross Yield on Cost	6.4%
NOI Exp. 2018	€ 8.7 million
Net Yield on Cost	5.2%

VSO VII: PROJECT DELA

Investment Overview

Strategy	Distressed Situations: Book of 3 NPLs
Location	Italy: various
Structuring	Varia Europe into VSO VII and VSO Europe Properties into VSO VII
Acquisition Price	€ 26.9 million
Acquisition Date	March 2017
Varia Europe Equity (Current)	€ 0.4 million
Total Project Equity (Current)	€ 11.3 million
Varia Europe Ownership	3.8%
Investment Horizon	1, 3 & 5 years
Target IRR	25%–30%

Investment/Project Description

The investment comprised the acquisition of a portfolio of non-performing loans backed by four underlying assets. This is a typical Italian non-performing loan portfolio investment story, whereby there is one prime asset which consumes the greatest part of the acquisition price, creating the greatest profit potential, and two additional small claims which can be sold relatively quickly at an adequate return on cost.

Within this transaction there is a book of four non-performing loans, three 1st lien collateralization claims, backed by three underlying assets and an additional (subsequent) 2nd lien claim against the principal asset claim, acquired in order to strengthen the asset managers negotiating position, vis-à-vis the borrower. The total acquisition price was € 26.9 million (including the additional 2nd lien claim which cost € 1.4 million against a GBV of € 4.72 million) and closed in March 2017 (April 2018 for the additional 2nd lien claim).

The claims consist of: (i) a claim over a residential asset in Rome (respective non-performing loan has been acquired for €4.5 million, with GBV of €16.9 million; this claim was sold in December 2017 for €5.0 million), (ii) a claim over two office buildings in Perugia (respective non-performing loan has been acquired for €1.0 million, with GBV of €10.8 million. Exit is anticipated at a similar value, plus expenses), (iii) a claim over a Luxury five-star hotel in Capri (respective non-performing loan has been acquired for €21.7 million, GBV of €40.0 million. A settlement agreement has been reached for a minimum recovery of €30.3 million, €2.7 million already collected, with expected to close in 2019 based on an agreement reached with the borrower in relation to the 1st lien claim.

Summary Update

Borrower	GBV 1st Lien (in million €)	GBV 2nd Lien (in million €)	Price Paid (in million €)	Expected Recovery (in million €)	Total Collected Amount (in million €)	Settlement Agreement
Hotel Tiberio Srl	35.3	4.8	21.7	30.3	2.7	Yes
Peonia Srl	10.8	–	1.0	1.1	–	
Total collections on outstanding claims	**46.0**	**4.8**	**22.9**	**31.3**	**2.7**	
Acero Srl	16.9	–	4.5	5.0	5.0	Claim sold
Overall collections				**31.3**	**7.7**	

VSO RE – SPV BRAMANTE: PROJECT NICCOLINI

Investment Overview

Strategy	Development: Residential
Location	Italy: Milan
Structuring	VSO Europe Properties to VSO RE
Acquisition Price	€13.0 million
Acquisition Date	December 2016
Varia Europe Equity (Current)	€ 249 K
Total Project Equity (Current)	€ 14.1 million
Varia Europe Ownership	1.8%
Investment Horizon	4 Years
Target IRR	15%–20%

Investment/Project Description

The transaction consisted a share deal, with the acquisition of 60% of shares of an Italian limited liability Company; the Company being the ultimate owner of a dilapidated former guesthouse. The original business plan consisted the demolition, construction and the break-up sale of a newly build residential asset. Acquired in December of 2016, the asset is located in the central-eastern part of Milan, near the Arena Civica and Parco Sempione.

Acquired for € 13.0 million, the plans are for a seven-story building comprising 73 new apartments with a total capital expenditure of €19.5 million and anticipated exit price of €52.0 million. There are excellent communications to the center and surrounded by hospitals and schools; a key factor in considering this project is the recovering central demand for apartments and a low supply of newly built assets.

80% of the CAPEX for this project is planned to be financed by a bank loan, with financing approved by banca UBI and expected to be closed in 2019. Target exit pricing constitutes €5,500 per sqm on the residential area, plus €3.5 million on the parking spaces, which allows for the achieving of the total target exit at €52.0 million. €40.0 million in revenues has been booked, with some bookings already transferring to preliminary sales of €2.9 million, with the remaining anticipated to execute in 2019.

Summary Update

Demolution works have been completed with the Convenzione Urbanistica to be signed with the Municipality of Milan in early January 2019. The urban planning agreement was signed in December 2018, with building permit anticipated by mid-2019.

VSO XXIX: PROJECT BARIGELLO / DINOSAUR

Investment Overview

Strategy	Bridge Financing backed by Real Estate Assets
Location	Italy: various
Structuring	VSO Europe Properties to VSO XXIX
Varia Europe Entry Date	December 2018
Original Investment	€ 0.5 million
Varia Europe Equity (Current)	€ 0.5 million
Total Project Equity (Current)	€ 8.2 million
Varia Europe Ownership	6.1 %
Anticipated Exit Date	June 2020
Target IRR	11 %–13 %

Investment / Project Description

Project Barigello / Project Dinosaur is the first venture by Varia Europe into the Italian bridge financing market, based on the sourcing and securing of two bridge loans against a pool of assets. This was not an asset allocation into a broad portfolio of assets, but rather an allocation to a specific transaction being created and managed at VSO level.

As per the strategy which exists within Spain, this investment was into senior secured short-term loans backed by real estate assets, across Italy; the target was of the same order and magnitude with a strategic aim of 11%–13% target net IRR to the investor.

The loans were granted to two sponsors, the first requiring short-term liquidity for a PropCo / OpCo restructuring, while the second sponsor needed short-term liquidity to finance a property acquisition. There is a combined collateral valuation, on a conservative basis, of €31.0 million which includes five trophy assets. The first collateral pool consists substantial agricultural land, including farm, forest, olive cultivation and numerous farm residences in Umbria (€16.0 million) as well as a luxury villa in Cortina (€10.0 million).

The second pool of collateral assets consists luxury apartments and five secured parking spaces in Florence (€3.5 million) as well as a hotel in the same city (€5.5 million TEV, €1.5 million NAV). The loans were broken-down between €5.5 million for the first, with 12% net annual coupon for 18 months and €2.7 million for the second, also with a 12% net annual coupon, but this time over 12 months. The combined aggregate LTV was less than 30%.

Summary Update

This is a newly entered and executed project, with anticipated returns in original principal within 12 and 18 months. Varia Europe has a desire to continue to invest into Italian based bridge financing projects should additional opportunities be presented on as equally attractive terms.

VSO V

Investment Overview

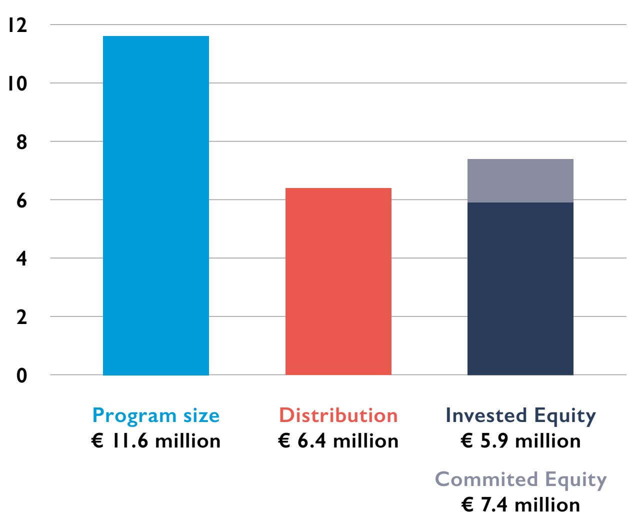
Strategy	Bridge Financing backed by Real Estate Assets
Location	Spain: various
Structuring	Noteholder of VSO V
Acquisition Price	April 2017
Acquisition Date	€ 370,000 (370 notes)
Varia Europe Equity (Current)	€ 189,000 (189 notes at cost)
Total Project Equity (Current)	€ 5.9 million
Varia Europe Ownership	3.2%
Investment Horizon	July 2019
Target IRR	11%–13%

Investment/Project Description

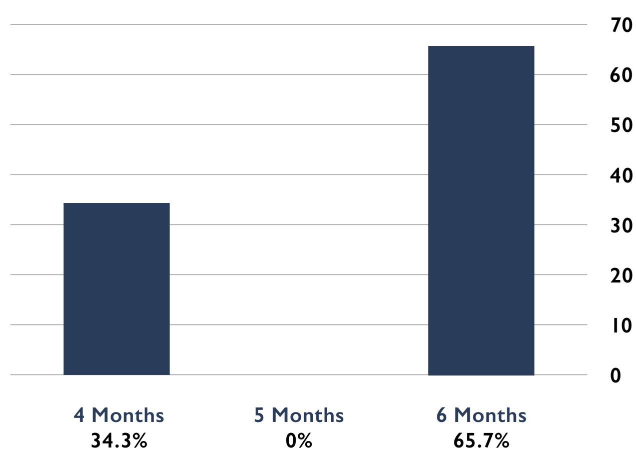
The investment into VSO V directly by Varia Europe Properties is an example of a strategic allocation by the Company into an underlying pool of assets. This is an asset allocation approach, whereby the project selection within the underlying VSO is performed by the Spanish bridge financing investment committee of Stoneweg. The VSO V portfolio was created on a Friends and Family basis as a result of Stoneweg's desire to acquire a development site, which the advisor did not action as a result of entry pricing, though short-term liquidity financing was granted to the developing party. This approach then grew into a broader strategy/portfolio.

The original program size for this portfolio of bridge loans was €11.5 million, with a total of 5 loans made during the deployment period. The current commitment is €7.4 million, with a notional value of €5.9 million and three loans still outstanding. The average loan-to-value is 49.3%, coupon of 13.0% and an average maturity of 18.2 months; the remaining maturity of the loans is 5.3 months. On a monthly basis, there are interest earnings of €71.0 k; total accrued and paid interest is €2.2 million. There has been a total notional repayment of €6.7 million, with €6.4 million distributed back to investors.

Program Size, Distribution to Investors and Invested Equity (in million €)



Maturity Profile of Invested Portfolio (in %)



VSO IBERIA INCOME I

Investment Overview

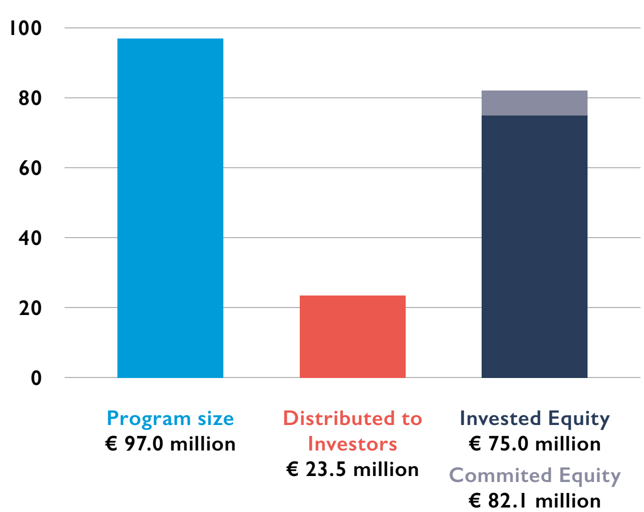
Strategy	Bridge Financing backed by Real Estate Assets
Location	Spain: various
Structuring	Noteholder of VSO Europe Properties into VSO Iberia Income
Acquisition Price	March 2018
Acquisition Date	€ 2.0 million (2,000 notes)
Varia Europe Equity (Current)	€ 1.6 million (1,561 notes at cost)
Total Project Equity (Current)	€ 79.4 million
Varia Europe Ownership	2.0%
Investment Horizon	December 2020
Target IRR	11%–13%

Investment/Project Description

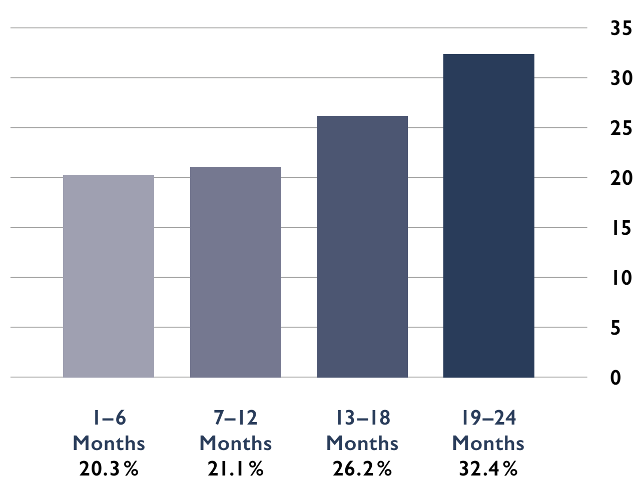
As with the Company's allocation into VSO V, the investment into Iberia Income Opportunity is an example of an allocation by Varia Europe into an underlying strategic portfolio of assets. This is an asset allocation exercise, project selection within the underlying VSO is performed by the Spanish bridge financing investment committee of Stoneweg. Across the entire strategy, as at December 31, 2018, over three hundred and fifty opportunities had received an initial screening, with approximately one hundred and forty executive summaries prepared, seventy investment-memorandum resulting in forty-four loans made by Stoneweg in Spain.

The program size for this portfolio of bridge loans was €97.0 million, based on 24 original loans. Total current commitment for the portfolio is €81.8 million, with notional outstanding of €75.0 million. On a monthly basis there is interest earnings of €883 k; total accrued and paid interest is €9.4 million, with a portfolio premium of €1.2 million, gross profit is €10.6 million and notional repaid of €19.0 million.

Program Size vs. Invested Equity (in million €)



Maturity Profile of Invested Portfolio (in %)



VSO IBERIA INCOME II

Investment Overview

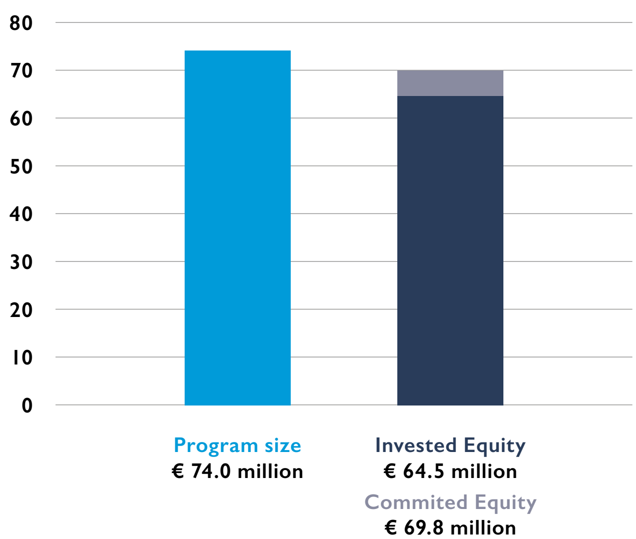
Strategy	Bridge Financing backed by Real Estate Assets
Location	Spain: various
Structuring	Noteholder of VSO Europe Properties into VSO Iberia Income II
Acquisition Price	October 2018
Acquisition Date	€ 1.0 million (1,000 notes)
Varia Europe Equity (Current)	€ 1.0 million (1,000 notes at cost)
Total Project Equity (Current)	€ 77.1 million
Varia Europe Ownership	1.3 %
Investment Horizon	December 2021
Target IRR	11 %–13 %

Investment/Project Description

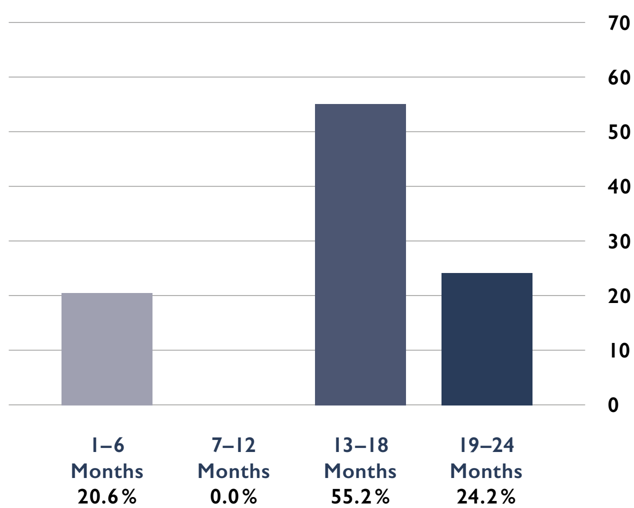
The Company's investment allocation is into a closed-ended VSO portfolio with an original investment lifecycle of three years. The process for selecting individual projects by Stoneweg is disciplined, to include: opportunity analysis, due diligence, executive-summaries and senior management review. This leads to the preparation of a comprehensive investment memorandum which is submitted to the Stoneweg Spanish bridge financing investment committee for final approval and the execution of the loan.

The target size and subscription period for this portfolio of bridge loans has been extended from December 2018 at €100.0 million, to May 2019 at €180.0 million. The program size as at December 31, 2018, is €74.0 million, based on a current commitment of €69.8 million and notional outstanding of €64.5 million across 12 loans. The average loan to value is 45.6% and average coupon of 14.2%. The remaining maturity of the loans is 16 months, monthly interest earnings of €2.7 million, with accrued and paid interest of €2.7 million. No notional repayments had been made and no distributions processed to investors.

Program Size vs. Invested Equity (in million €)



Maturity Profile of Invested Portfolio (in %)



VSO SPANISH PHOENIX & VSO SPANISH PHOENIX CAT

Investment Overview

Strategy	Development: Residential
Location	Spain: various
Structuring	Varia Europe into VSO Spanish Phoenix II and VSO Europe into VSO Spanish Phoenix II and VSO Europe into VSO Spanish Phoenix CAT
Entry Date	May 2017, March 2018
Original Investment	€ 2.5 million Spanish Phoenix II / €2.0 million SP CAT
Varia Europe Equity (Current)	€ 2.5 million Spanish Phoenix II / €2.0 million SP CAT
Total Project Equity (Current)	€ 70.8 million
Varia Europe Ownership	6.3% (across both VSOs)
Investment Horizon	4 Years
Target IRR	15%–20%

Investment/Project Description

The investment into Spanish Phoenix Opportunity is another example whereby the project selection within the underlying VSO is performed by the Spanish residential development investment committee of Stoneweg. Within this asset allocation there are two specific investments, these are into VSO Spanish Phoenix II, which is Spain excluding Catalonia and VSO Spanish Phoenix CAT, which exclusively invests in Catalonia.

The original intention of this segregation of the allocation between VSO Spanish Phoenix II and VSO Spanish Phoenix CAT was as a risk mitigation exercise following the independence referendum in Catalonia. The Company has witnessed no reduction in investor appetite for the Catalonian region since the independence vote, indeed the local asset manager, Stoneweg, has experienced an increase in international investor willingness to place additional equity into the region; the demand for residential units is driven locally.

Portfolio summary

Project	Location	Units	Total Project Investment (in million €)	Max Equity Invested (in million €)	Expected IRR Q4 2018 (in %)	Current Sales (in %)	Expected Construction Start Date
Carriles	Opportunistic	n/a	24.7	24.7	20–25	n/a	n/a
Badalona Torres	Barcelona	282	90.3	27.4	15–20	19	Q1 2019
Badalona Marina II	Barcelona	129	33.4	10.4	20–25	–	Q4 2019
Kodak	Madrid	78	28.7	10.2	15–20	–	Q4 2019
Mostoles Acr Av ONU	Madrid	198	40.6	7.9	15–20	16	Q1 2019
Skyline	Madrid	602	219.9	6.0	15–20	–	Q4 2019
Hospitalet Cosmetoda	Barcelona	276	68.4	18.3	15–20	2	Q2 2019
Marqués de Zafra	Barcelona	19	7.5	2.5	15–20	68	Q1 2019
Llull	Marcelona	38	18.0	9.5	15–20	–	Q3 2019
Total		**1,622**	**531.5**	**116.9**			

VSO II – SKYLINE: PROJECT SKYLINE

Investment Overview

Strategy	Development: Residential
Location	Spain: Madrid
Structuring	Varia Europe into VSO II Varia Skyline
Acquisition Price	€ 119.0 million
Acquisition Date	November 2018
Varia Europe Equity (Current)	€ 1.0 million
Total Project Equity (Current)	€ 80.0 million
Varia Europe Ownership	1.2 %
Investment Horizon	42 months
Target IRR	15 %–20 %

Investment/Project Description

This is a highly ambition project undertaken and managed by Stoneweg with an anticipated 57,363 built sqm in Valdeacederas, the district of Tetuan, part of a new urban plan which is upgrading this area in partnership with Touza, a prestigious design studio. The area if fully consolidated inside the M-30 perimeter of Madrid and the building allows for considerable control over the final product offer, with limited social housing projects.

The is a residential asset with a development and sale strategy; there is a total plot surface of 4,624 sqm, with 44,125 sqm of built area and 57,363 sqm of total space to include terraces and common areas. With an original acquisition price of €119.0 million and project CAPEX of €80.8 million, the total investment into the project is €219.9 million, equating to €3,834 per sqm total cost.

Financing comprises 50% of the land purchase price, 100% of the CAPEX, with 40% of sales required in order to activate the CAPEX mortgage. Total sales are anticipated to be €287.5 million, giving an average sale price per sqm of €5,011. The exit strategy consists two elements, the phased sale of individual units on a retail basis and the block sale of individual towers, on a forward-sale basis, to institutional investors looking to enter the private rental sector (PRS).

Summary Update

The sales plan constitutes the retail sale of 367 residential units at a price averaging €4,891 per sqm, which consists 93% of retail sales. The remaining 7% of retail sales are generated from the sale of 411 parking spaces with a total of €27,871 per slot; the average for the entire site is €5,261 per sqm.

In regards the forward sale of tower blocks to institutional investors, there are a total of 312 residential units with an average sales price of €4,718 per square meter, which comprises 100% of the revenues for these blocks. The 351 parking spaces are included within that price.

INVESTMENT STRUCTURING

INVESTMENT STRUCTURING

The Company participates in real estate investments through participations in VSO compartments. VSO is a public limited company incorporated under the laws of the Grand Duchy of Luxembourg, organized as a securitization company. VSO has different compartments with distinct real estate investment strategies. The Company is a noteholder (notes are issued in registered form) of VSO compartments. The notes are not tradable instruments and not listed at any exchange or the like.

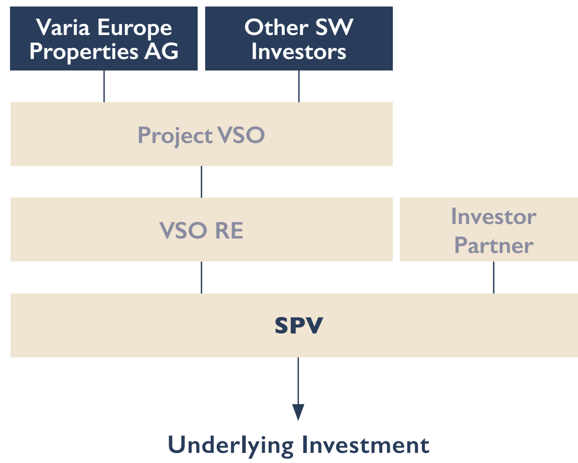
As a noteholder the Company invests in debt instruments (notes) allowing it to participate in the underlying assets' returns through variable yields. The result is that the notes participate fully in the investment as if the Company had invested into equity (without any voting or related rights). The notes are linked to the assets confined exclusively to the respective compartment.

The Company only decides to invest into a specific VSO compartment or program, while the investment decisions in the VSO compartments are taken by the VSO board depending on the individual strategy of each VSO compartment. The allocations are done with the objective to participate in different investment strategies.

The proceeds from the issuance of notes by the VSO compartment are used to carry out the investment strategies via special purpose vehicles created for each asset of the compartment with the sole purpose to implement the relevant investment strategy for the respective asset at the local level.

The Company has no direct influence on the management and investment decision of VSO compartments themselves and the exit of the investments is dependent on the realization of the underlying assets. VSO compartments and underlying assets owned by VSO compartments are advised and managed by Stoneweg group entities.

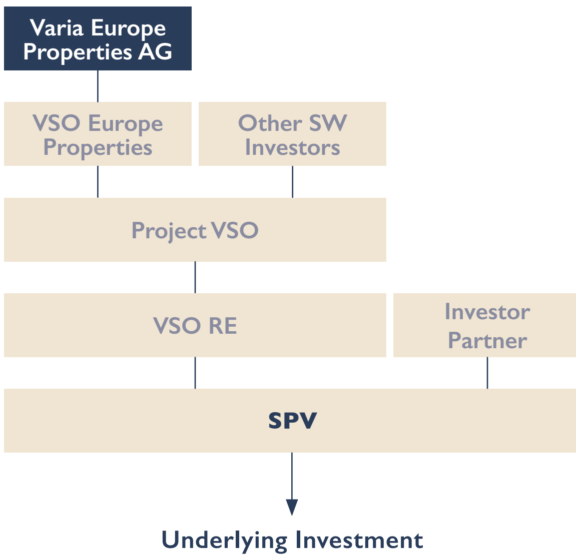
Example 1: The following graphics depict a typical investment structures for real estate assets:



For real estate assets, as an explanation of the above, the Company is a noteholder in an underlying project VSO compartment of Varia Structured Opportunities SA. The VSO compartment is the level where Stoneweg investors participate in pooling equity resources for a specific project or strategy. The VSO compartment holds tracking shares which have been issued by Varia Structured Opportunities Real Estate (VSO RE) a private limited liability company under the laws of the Grand Duchy of Luxembourg, in relation to that specific project.

At SPV level, as a tool for incentivizing local partners, the SPV will be jointly owned by VSO RE and an investor partner, helping to manage the risk / return profile of the local project.

Example 2: Varia Europe Properties AG into VSO Europe Properties:

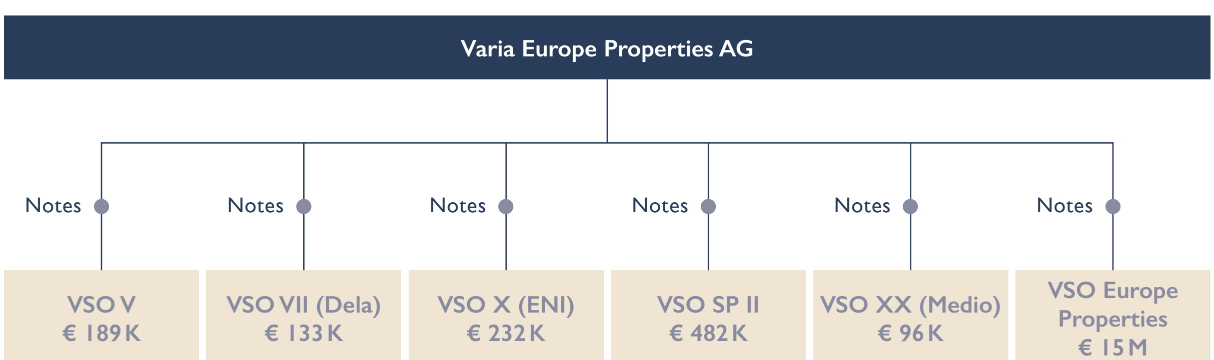


For operational ease, a dedicated VSO compartment, VSO Europe Properties, has been created from February 23, 2018, in which all future Company transactions will be held and processed. For Spanish related projects, VSO Europe Properties will typically become a noteholder of the relevant project level VSO.

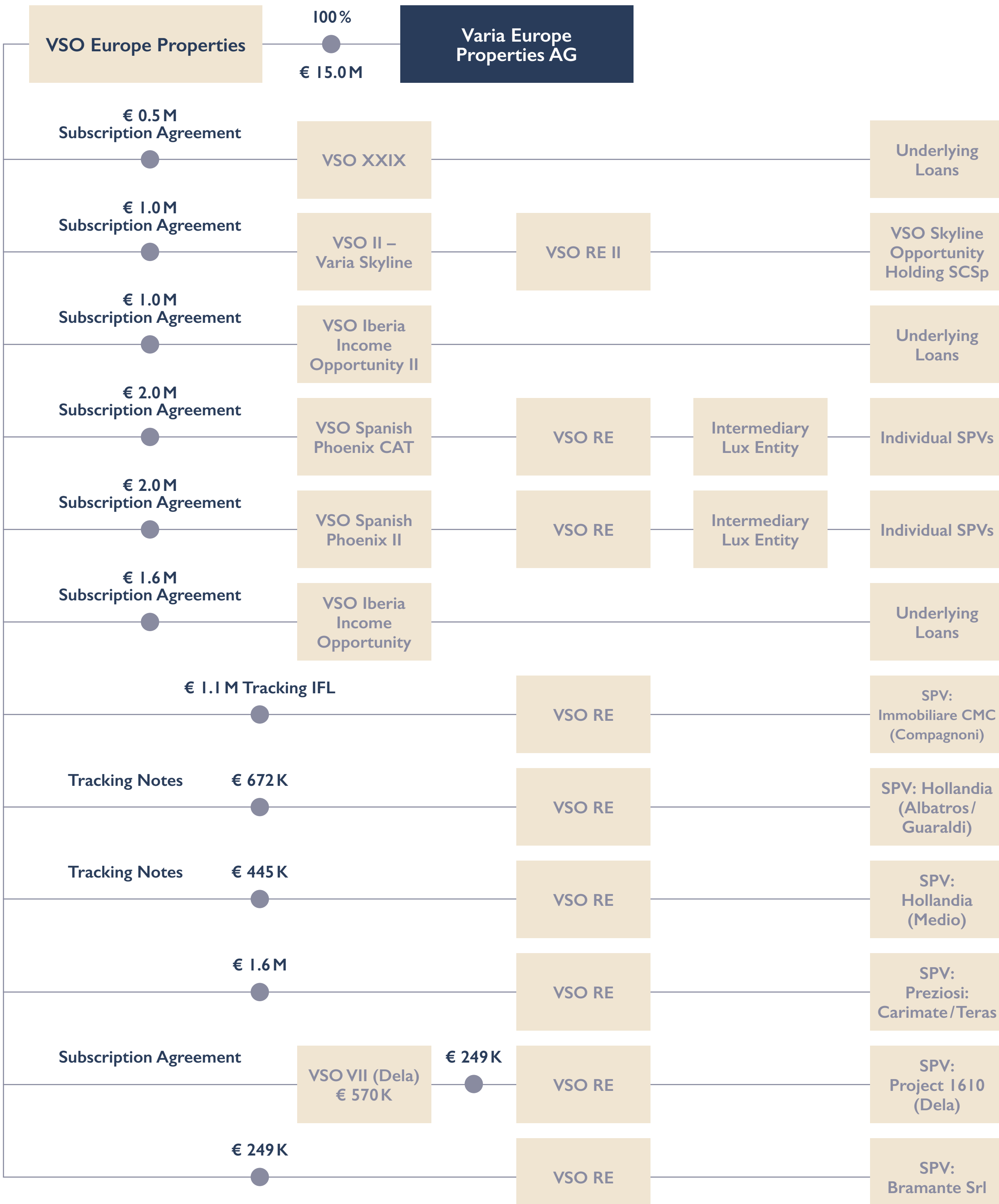
Example 3: VSO Europe Properties invested directly to VSO RE:

VSO Europe Properties can invest directly through VSO RE, rather than as a noteholder of another Project VSO. In this case the link is between VSO Europe Properties and VSO RE. This is typically the case for Italian projects.

As at 31 December 2018, the Company held the allocation into VSO notes:



As at December 31, 2018, VSO Europe Properties had allocated capital in the following manner:



CURRENCY FLUCTUATIONS

During 2018, there was a weakening of the Swiss franc against the EUR with a closing rate of 1.1702 in 2017 and a closing rate of 1.1269 at year end 2018. The below graph taken from Bloomberg has been updated on the specific dates where major FX items were recorded by the Company, including the financial year ends and also dates of capital increases, or redemptions.

This overview is not intended to act as a detailed summary of the reasons behind such movements, nor as a forecast of future foreign exchange rates. It is highlighted to demonstrate the risks associated with currency fluctuations and the impact these can have on Company level performance.

Key Company items impacted by currency

- Financial Statements year end close December 31, 2017 at 1.1702
- First Capital increase transfer to EUR account February 13, 2018 at 1.1538
- Second Capital increase transfer to EUR account December 12, 2018 at 1.1266
- Financial Statements year end close December 31, 2018 at 1.1269

EUR / CHF Rate Fluctuations 2018

MANAGEMENT REPORT

"The Company takes seriously risk assessment and management activities; through our collaboration with Stoneweg this has been established for the entire investment lifecycle with a multi-layered approach to managing project and structuring associated risk.

At Company level we continue to monitor currency risk, particularly given the Euro exposure based on operational and investment activity and the reporting of Company results in CHF.

There were significant one-off costs incurred during 2018 as a result of establishing the Company and associated with the listing on the Bern Swiss Exchange. These are extraordinary, non-recurring, items and not part of ordinary day-to-day operations."

Taner Alicehic
Chairman of the Board

EMPLOYEES AND MANAGEMENT

Varia Europe Properties AG does not have and did not have any full-time employees during the year 2018; management of the Company comprises a Board of Directors of three individuals that include a Chairman of the Board, Chairman of the Audit and Risk Committee, Chairman of the Compensation Committee and Executive Member. The role of Chairman of the Board and Executive Member in 2018 were held by the same person.

The Board of Directors for 2018 comprised Taner Alicehic (Chairman of the Board, Executive Member), Jaume Sabater Martos (Chairman of the Compensation Committee) and Pierre Grégoire Baudin (Chairman of the Audit and Risk Committee). The Board of Directors were allocated compensation to the value of CHF 15,000 and an additional CHF 5,000 for the Executive Member of the Board. The Board decided to forego any compensation in 2018.

RISK ASSESSMENTS

The Company takes seriously risk assessments at all stages of the investment process and in managing activities at company level.

Stoneweg SA, the advisor within the investment structure and asset manager of the underlying investments, is responsible for sourcing the investable pool of opportunities in which the company allocates capital. Prior to any allocation decision being made by the Varia Europe Properties Investment Committee / Board of Directors the project will have already been through a rigorous investment process by Stoneweg, based on the below processes.

The project selection process constitutes original project level analysis with opportunities assessed against strategy and project specific parameters consisting of the risk / return profile, underlying asset review, investment horizon, collateral valuation, structuring, cash timing and other relevant investment parameters. The first cut of opportunities is performed against these, and other, parameters at project level.

The second cut of opportunities comes at the Executive Summary stage, where a full financial analysis is undertaken, including underwriting model / analysis, in order to prepare this summary. The final cut comes at the Investment Memorandum phase and it is at this stage that a full due diligence will have been prepared, including the confirmation of the investment parameters, prior to the strategy / country specific investment committee approval.

Operationally, the Company is a noteholder of various compartments in Varia Structured Opportunities SA (VSO), including the principal compartment VSO Europe Properties, where the company is the sole noteholder. VSO is a securitization company based in Luxembourg from which the underlying investments are held. This creates operational risk, including during periods of audit preparation, where the Company is dependent on external audit processes in Luxembourg in order to close the Company level audit, which is a separate undertaking and relies on the auditor's opinion in Luxembourg.

For the 2018 financial yearend processes, there was a misalignment between the audit timing and processes of the Company for closing the Financial Statements, which for best practice would be April 2019, with a legal obligation for June 2019, and the Luxembourg VSO Company audit which formally closed at the end of May 2019. Delays in Luxembourg for their audit processes have a direct impact on the ability of the Company to formalize and close the audit process.

The Company takes seriously this dependence and, as a result, aims to undertake operational steps which will, in future, further manage and mitigate any such risks associated with VSO level audit processes.

Being registered and domiciled in Switzerland, while the investment and operational exposure is within the Eurozone, the Company faces a specific form of additional risk through currency fluctuations.

The Fair Value adjusted profits for 2018 were € 778,656 (in Euro terms), while the Swiss franc profit was CHF 400,164; based on individual line item impacts, the negative currency impact for 2018 was CHF 377,363. Through Stoneweg, the Company will continue to assess the currency exposure risks at Company level, while investigating what options and actions, if any, can or should be taken to mitigate that risk in future periods.

ORDER / ASSIGNMENT STATUS

At yearend, a higher level of Euro denominated cash was held at VSO Europe Properties compartment level than would normally be anticipated, this was due to the allocation of equity to Project Vittoria, a Milan based mixed-use site over 45k sqm, which will be exited through a break-up and sale strategy. This allocation is scheduled to transact in Q1 2019 at a value of EUR 2.0 million.

RESEARCH & DEVELOPMENT

As the investments for the Company are sourced and secured through Stoneweg, this advisor acts as a hub, through the analytical teams, investment committees and investment managers, as a source of research and development. Varia Europe also relies on external third-party providers for property, market, economic and country specific overviews, research and data.

EXTRAORDINARY EVENTS

During the year a total of CHF 17,397,206 was raised through two capital increases, the first on January 29, 2018 with a total of CHF 15,247,500 and a second on November 30, 2018 for a total of CHF 2,149,706. The one-off transaction costs associated with this were CHF 456,307 and CHF 313,102; these costs will not be replicated in future periods and were largely associated with legal, accounting, audit and listing expenses, as well as other costs associated with these transactions. There are no other extraordinary events to report, over and above any items disclosed within the Shareholders letter and notes to the Financial Statements.

	Date of Incorporation	Number of Shares	Share Capital	Reserves from capital contribution in CHF	Transaction Costs in CHF	Total Raised in CHF
Capital increase		200,000	200,000	–	–	200,000
Ordinary Share Capital Increase	June 28, 2017	1,333,336	1,333,336	653,234	13,434	2,000,004
Balance	**December 31, 2017**	**1,553,336**	**1,533,336**	**653,234**	**13,434**	**2,200,004**
Ordinary Share capital increase	January 29, 2018	9,240,909	9,240,909	5,550,284	456,307	15,247,500
Ordinary share capital increase	November 30, 2018	1,207,700	1,207,700	628,904	313,102	2,149,706
Balance	**December 31, 2018**	**11,981,945**	**11,981,945**	**6,832,422**	**782,843**	**19,597,210**

FUTURE PROSPECTS

The Board of Directors takes a positive view of the investment prospects within the core markets of Italy and Spain.

In Spain, the portfolio exposure includes both income-generating bridge financing portfolios and capital gain projects. With CHF 2.9 million invested into Spanish Bridge Financing the Board are confident that these projects will continue to provide a steady income and reimbursement of principal in 2019 and beyond. During 2019, it is anticipated that a steady stream of reimbursements from this strategy will be reinvested into other projects.

2018 was a particularly strong year for Spanish residential assets, with prices increasing nationally at 6.0%, by 8.4% in Barcelona and 16.9% (a historical high) in Madrid. (Source: Idealista)

Within the Spanish development strategies, the Board has allocated CHF 6.2 million. As these projects are at an early stage of their development cycle, in a majority of cases the assets are held at cost for accounting / valuation purposes; the Board perceive their value held in the Financial Statements to be on a conservative basis. Furthermore, while there are some warning signs in the economy within Spain, particularly in relation to tourism which has been a driving factor in relation to growth, the Board are comfortable with the current economic climate and real estate investment cycle.

The Company's approach within Italy is significantly more diversified, in terms of the underlying assets and exposure, compared to Spain, based on the desire to acquire opportunities in distressed situations. A total of four strategies are managed within the Italian market, encompassing Developments, books of non-performing loans, income assets and bridge financing.

Of the CHF 6.0 million allocation, CHF 1.5 million was directed into 2 residential development sites located within Milan. Both sites, Project Compagnoni 12 and Project Niccolini, are at the early stages of the development lifecycle and were acquired opportunistically. CHF 2.1 million is the value allocation to income assets as at December 31, 2018, to include Project Eni and Project Preziosi; the strategy for income assets within Italy is for the income generated from those assets to go towards debt servicing and other related costs.

For assets in distressed situations, CHF 1.8 million is the allocated at year end, with three portfolios of non-performing loans with underlying assets across Italy. Finally, an additional allocation was made into a bridge financing opportunity with an allocation of CHF 563k, this being the first time an allocation has been made into this strategy within Italy.

In general terms, while there have been some timing delays in either closing, or exiting, some transactions, progress has been constant and our ability to generate profit in Italy is clear. As a Company, we have confidence in the local Stoneweg Italian team to generate opportunities to our advantage, in a complex investment and legal environment.

COMPENSATION REPORT

The development and successes of Varia Europe Properties AG as a business are sustained through a systematic, transparent compensation system. This report provides an overview of the Company's compensation principles and practices designed to support business goals and to align the interests of the leadership team with those of the Company's shareholders.

OVERVIEW

Varia Europe Properties AG is a real estate holding company incorporated in Zug. The Company has a Board of Directors but no direct employees. The Company has retained Real Estate Investment Solutions AG (REIS) as the Company's Asset Manager, while Stoneweg SA (Stoneweg) acts as the advisor within the investment structure and asset manager of the underlying investments. All operational tasks have been outsourced to these entities.

For this reason, the compensation report only relates to the compensation of the members of the Board of Directors.

Pursuant to article 4.4 of the Company's articles of association, the Board of Directors members receive a fixed remuneration that may be complemented by a variable component for executive members of the Board of Directors; reimbursement of expenses incurred on behalf of the Company may be paid to members, provided that they submit supporting documentation.

The Board of Directors determines on an annual basis and at its discretion the fixed remuneration to be paid to the individual members from the period from the next general meeting of shareholders to the following one. The remuneration is determined following the recommendations of the compensation committee and within the limits of the total amount approved by the general meeting of shareholders.

During the meetings on June 7th, 2019, the compensation committee and the board of directors looked at the remuneration of Swiss listed and non-listed real estate companies of similar size and concluded that the remuneration proposed is in line with market standards.

The compensation committee also looked at the remuneration of the delegate that is determined on a discretionary basis within the amount approved by the shareholders' meeting, taking into account the fact that the delegate is also compensated and remunerated by Stoneweg SA and REIS for his activities, and that the remuneration paid by the Company is linked to his duties in Switzerland for the Company, including coordinating with Stoneweg's Swiss team members.

PURPOSE OF THE COMPENSATION REPORT

The compensation report meets the provisions of the Ordinance against Excessive Compensation in Listed Companies (art. 13 and seqq.) and is put to a consultative vote at the General Meeting.

DECISION OF THE 2018 GENERAL ASSEMBLY

On August 31, 2018, the General Assembly of Varia Europe Properties AG took the following decisions:

1. It elected the following persons as Board members
   - Taner Alicehic, Chairman
   - Jaume Sabater Martos, member
   - Pierre Grégoire Baudin, member

2. It elected Jaume Sabater Martos as members of the Compensation committee for the term of office until the next ordinary general meeting

3. It approved the following compensation package for the Board members according to article 3.7 of the Articles of Association:
   - Maximum amount of CHF 15,000 for the compensation of the members of the Board of Directors for the term of office until the next ordinary general meeting
   - Maximum amount of CHF 5,000 for the compensation of the persons whom the Board of Directors has entrusted with the executive management of the Company for the compensation period until the next ordinary general meeting.

In its circular resolution of the board of directors, dated November 12, 2018, the Board of the Company confirmed the following decisions:

1. Elect and constitute the Risk and Audit Committee with:
   - Pierre Grégoire Baudin, Chairman of the committee and sole member
2. Are members of the compensation committee:
   - Jaume Sabater Martos, Chairman of the committee and sole member

Compensation Paid in the financial year 2018

The members of the board of directors were eligible for compensation during the financial year 2018 amounting to CHF 15,000 for the board of directors and, in addition, CHF 5,000 for the executive member.

The board of directors resolved to forego any compensation for their term of office until the annual general meeting 2019. Therefore, no compensation was paid to the members of the board of directors (including the executive member) in the financial year 2018.

Full Board Compensation Disclosure

No cash compensation was paid to Board members in the year 2018.

At that stage of Company development, it is not intended to have any payment in kind or performance related compensation. Therefore, none of the Board members received any compensation in shares or other stocks and there was no performance related compensation for the Board members.

There was no additional compensation to the Board members for their role as board member or for additional work, except for Board members paid by REIS that are involved in the asset management duties of this company.

No loans or credit facilities were granted to members of the Board of Directors, Executive Board or related parties in the 2018 financial year, and there were no such receivables outstanding as at December 31, 2018.

REPORT OF THE STATUTORY AUDITOR
TO THE GENERAL MEETING OF VARIA US PROPERTIES AG, ZUG

pwc

Report of the statutory auditor
to the General Meeting of Varia Europe Properties AG
Zug

We have audited the accompanying remuneration report (pages 45 to 46) of Varia Europe Properties AG for the year ended 31 December 2018.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility
Our responsibility is to express an opinion on the accompanying remuneration 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 remuneration 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 remuneration 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 remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

PricewaterhouseCoopers SA, avenue Giuseppe-Motta 50, case postale, CH-1211 Genève 2, Switzerland
Téléphone: +41 58 792 91 00, Téléfax: +41 58 792 91 10, www.pwc.ch

Opinion
In our opinion, the remuneration report of Varia Europe Properties AG for the year ended 31 December 2018 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers SA

Jean-Sébastien Lassonde	Mario Berckmoes
Audit expert Auditor in charge	Audit expert

Genève, 07 June 2019

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018
Prepared in accordance with Swiss GAAP FER

Varia Europe Properties AG, Zug

BALANCE SHEET AS OF DECEMBER, 2018

ASSETS	Notes	December 31, 2018 in CHF	December 31, 2017 in CHF
Cash and cash equivalents		454,112	70,301
Prepaid expenses		1,795	–
Current assets		**455,907**	**70,301**
Investments at fair value	2.1	19,297,446	2,174,317
Non-current assets		**19,297,446**	**2,174,317**
	Total assets	**19,753,353**	**2,244,618**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	December 31, 2018 in CHF	December 31, 2017 in CHF
Trade accounts payable to third parties		51,488	–
Accrued expenses	2.2	377,351	55,935
Accrued capital taxes	2.3	15,270	1,600
Current liabilities		**444,109**	**57,535**
Deferred tax liability	2.3	94,200	–
Non-current liabilities		**94,200**	**–**
Total liabilities		**538,309**	**57,535**
Share capital	2.4	**11,981,945**	**1,533,336**
Reserves from capital contributions	2.4	6,832,422	653,234
Legal capital reserves		**6,832,422**	**653,234**
Retained earnings brought forward		513	–
Net profit for the year/period		400,164	513
Voluntary retained earnings		**400,677**	**513**
Shareholders' equity		**19,215,044**	**2,187,083**
	Total liabilities and equity	**19,753,353**	**2,244,618**

The notes on pages 55–62 form an integral part of these financial statements.

Varia Europe Properties AG, Zug

PROFIT AND LOSS STATEMENT FOR THE YEAR FROM JANUARY 1, 2018 THROUGH DECEMBER 31, 2018

	Notes	For the period ended December 31, 2018 in CHF	From April 20, 2017 to December 31, 2017 in CHF
Gain on redemption of notes		54,946	7,701
Loss on redemption of notes		–14,149	–3,979
Gain on investments fair value adjustment		1,137,452	166,122
Loss on investments fair value adjustment		–393,448	–119,615
Revenue		**784,801**	**50,229**
Directors' fees and social charges		–20,000	–
Communications, publicity and marketing		–14,307	–261
Membership fees		–754	–3,544
Accounting and administration expenses		–62,292	–37,000
Legal and other consulting fees		–33,841	–3,816
Audit fees		–74,239	–25,000
Incorporation expenses		–	–1,220
Insurances		–150	–
Other operating expenses		–1,566	–29
Direct taxes on capital	2.3	–13,670	–1,600
Operating expenses		**–220,819**	**–72,470**
Operating profit before financial and extraordinary result		**563,982**	**–22,241**
Financial income	2.6	1,798	23,320
Financial expenses	2.6	–50,230	–566
Extraordinary expenses related to prior years		–21,186	–
Profit before income taxes		**494,364**	**513**
Deferred income tax expense	2.3	–94,200	–
Net profit for the year/period		**400,164**	**513**
Earnings per share (EPS): Basic and diluted earnings, per share	2.5	**0.0395**	**0.0004**

The notes on pages 55–62 form an integral part of these financial statements.

Varia Europe Properties AG, Zug

CASH FLOW STATEMENT FOR THE YEAR FROM JANUARY 1, 2018 TO DECEMBER 31, 2018

	Notes	For the period ended December 31, 2018 in CHF	From April 20, 2017 to December 31, 2017 in CHF
Operating activities			
Net profit for the year/period		400'164	513
Gain on redemption of notes		–54'946	–7,701
Loss on redemption of notes		14'149	3,979
Gain on investments fair value adjustment	2.1	–1'137'452	–166,122
Loss on investments fair value adjustment	2.1	393'448	119,615
Currency gain on redemption (non cash transaction)		–1,798	–
Currency loss on redemption (non cash transaction)		331	290
Change in prepaid expenses		–1,795	–
Change in liabilities to third parties		51,488	–
Change in accrued expenses	2.2	321,416	55,935
Change in accrued taxes	2.3	13,670	1,600
Change in deferred taxes	2.3	94,200	–
Cash flow from operating activities		**92,875**	**8,109**
Investing activities			
Investment notes acquisition	2.1	–16,883,118	–2,124,378
Investment notes redemption		546,257	–
Cash flow from investing activities		**–16,336,861**	**–2,124,378**
Financing activities			
Proceeds from ordinary share capital increase	2.4	16,627,797	1,986,570
Cash flow from financing activities		**16,627,797**	**1,986,570**
Change in cash and cash equivalents for the year/period		**383,811**	**–129,699**
Cash at the beginning of year, at the date of incorporation		70,301	200,000
Cash and cash equivalents at the end of the year/period		454,112	70,301
Change in cash and cash equivalents for the year/period		**383,811**	**–129,699**

The notes on pages 55–62 form an integral part of these financial statements.

Varia Europe Properties AG, Zug

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM JANUARY 1, 2018 TO DECEMBER 31, 2018

	Notes	Share capital in CHF	Reserves from capital contributions in CHF	Voluntary retained earnings in CHF	Total equity in CHF
Incorporation share capital	2.4	200,000	–	–	**200,000**
Ordinary share capital increase on June 28, 2017	2.4	1,333,336	653,234	–	**1,986,570**
Net profit for the period from April 20, 2017 to December 31, 2017		–	–	513	**513**
Balance at December 31, 2017	2.4	**1,533,336**	**653,234**	**513**	**2,187,083**
Ordinary share capital increase on January 29, 2018	2.4	9''240,909	5,550,284	–	**14,791,193**
Ordinary share capital increase on November 30, 2018	2.4	1,207,700	628,904	–	**1,836,604**
Net profit for the year		–	–	400,164	**400,164**
Balance at December 31, 2018	2.4	**11,981,945**	**6,832,422**	**400,677**	**19,215,044**

The notes on pages 55–62 form an integral part of these financial statements.

Varia Europe Properties AG, Zug

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR FROM JANUARY 1, 2018 TO DECEMBER 31, 2018

1 PRINCIPLES

1.1 General information

Varia Europe Properties AG ("Varia" or "the Company") was created on March 8, 2017 and registered with the Zug Commercial register on April 20, 2017 under UID number CHE–342.208.571. The Company is a Swiss stock corporation established under the relevant provisions of the Swiss code of obligations ("SCO"). Its address is Gubelstrasse 19, 6300 Zug, Switzerland.

As a Swiss real estate investment company, Varia's purpose is to participate in real estate investments in Europe (other than in Switzerland), through notes issued by Varia Structured Opportunities SA ("VSO") compartments. VSO is a public limited company incorporated under the laws of the Grand Duchy of Luxembourg, organized as a securitization company. VSO has different compartments (or programmes) with distinct real estate investment strategies. The Company is a noteholder of VSO compartments, allowing it to participate indirectly in the underlying investments.

Investment decisions in VSO programmes are taken by the Board depending on the individual strategy of each VSO programme. The allocations are done with the objective to participate in Spain and Italy, with 4 different strategies:

1 Developments: participation in real estate constructions with a special focus on residential for sale developments.
2 Bridge Loans: participation in real estate loans backed by 1st lien mortgages, with a 12 to 36 months maturity.
3 Income Assets: participation in real estate commercial assets with existing tenants.
4 Non Performing Loans: participation in non performing loans sold by banks at 40% to 60% discount to Gross Book Value and backed by real estate assets.

As a noteholder, Varia has no direct influence on the management and investment decision of VSO programmes themselves and the exit of the investments is dependent on the realisation of the underlying assets. VSO programmes and underlying assets owned by VSO programmes are advised and managed by Stoneweg group entities.

1.2 General aspects

These financial statements were prepared in accordance with all of the existing guidelines and reporting recommendations of the Swiss generally accepted accounting principles (Swiss Gaap FER). The Company is listed at the BX Bern eXchange in Switzerland. As a result, the Board of directors has decided to apply the Swiss GAAP FER, in accordance in particular with Swiss GAAP FER 31.

The board of directors of the Company is ultimately responsible for the policies, the valuations, and the management of the activities. The statutory financial statements for the year ended December 31, 2018 were approved by the Board of Directors on June 7, 2019. The statutory financial statements of Varia Europe Properties AG for the period ending December 31, 2017 were approved by the Ordinary General Meeting of the Shareholders on August 31, 2018.

The financial statements are presented in Swiss francs (CHF) and all values are rounded to the nearest CHF.

1.3 Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise petty cash, cash at bank and short-term deposits with an original maturity of three months or less. They are recorded at their nominal value. In the cash flow statement, cash and cash equivalents consist of the cash and cash equivalents as defined above, less current account overdrafts ("Net Cash").

1.4 Investments

At the balance sheet date, the investments are valued at fair value.

The fair value of investments are calculated by a third party entity, in charge of the corporate services of Varia Structured Opportunities SA ("VSO"), the Luxembourg securitization company where Varia invests it's assets. For the annual financial statements, fair value is based on the audited net asset values of the different VSO compartments. Net asset values of VSO compartments are determined depending on the underlying asset type; it is based on paid and accrued interest regarding bridge loan strategies and non performing loan strategies; for assets under construction and existing assets it is determined with a net present value approach. The gains and losses of valuation are recognized in the profit and loss statement.

Each VSO programme has a different strategy and therefore the fair value of each VSO is determined with a tailored different valuation method:

1 For assets under construction and assets generating cash flow, an external valuation by Cushman & Wakefield is performed annually at year-end using the red book guidelines for market rent and market value. This valuation is then taken into account to value VSO's investments, adjusted for tax and performance fee provisions.
2 For bridge loans the fair value is determined by the nominal value of the loans plus accrued and paid interest. Nominal value can be adjusted down should VSO's Board of directors estimate that there is a risk of non recovery of the amount.
3 For non performing loans the fair value is determined by the acquisition cost plus accrued interest. The acquisition value can be adjusted down should VSO's Board of directors estimate that there is a risk of non recovery of the amount.

VSO compartments are not listed and do not provide any redemption feature, therefore reducing the liquidity of the investment. VSO compartments are to be seen as private equity investments with a limited life span. Notes can be sold to other investors. Redemptions are made on a mandatory basis, each time there is sufficient cash to provide to Noteholders.

The revenue recognition principles related to the investments are disclosed in note 1.6.

1.5 Foreign currency items

The Company's functional currency is the Euro (EUR) but the Company's reporting and presentation currency is the Swiss franc (CHF).

Short-term monetary assets, financial assets and liabilities in foreign currencies are converted at the exchange rate on the balance sheet date. Other non-monetary assets as well as equity items are presented at historical rates. Transactions in foreign currencies are translated at the exchange rate on the day the transaction takes place.

Foreign exchange profits and losses are recorded in the profit and loss statement.

For the translation of EUR into CHF, the closing rate applied at the end of the year is 1.1269 (31.12.2017: 1.1702).

1.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Revenue resulting from the redemption of notes are recognized at the time of the transaction. It corresponds to the gain or the loss resulting from the difference between the redemption proceeds net of expenses and the acquisition value of the notes.

1.7 Income taxe

The tax expense for the year comprises current income taxes and deferred taxes. Tax is recognized in the profit and loss statement.

Current income tax liabilities and assets for the current year are measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred tax is recognized in full, using the balance sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is determined using tax regulations and rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply. No income taxes were paid during the year ended December 31, 2018 (31.12.2017 – nil).

2 INFORMATION ON BALANCE SHEET AND PROFIT AND LOSS STATEMENT BALANCES

2.1 Investments

From its creation, the Company has developed its investments' portfolio by investing in notes of compartments of an investment vehicle based in Luxembourg, named Varia Structured Opportunities ("VSO"). The investments are done through subscription into notes issued by the relevant compartments; these notes do not provide voting rights and have to be seen as a debt instrument issued by the relevant compartment. Therefore a consolidation, even in cases of majority of notes held by Varia, is not required as the notes do not provide a control over the investments made by the compartments. For the preparation of the financial statements, valuations of the underlying assets were performed as per Note 1.4. As a noteholder, the Company invests in debt instruments (notes) allowing it to participate in the underlying assets' returns through variable yields. The result is that the notes participate fully in the investment as if the Company had invested into equity (without any voting or related rights). The notes are linked to the assets confined exclusively to the respective VSO compartment.

As at December 31, 2018, the Company owned notes of 6 different compartments as per the below explanation and table:

Compartments	Fair value 31.12.2017 in CHF	Redemption at sale price for the year in CHF	Realized gain / loss on redemption for the year in CHF	Acquisition / reinvestment for the year in CHF	Fair value adjustment as of 31.12.2018 in CHF	Fair value 31.12.2018 in CHF
VSO V	439,154	–211,104	22,603	–	3,908	254,561
VSO VII	365,451	–141,925	–1,750	–	–14,046	207,730
VSO X	318,789	–	–	–	–713	318,076
VSO XI	327,738	–486,430	21,616	18,413	118,663	–
VSO Spanish Phoenix II	564,037	–	0	–	–14,689	549,348
VSO XX	159,147	–45,416	–1,672	–	–1,354	110,705
VSO Europe Properties	–	–	–	17,204,790	652,236	17,857,026
Total	**2,174,317**	**–884,875**	**40,797**	**17,223,203**	**744,004**	**19,297,446**

As at December 31, 2017, the Company owned notes of 6 different compartments as per the below explanation and table:

Compartments	Initial acquisition value in CHF	Redemption at sale price for the period in CHF	Realized gain/loss on redemption for the period in CHF	Acquisition/reinvestment for the period in CHF	Fair value adjustment as of 31.12.2017 in CHF	Fair value 31.12.2017 in CHF
VSO V	425,278	–21,089	1,549	–	33,416	439,154
VSO VII	425,278	–131,029	2,296	–	68,906	365,451
VSO X	423,232	–160,099	654	–	55,001	318,789
VSO XI	425,312	0	–	21,089	–118,663	327,738
VSO XIII	425,278	–424,501	–777	–	–	–
VSO Spanish Phoenix II	–	–	–	555,239	8,798	564,037
VSO XX	–	–	–	160,099	–952	159,147
Total	**2,124,378**	**–736,718**	**3,722**	**736,427**	**46,506**	**2,174,317**

Some proceeds of the redemption of notes have been immediately reinvested into others compartments without cash transactions. Accordingly, these transactions for an amount of CHF 340,085, for the year ending December 31, 2018 (31.12.2017: CHF 736,427) are not shown in the cash flow statement, except for the currency gain and loss on reinvestment.

The investments of Varia in the VSO notes are the following at the end of the year:

Compartments	Domicile	Country of investments	Strategy	Number of Notes held by Varia (31.12.2018)	Percentage held by Varia of total outstanding notes value (31.12.2018)
VSO V	Luxembourg	Spain	Bridge Loans	189	3.2%
VSO VII	Luxembourg	Italy	Non Performing Loans	133	3.0%
VSO X	Luxembourg	Italy	Income assets	225	1.6%
VSO Spanish Phoenix II	Luxembourg	Spain	Development	482	2.2%
VSO XX	Luxembourg	Italy	Non Performing Loans	96	2.0%
VSO Europe Properties	Luxembourg	Spain & Italy	Diversified	15,000	100.0%

For operational ease, all new investments since February 23, 2018 have been made through a dedicated Luxembourg compartment, VSO Europe Properties, of which Varia is the sole noteholder. VSO Europe Properties is investing either as a noteholder into another compartment, or in the underlying SPV through VSO RE, a securitization company. At the end of the year, VSO Europe Properties is a noteholder in the following underlying VSO compartments:

Compartments	Domicile	Country of investments	Strategy	Percentage held by VSO Europe Properties of total outstanding notes value (31.12.2018)
VSO RE: SPV Bramante	Luxembourg	Italy	Development	3.7%
VSO VII	Luxembourg	Italy	Non Performing Loans	6.7%
VSO XXIX	Luxembourg	Italy	Bridge Loans	6.1%
VSO RE: SPV Carimate / Teras	Luxembourg	Italy	Income assets	22.9%
VSO RE: SPV Hollandia (Medio)	Luxembourg	Italy	Non Performing Loans	8.5%
VSO RE: SPV Hollandia (Albatros)	Luxembourg	Italy	Non Performing Loans	5.0%
VSO RE: SPV Immobiliare CMC	Luxembourg	Italy	Development	17.9%
VSO Iberia Income Opportunity	Luxembourg	Spain	Bridge Loans	2.0%
VSO Iberia Income Opportunity II	Luxembourg	Spain	Bridge Loans	1.9%
VSO Spanish Phoenix II	Luxembourg	Spain	Development	9.1%
VSO Spanish Phoenix CAT	Luxembourg	Spain	Development	14.1%
VSO II Skyline	Luxembourg	Spain	Development	7.4%

The investments of Varia in the VSO notes were the following at December 31, 2017:

Compartments	Domicile	Country of investments	Strategy	Number of Notes held by Varia (31.12.2017)	Percentage held by Varia of total outstanding notes value (31.12.2017)
VSO V	Luxembourg	Spain	Bridge Loans	353	3.2%
VSO VII	Luxembourg	Italy	Non Performing Loans	258	3.2%
VSO X	Luxembourg	Italy	Income assets	225	1.6%
VSO XI	Luxembourg	Spain	Development	388	75.6%
VSO Spanish Phoenix II	Luxembourg	Spain	Development	482	7.4%
VSO XX	Luxembourg	Italy	Non Performing Loans	136	3.3%

2.2 Accrued expenses

	31.12.2018 in CHF	31.12.2017 in CHF
Audit fees	40,000	25,000
Accounting fees	27,000	26,900
Legal fees	–	3,816
Capital increase expenses	284,387	–
Other expenses	25,964	219
Total	**377,351**	**55,935**

2.3 Accrued taxes

The accrued taxes consist on provisions for the capital tax and deferred taxes related to the year.

The deferred taxes of the year consist of deferred tax liabilities for an amount of CHF 130,200 related to the fair value adjustments of the investments and of deferred tax assets for an amount of CHF 36,000 related to the unused deductible loss.

The effective income tax rates 2017 and 2018 are respectively 14.60% and 13.06% in the canton of Zug.

	31.12.2018 in CHF	31.12.2017 in CHF
Capital tax provision	15,270	1,600
Deferred tax provision	94,200	–
Balance at the end of the year/period	**109,470**	**1,600**

2.4 Share capital
Reserves from capital contributions

The share capital at December 31, 2018 is divided in 11,981,945 ordinary registered shares of a par value of CHF 1.00 each, fully paid.

	Number of shares	Share capital in CHF	Reserves from capital contributions in CHF
Share capital at date of incorporation	200,000	200,000	–
Ordinary share capital increase on June 28, 2017	1,333,336	1,333,336	653,234
Balance as of December 31, 2017	**1,533,336**	**1,533,336**	**653,234**
Ordinary share capital increase on January 29, 2018	9,240,909	9,240,909	5,550,284
Ordinary share capital increase on November 30, 2018	1,207,700	1,207,700	628,904
Balance as of December 31, 2018	**11,981,945**	**11,981,945**	**6,832,422**

The Company was established on March 8, 2017 with an initial capital of CHF 200,000 divided into 200,000 shares issued at their nominal value. There are no preferential rights attributed to the shares.

The Company made three subsequent capital increases on June 28, 2017, on January 29, 2018 and on November 30, 2018 raising net proceeds and premium of respectively CHF 1,986,570, CHF 14,791,193 and CHF 1,836,604.

For these capital increases, the related transaction costs amounting to respectively CHF 13,434, CHF 456,307 and CHF 313,102 were deducted from the share premium recorded in the Reserves from capital contributions in accordance with the Swiss code of obligations.

As of December 31, 2017, the net asset value of Varia based on shareholders' equity was CHF 2,187,083, while the net asset value per share, based on the existing number of shares at that date (1,533,336) amounted to CHF 1.43. As of December 31, 2018, the net asset value of Varia based on shareholders' equity was CHF 19'215'044, while the net asset value per share, based on the existing number of shares at that date (11,981,945) amounted to CHF 1.61.

Share premiums are considered under Swiss law as reserves from capital contributions.

The Swiss federal tax authorities have not yet confirmed the amount of the reserves from capital contributions in the sense of article 20 paragraph 3 of the Federal Income Tax Act.

2.5 Earnings per share (EPS)

	31.12.2018 in CHF	**31.12.2017** in CHF
Net profit of the year/period	400,164	513
Average of ordinary shares outstanding	10,130,480	1,172,113
Basic earnings per share	**0.0395**	**0.0004**
Diluted earnings per share	**0.0395**	**0.0004**

There is no dilutive effect on shares at December 31, 2018 (31.12.2017 – nil).

2.6 Financial result

	31.12.2018 in CHF	**31.12.2017** in CHF
Financial income		
Foreign currency exchange gains	1,798	23,320
Total	**1,798**	**23,320**
Financial expenses		
Bank interests	1,222	–
Bank fees	222	275
Foreign currency exchange losses	48,786	291
Total	**50,230**	**566**

2.7 Segment reporting

The Company is investing its funds in investments mostly related to real estate properties that are presenting similar features even if related to compartments set up for different geographical regions and/or countries. Management has determined that the Company is operating only in the sole investments property sector in Europe and accordingly the profit and loss statement presents a result of this sole segment.

2.8 Related party transactions

Related parties are individuals and companies where the individual or company has the ability, directly or indirectly, to control or to exercise significant influence over the other party in making financial and operating decisions. Related parties of the Company include:

- Board of Directors of Varia Europe Properties AG
- Board of Directors of Varia Structured Opportunities SA, Luxembourg
- Stoneweg SA, Geneva (Switzerland) and its subsidiaries.

Board of Directors

The Board of Directors is considered as key management. In the year under consideration, expenses in the amount of CHF 20,000 were accrued (31.12.2017 - nil).

No other compensation was paid to the Board members for their role or for additional work. In particular, no performance related compensation and no compensation in shares or other stocks were allocated to Board members. No loans or credit facilities were granted to any members of the Board or related parties during the year and there were no such receivables outstanding as at December 31, 2018.

Transactions of Varia with Stoneweg SA and its subsidiaries

During the year, the activities of Varia were administered and managed by Stoneweg SA, which was also acting as advisor to Varia Structured Opportunities SA (VSO). Stoneweg has not received any direct remuneration from Varia for its work during the year. This decision has been taken due to the fact that Stoneweg is indirectly remunerated from it's work as advisor of the VSO compartments and asset manager of the local entities holding the real estate assets.

During the reporting year, ended December 31, 2018, Real Estate Investment Solutions AG (REIS) has charged the Company approximately CHF 305,000 in placement and capital increase fees that have been accounted for as transaction costs against the share premium proceeds. An amount of CHF 93,000 was additionally accrued for the capital increase of November 2018 and also accounted against the share premium proceeds.

During the year VSO Europe Properties paid on behalf of Varia an amount of CHF 51,356 which were reimbursed.

Shareholding rights of Board of Directors members

The following Board Members owned directly or indirectly shares of the Company as follows:

Name	Function	Shares 31.12.2018	Shares 31.12.2017
Taner Alicehic	Chairman	166,667	266,667
Jaume Sabater Martos	Member	166,667	166,667
Pierre Grégoire Baudin	Member	219,697	–
	Total	**553,031**	**433,334**

3 OTHER INFORMATION

3.1 Declaration on the number of full-time positions on annual average

Varia Europe Properties AG has no employees at December 31, 2018 and has never employed any staff.

3.2 Contingent liabilities

As of December 31, 2018, the Company had no contingencies and other off-balance sheet transactions that would have to be disclosed herein.

The operations of the Company may be affected by legislative, fiscal and regulatory developments for which provisions would be made when and where deemed necessary.

3.3 Significant events occurring after the balance sheet date

Since the balance sheet date as of December 31, 2018, there have been no other further events that would have a material impact on the financial statements and related disclosure.

STATUTORY AUDITOR'S REPORT
TO THE GENERAL MEETING OF VARIA EUROPE PROPERTIES AG, ZUG
REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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Report of the statutory auditor
to the General Meeting of Varia Europe Properties AG
Zug

Report on the audit of the (Swiss GAAP FER) financial statements

Opinion

We have audited the financial statements of Varia Europe Properties AG (the entity), which comprise the balance sheet as at 31 December 2018, profit and loss statement, cash flow statement, statement of changes in equity and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 51 to 62) give a true and fair view of the financial position of the entity as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with Swiss GAAP FER.

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.

Emphasis of matter

In accordance with art. 12.7 of the BX Swiss AG's listing rules we draw attention to note 1.4 and 2.1 of the financial statements. As indicated in note 1.4 the financial statements include unquoted investments at their fair value of CHF 19.3 million. Because of the inherent uncertainty associated with the valuation of such investments and the absence of a liquid market, these fair values may differ from their realizable values, and the difference could be material.

The determination of the fair values of these investments is the responsibility of the Board of Directors. The valuation procedures used are disclosed in note 1.4 of the financial statements. We have reviewed the procedures applied by the Board of Directors in valuing such investments and the underlying documentation. While in the circumstances the procedures appear to be reasonable and the documentation appropriate, the determination of fair values involves subjective judgment. Our opinion is not modified in respect of this matter.

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Our audit approach

Overview	Overall materiality: CHF 197'000
	We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates. As key audit matter the following area of focus has been identified: Valuation of investments

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 197'000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We have applied this benchmark, which is commonly used for audits of real estate companies and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Board of Directors that we would report to them misstatements above CHF 19'700 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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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 judgement, 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.

Valuation of investments

Key audit matter	*How our audit addressed the key audit matter*
The purpose of the entity is to participate in real estate investments in Europe (other than in Switzerland), through investments in compartments of Varia Structured Opportunities SA ("VSO"). VSO is a public limited company incorporated under the laws of the Grand Duchy of Luxembourg, organized as a securitization company. The investments are done through subscription of notes, which are issued by the relevant compartments. As a noteholder, the entity is invested in debt instruments and participates in the underlying assets' returns through variable yields. The investments in VSO compartments represent CHF 19.3 million of the total assets of CHF 20 million. We consider the valuation of investments in VSO a key audit matter due to the magnitude of the line item. Refer to note 2.1 (Investments).	The audit procedures we performed in order to evaluate the valuation of investments included, amongst others, the following: - We obtained an independent confirmation of the number of notes held and the net asset value for each of the underlying VSO compartments as at 31 December 2018. We agreed the confirmation details to the accounting records used for the valuation of each investment. - We obtained the 2018 audited financial statements of Varia Structured Opportunities SA (audited by another auditor). We reconciled the net asset value as per the audited financial statements to the net asset value used to value the VSO compartments held by Varia Europe Properties AG as at 31 December 2018. - We read the independent auditors' reports included within the audited financial statements of Varia Structured Opportunities SA. Based on our audit procedures, we consider Management's accounting, presentation and disclosure of VSO compartments to be reasonable.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with Swiss GAAP FER, 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.

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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.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and 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.

PricewaterhouseCoopers SA

Jean-Sébastien Lassonde	Mario Berckmoes
Audit expert Auditor in charge	Audit expert

Geneva, 07 June 2019

STATUTORY FINANCIAL STATEMENTS

December 31, 2018

Varia Europe Properties AG, Zug

BALANCE SHEET AS OF DECEMBER 31, 2018

ASSETS	Notes	December 31, 2018 in CHF	December 31, 2017 in CHF
Cash and cash equivalents		454,112	70,301
Prepaid expenses		1,795	–
Current Assets		**455,907**	**70,301**
Investments	2.1	18,498,737	2,127,810
Non-Current Assets		**18,498,737**	**2,127,810**
Total Assets		**18,954,644**	**2,198,111**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	December 31, 2018 in CHF	December 31, 2017 in CHF
Trade accounts payable to third parties		51,488	–
Accrued expenses	2.2	377,351	55,935
Provision for taxes	2.3	15,270	1,600
Current liabilities		**444,109**	**57,535**
Liabilities		**444,109**	**57,535**
Share capital	2.4	**11,981,945**	**1,533,336**
Reserves from capital contributions	2.4	6,832,422	653,234
Legal capital reserves		**6,832,422**	**653,234**
Retained earnings brought forward		–45,994	–
Net loss for the year/period		–257,838	–45,994
Accumulated deficit		**–303,832**	**–45,994**
Shareholders' equity		**18,510,535**	**2,140,576**
Total Liabilities and Shareholders' equity		**18,954,644**	**2,198,111**

The notes on pages 71–78 form an integral part of these financial statements.

Varia Europe Properties AG, Zug

PROFIT AND LOSS STATEMENT FOR THE PERIOD FROM JANUARY 1, 2018 THROUGH DECEMBER, 2018

	Notes	For the year ended December 31, 2018 in CHF	From April 20, 2017 to December 31, 2017 in CHF
Gain on redemption of notes		54,946	7,701
Loss on redemption of notes		–14,149	–3,979
Impairment on investments	2.1	–8,198	–
Revenue		**32,599**	**3,722**
Directors' fees		–20,000	–
Communications, publicity and marketing		–14,307	–261
Membership fees		–754	–3,544
Accounting and administration expenses		–62,292	–37,000
Legal and other consulting fees		–33,841	–3,816
Audit fees		–74,239	–25,000
Incorporation expenses		–	–1,220
Insurances		–150	–
Other operating expenses		–1,566	–29
Direct taxes on capital	2.3	–13,670	–1,600
Operating expenses		**–220,819**	**–72,470**
Operating loss before financial and extraordinary result		**–188,220**	**–68,748**
Financial income	2.5	1,798	23,320
Financial expenses	2.5	–50,230	-566
Extraordinary expenses related to prior years		–21,186	–
Net loss for the year/period		**–257,838**	**–45,994**

The notes on pages 71–78 form an integral part of these financial statements.

Varia Europe Properties AG, Zug

NOTES TO THE BALANCE SHEET AS OF DECEMBER 31, 2018

1 PRINCIPLES

1.1 General information

Varia Europe Properties AG ("Varia" or "the Company") was created on March 8, 2017 and registered with the Zug Commercial register on April 20, 2017 under UID number CHE—342.208.571. The Company is a Swiss stock corporation established under the relevant provisions of the Swiss code of obligations (""SCO""). Its address is Gubelstrasse 19, 6300 Zug, Switzerland.

As a Swiss real estate investment company, Varia's purpose is to participate in real estate investments in Europe (other than in Switzerland), through notes issued by Varia Structured Opportunities SA ("VSO") compartments. VSO is a public limited company incorporated under the laws of the Grand Duchy of Luxembourg, organized as a securitization company. VSO has different compartments (or programmes) with distinct real estate investment strategies. The Company is a noteholder of VSO compartments, allowing it to participate indirectly in the underlying investments. As a noteholder Varia invests in a debt instrument (notes) allowing it to participate in the underlying assets returns through variable yield.

Investment decisions in VSO programmes are taken by the Board depending on the individual strategy of each VSO programme. The allocations are done with the objective to participate in Spain and Italy, with 4 different strategies:

1 Developments: participation in real estate constructions with a special focus on residential for sale developments.
2 Bridge Loans: participation in real estate loans backed by 1st lien mortgages, with a 12 to 36 months maturity.
3 Income Assets: participation in real estate commercial assets with existing tenants.
4 Non Performing Loans: participation in non performing loans sold by banks at 40% to 60% discount to Gross Book Value and backed by real estate assets.

As a noteholder, Varia has no direct influence on the management and investment decision of VSO programmes themselves and the exit of the investments is dependent on the realisation of the underlying assets. VSO programmes and underlying assets owned by VSO programmes are advised and managed by Stoneweg group entities.

1.2 General aspects

These financial statements were prepared in accordance with the Swiss accounting legislation (32nd title of the Code of Obligations). The balance sheet figures as of December 31, 2018 are compared with the figures as of December 31, 2017 when the profit and loss statement figures for the year 2018 are compared with these for the period from April 20, 2017 to December 31, 2017.

The board of directors of the Company is ultimately responsible for the policies, the valuations, and the management of the activities. The statutory financial statements for the year ended December 31, 2018 were approved by the Board of Directors on June 7, 2019. The statutory financial statements of Varia Europe Properties AG for the period ending December 31, 2017 were approved by the Ordinary General Meeting of the Shareholders on August 31, 2018.

The financial statements are presented in Swiss francs (CHF) and all values are rounded to the nearest CHF.

When not prescribed by the law, the principles applied in the annual accounts are described below.

1.3 Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise petty cash, cash at bank and short-term deposits with an original maturity of three months or less. They are recorded at their nominal value.

1.4 Investments

At the balance sheet date, the investments are valued at the lower of the historical cost basis or net realisable value if permanently impaired.

The revenue recognition principles related to the investments are disclosed in note 1.6.

1.5 Foreign currency items

The Company's functional currency is the Euro (EUR) but the Company's reporting and presentation currency, as per article 958d alinea 3 of SCO, is the Swiss franc (CHF).

Short-term monetary assets and liabilities in foreign currencies are converted at the exchange rate on the balance sheet date. Non-monetary assets as well as equity items are presented at historical rates. Transactions in foreign currencies are translated at the exchange rate on the day the transaction takes place.

Foreign exchange profits and losses are recorded in the profit and loss statement, except for unrealized exchange profits on long term monetary assets and liabilities which are deferred in the balance sheet, if any.

For the translation of EUR into CHF, the closing rate applied at the end of the year is 1.1269 (31.12.2017: 1.1702), except for the investments valued at their acquisition historical rate.

1.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Revenue resulting from the redemption of notes are recognized at the time of the transaction. It corresponds to the gain or the loss resulting from the difference between the redemption proceeds net of expenses and the acquisition value of the notes.

1.7 Income taxe

The tax expense for the year comprises current income taxes. Tax is recognized in the profit and loss statement.

Current income tax liabilities and assets for the year are measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

2 INFORMATION ON BALANCE SHEET, PROFIT AND LOSS STATEMENT BALANCES

2.1 Investments

From its creation, the Company has developed its investments' portfolio by investing in notes of compartments of an investment vehicle based in Luxembourg, named Varia Structured Opportunities ("VSO"). The investments are done through subscription into notes issued by the relevant compartments; these notes do not provide voting rights and have to be seen as a debt instrument issued by the relevant compartment. Therefore a consolidation, even in cases of majority of notes held by Varia, is not required as the notes do not provide a control over the investments made by the compartments. As a noteholder, the Company invests in debt instruments (notes) allowing it to participate in the underlying assets' returns through variable yields. The result is that the notes participate fully in the investment as if the Company had invested into equity (without any voting or related rights). The notes are linked to the assets confined exclusively to the respective VSO compartment.

As at December 31, 2018, the Company owned notes of 6 different compartments as per the below explanation and table:

Compartments	Acquisition value as of 31.12.2017 in CHF	Redemption at acquisition value for the year in CHF	Acquisition / reinvestment of the year in CHF	Impairment as of 31.12.2018	31.12.2018 in CHF
VSO V	405,738	–188,502	–	–	217,237
VSO VII	296,545	–143,675	–	–	152,870
VSO X	263,789	–	–	–	263,788
VSO XI	446,401	–464,814	18,413	–	–
VSO Spanish Phoenix II	555,239	–	–	–5,892	549,347
VSO XX	160,099	–47,088	–	–2,306	110,705
VSO Europe Properties	–	–	17,204,790	–	17,204,790
Total at acquisition costs	**2,127,810**	**–844,078**	**17,223,203**	**–8,198**	**18,498,737**

As at December 31, 2017, the Company owned notes of 6 different compartments as per the below explanation and table:

Compartments	Initial acquisition value in CHF	Redemption at acquisition value for the period in CHF	Acquisition / reinvestment of the period in CHF	Impairment as of 31.12.2017 in CHF	31.12.2017 in CHF
VSO V	425,278	–19,540	–	–	405,738
VSO VII	425,278	–128,733	–	–	296,545
VSO X	423,232	–159,443	–	–	263,789
VSO XI	425,312	–	21,089	–	446,401
VSO XIII	425,278	–425,278	–	–	–
VSO Spanish Phoenix II	–	–	555,239	–	555,239
VSO XX	–	–	160,099	–	160,099
Total at acquisition costs	**2,124,378**	**-732,994**	**736,427**	**–**	**2,127,810**

The reinvestments are redemptions of notes that have been immediately reinvested into others compartments without cash transactions. As of December 31, 2018, the net asset value of Varia Europe in the VSO compartments amounted to EUR 17.12 million (31.12.2017: EUR 1.86) or CHF 19.29 million (31.12.2017: CHF 2.17) at EUR/CHF closing exchange rate, presenting therefore a total value in excess of CHF 0.79 million (31.12.2017: CHF 0.05) over the investments acquisition value of CHF 18.5 million.

The investments of Varia in the VSO notes are the following at the end of the year:

Compartments	Domicile	Country of investments	Strategy	Number of Notes held by Varia (31.12.2018)	Percentage held by Varia of total outstanding notes value (31.12.2018)
VSO V	Luxembourg	Spain	Bridge Loans	189	3.2%
VSO VII	Luxembourg	Italy	Non Performing Loans	133	3.0%
VSO X	Luxembourg	Italy	Income assets	225	1.6%
VSO Spanish Phoenix II	Luxembourg	Spain	Development	482	2.2%
VSO XX	Luxembourg	Italy	Non Performing Loans	96	2.0%
VSO Europe Properties	Luxembourg	Spain & Italy	Diversified	15,000	100.0%

For operational ease, all new investments since February 23, 2018 have been made through a dedicated Luxembourg compartment, VSO Europe Properties, of which Varia is the sole noteholder. VSO Europe Properties is investing either as a noteholder into another compartment, or in the underlying SPV through VSO RE, a securitization company. At the end of the year, VSO Europe Properties is a noteholder in the following underling VSO compartments:

Compartments	Domicile	Country of investments	Strategy	Capital Allocation by VSO Europe Properties (31.12.2018)	Percentage held by VSO Europe Properties of total outstanding notes value (31.12.2018)
VSO RE: SPV Bramante	Luxembourg	Italy	Development	280,541	3.7%
VSO VII	Luxembourg	Italy	Non Performing Loans	331,309	6.7%
VSO XXIX	Luxembourg	Italy	Bridge Loans	563,450	6.1%
VSO RE: SPV Carimate / Teras	Luxembourg	Italy	Income assets	1,847,802	22.9%
VSO RE: SPV Hollandia (Medio)	Luxembourg	Italy	Non Performing Loans	501,079	8.5%
VSO RE: SPV Hollandia (Albatros)	Luxembourg	Italy	Non Performing Loans	756,963	5.0%
VSO RE: SPV Immobiliare CMC	Luxembourg	Italy	Development	1,217,861	17.9%
VSO Iberia Income Opportunity	Luxembourg	Spain	Bridge Loans	1,759,091	2.0%
VSO Iberia Income Opportunity II	Luxembourg	Spain	Bridge Loans	1,138,169	1.9%
VSO Spanish Phoenix II	Luxembourg	Spain	Development	2,253,800	9.1%
VSO Spanish Phoenix CAT	Luxembourg	Spain	Development	2,253,800	14.1%
VSO II Skyline	Luxembourg	Spain	Development	1,126,900	7.4%

The investments of Varia in the VSO notes were the following at December 31, 2017:

Compartments	Domicile	Country of investments	Strategy	Number of Notes held by Varia (31.12.2017)	Percentage held by Varia of total outstanding notes value (31.12.2017)
VSO V	Luxembourg	Spain	Bridge Loans	353	3.2%
VSO VII	Luxembourg	Italy	Non Performing Loans	258	3.2%
VSO X	Luxembourg	Italy	Income assets	225	1.6%
VSO XI	Luxembourg	Spain	Development	388	75.6%
VSO Spanish Phoenix II	Luxembourg	Spain	Development	482	7.4%
VSO XX	Luxembourg	Italy	Non Performing Loans	136	3.3%

2.2 Accrued expenses

The capital increase expenses are accounted in deduction of the reserves from capital contribution.

	31.12.2018 in CHF	31.12.2017 in CHF
Audit fees	40,000	25,000
Accounting fees	27,000	26,900
Legal fees	–	3,816
Capital increase expenses	284,387	–
Other expenses	25,964	219
Total	**377,351**	**55,935**

2.3 Accrued taxes

The accrued taxes consist on provisions for the capital tax related to the year. The effective income tax rates 2017 and 2018 are respectively 14.60% and 13.06% in the canton of Zug.

	31.12.2018 in CHF	31.12.2017 in CHF
Balance at the beginning of the year/period	**1,600**	**–**
Capital tax provision	13,670	1,600
Balance at the end of the year/period	**15,270**	**1,600**

2.4 Share capital
Reserves from capital contributions

The share capital at December 31, 2018 is divided in 11,981,945 ordinary registered shares of a par value of CHF 1.00 each, fully paid.

	Number of shares	**Share capital** in CHF	**Reserves from capital contributions** in CHF
Share capital at date of incorporation	200,000	200,000	–
Ordinary share capital increase on June 28, 2017	1,333,336	1,333,336	653,234
Balance as of December 31, 2017	**1,533,336**	**1,533,336**	**653,234**
Ordinary share capital increase on January 29, 2018	9,240,909	9,240,909	5,550,284
Ordinary share capital increase on November 30, 2018	1,207,700	1,207,700	628,904
Balance as of December 31, 2018	**11,981,945**	**11,981,945**	**6,832,422**

The Company was established on March 8, 2017 with an initial capital of CHF 200,000 divided into 200,000 shares issued at their nominal value. There are no preferential rights attributed to the shares.

The Company made three subsequent capital increases on June 28, 2017, on January 29, 2018 and on November 30, 2018 raising net proceeds and premium of respectively CHF 1,986,570, CHF 14,791,193 and CHF 1,836,604.

For these capital increases, the related transaction costs amounting to respectively CHF 13,434, CHF 456,307 and CHF 313,102 were deducted from the share premium recorded in the Reserves from capital contributions in accordance with the Swiss code of obligations.

Share premiums are considered under Swiss law as reserves from capital contributions.

The Swiss federal tax authorities have not yet confirmed the amount of the reserves from capital contributions in the sense of article 20 paragraph 3 of the Federal Income Tax Act.

2.5 Financial result

	31.12.2018 in CHF	**31.12.2017** in CHF
Financial income		
Foreign currency exchange gains	1,798	23,320
Total	**1,798**	**23,320**
Financial expenses		
Bank interests	1,222	–
Bank fees	222	275
Foreign currency exchange losses	48,786	291
Total	**50,230**	**566**

2.6 Related party transactions

Related parties are individuals and companies where the individual or company has the ability, directly or indirectly, to control or to exercise significant influence over the other party in making financial and operating decisions. Related parties of the Company include:

- Board of Directors of Varia Europe Properties AG
- Board of Directors of Varia Structured Opportunities SA, Luxembourg
- Stoneweg SA, Geneva (Switzerland) and its subsidiaries.

Board of Directors

The Board of Directors is considered as key management. In the year under consideration, expenses in the amount of CHF 20,000 were accrued (31.12.2017 - nil). No other compensation was paid to the Board members for their role or for additional work. In particular, no performance related compensation and no compensation in shares or other stocks were allocated to Board members. No loans or credit facilities were granted to any members of the Board or related parties during the year and there were no such receivables outstanding as at December 31, 2018.

Transactions of Varia with Stoneweg SA and its subsidiaries

During the year, the activities of Varia were administered and managed by Stoneweg SA, which was also acting as advisor to Varia Structured Opportunities SA (VSO). Stoneweg has not received any direct remuneration from Varia for its work during the year. This decision has been taken due to the fact that Stoneweg is indirectly remunerated from it's work as advisor of the VSO compartments and asset manager of the local entities holding the real estate assets.

During the reporting year, ended December 31, 2018, Real Estate Investment Solutions AG (REIS) has charged the Company approximately 305,000 CHF in placement and capital increase fees that have been accounted for as transaction costs against the share premium proceeds. An amount of CHF 93,000 was additionally accrued for the capital increase of November 2018 and also accounted against the share premium proceeds.

During the year VSO Europe Properties paid on behalf of Varia an amount of CHF 51,356 which were reimbursed.

Shareholding rights of Board of Directors members

The following Board Members owned directly or indirectly shares of the Company as follows :

Name	Function	Shares 31.12.2018	Shares 31.12.2017
Taner Alicehic	Chairman	166,667	266,667
Jaume Sabater Martos	Member	166,667	166,667
Pierre Grégoire Baudin	Member	219,697	–
	Total	**553,031**	**433,334**

3 OTHER INFORMATION

3.1 Declaration on the number of full-time positions on annual average

Varia Europe Properties AG has no employees at December 31, 2018 and has never employed any staff.

3.2 Contingent liabilities

As of December 31, 2018, the Company had no contingencies and other off-balance sheet transactions that would have to be disclosed herein.

The operations of the Company may be affected by legislative, fiscal and regulatory developments for which provisions would be made when and where deemed necessary.

3.3 Significant events occurring after the balance sheet date

Since the balance sheet date as of December 31, 2018, there have been no other further events that would have a material impact on the financial statements and related disclosure.

PROPOSAL BY THE BOARD OF DIRECTORS FOR THE APPROPRIATION OF LEGAL RESERVES FROM CAPITAL CONTRIBUTION AS AT DECEMBER 31, 2018

	31.12.2018 in CHF	**31.12.2017** in CHF
Legal reserves from capital contribution	653,234	–
Issue of new shares	6,179,188	653,234
Total legal reserves from capital contribution	6,832,422	653,234
Distribution of CHF 0.08 per ordinary share	(958'556)	–
Reserve carried forward	**5,873,866**	**653,234**

Distribution from capital contribution reserves

The Board of Directors proposes a distribution in the amount of CHF 0.08 per share payable out of the reserves from capital contributions. Based on the number of shares issued of 11,981,945, this distribution is equivalent to a reduction in the reserves from capital contribution of CHF 958,556.

STATUTORY AUDITOR'S REPORT
TO THE GENERAL MEETING OF VARIA EUROPE PROPERTIES AG, ZUG
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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Report of the statutory auditor

to the General Meeting of Varia Europe Properties AG

Zug

Report on the audit of the (Swiss CO) financial statements

Opinion

We have audited the financial statements of Varia Europe Properties AG (the entity), which comprise the balance sheet as at 31 December 2018, profit and loss statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 69 to 78) as at 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 197'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

Valuation of investments

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements

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may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 197'000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We have applied this benchmark, which is commonly used for audits of real estate companies and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

We agreed with the Board of Directors that we would report to them misstatements above CHF 19'700 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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 judgement, 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.

Valuation of investments

Key audit matter	*How our audit addressed the key audit matter*
The purpose of the entity is to participate in real estate investments in Europe (other than in Switzerland), through investments in compartments of Varia Structured Opportunities SA ("VSO"). VSO is a public limited company incorporated under the laws of the Grand Duchy of Luxembourg, organized as a securitization company. The investments are done through subscription of notes, which are issued by the relevant compartments. As a noteholder, the entity is invested in	The audit procedures we performed in order to evaluate the valuation of investments included, amongst others, the following: - We obtained an independent confirmation of the number of notes held for each of the underlying VSO compartments as at 31 December 2018. We agreed the confirmation details to the accounting records. - We obtained the 2018 audited financial statements of Varia Structured Opportunities SA (audited by another auditor). We compared the

2

debt instruments and participates in the underlying assets' returns through variable yields. The investments are valued at acquisition cost, adjusted for impairment losses. The investments in VSO compartments represent CHF 18 million of the total assets of CHF 19 million. We consider the valuation of investments in VSO a key audit matter due to the magnitude of the line item. In 2018 an impairment loss of CHF 8 thousand has been recognised. Refer to note 2.1 (Investments)	net asset value as per the audited financial statements to the carrying value of the VSO compartments held by Varia Europe Properties AG as at 31 December 2018. When the net asset value was lower than the carrying value, we verified whether Management had recorded an impairment loss. - We read the independent auditors' reports included within the audited financial statements of Varia Structured Opportunities SA. On the basis of the evidence obtained from our audit, we consider Management's approach to value the investments to be reasonable.

Responsibilities 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.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and 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 reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Jean-Sébastien Lassonde	Mario Berckmoes
Audit expert Auditor in charge	Audit expert

Genève, 07 June 2019

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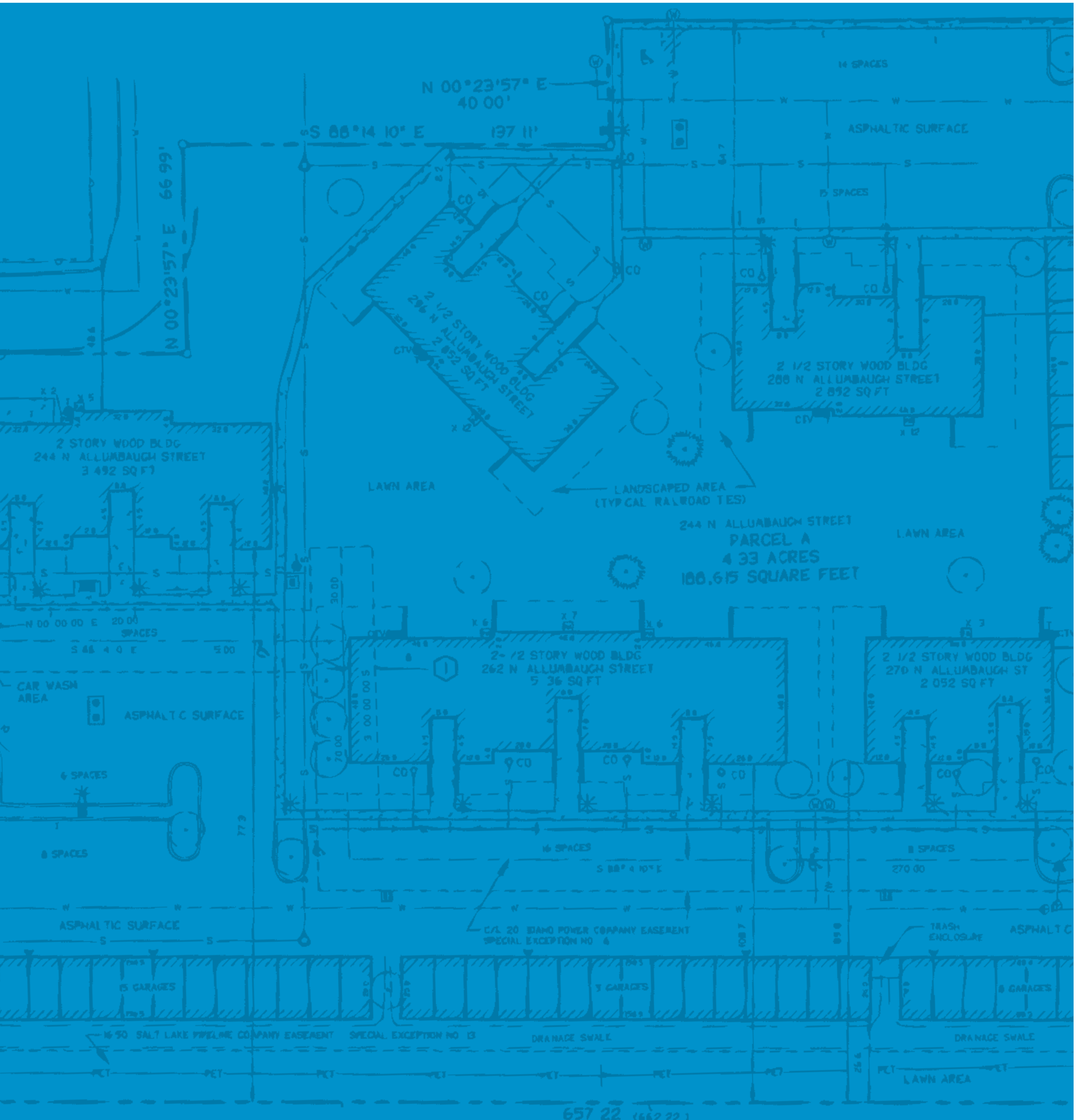

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