VBARE IBERIAN PROPERTIES SOCIMI, S.A. AND SUBSIDIARIES

Audit report,
Consolidated Annual Accounts and
Consolidated Directors' Report
at 31 December 2017

Report of the independent auditor on the consolidated annual accounts

To the shareholders of VBARE Iberian Properties SOCIMI, S.A.:

Opinion

We have audited the consolidated annual accounts of of VBARE Iberian Properties SOCIMI, S.A. (the Parent company) and its subsidiaries (the Group), which comprise Statement of Financial Position as at December 31, 2017, and the income statement, statement of other comprehensive income, statement of changes in equity, statements of cash flows and notes to the annual accounts, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2017, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis of the opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Most relevant aspects of the audit

The most relevant aspects of the audit are those that, in our professional judgment, were considered to be the most significant risks of material misstatement in our audit of the consolidated annual accounts of the current period. These risks were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
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Most relevant aspects of the audit	How our audit addressed the most relevant aspects of the audit
Valuation of investment property	
At 31 December 2017, investment property accounts for 77% of the Group's assets. The Group applies the fair value model in accordance with IAS 40, recognizing any changes in that value in the consolidated income statement, as described in Note 3.3. Accordingly, the Group recognized a change in the fair value of the investment property in its portfolio amounting to €3,266 thousand at 31 December 2017, as described in Note 6. The Group recognizes the market value of the investment property based on the valuations performed by independent experts. The valuations were performed in accordance with the Valuation and Appraisal Standards published by the Royal Institute of Chartered Surveyors (RICS) of Great Britain, and the method has been described in Note 6 to the accompanying consolidated annual accounts. The degree of uncertainty in the assumptions applied to the calculation of that market value and the level of estimations that exist in the valuation methods applied, lead the valuation of investment property to be considered a most relevant aspect of the audit.	We obtained the investment property valuation prepared by independent management's experts and we applied the following procedures, among others: - Verification of the competence, capacity and independence of the experts by obtaining confirmation and verification of their recognized prestige in the market, and we discussed the main aspects of the valuation at meetings held with the experts. - Verification that the valuation has been performed in accordance with the RICS method and may be used to value investment property in the consolidated annual accounts. - Performance of selective tests to determine and verify the accuracy of the most relevant information provided by management to the appraisers and used by them in their valuation. - Verification of the adequacy of the method and assumptions used according to market conditions. Furthermore, we evaluated the sufficiency of the information disclosed in the consolidated annual accounts prepared by VBARE Iberian Properties SOCIMI, S.A. and subsidiaries regarding this matter. As a result of the procedures carried out, we consider that the results of investment property valuation carried out by management falls within a reasonable range taking into account market conditions in place at the date to which it refers.
Calculation of management and success fees	
The parent company and the company VBA Real Estate Asset Management 3000, S.L. (the management company) concluded a management agreement that establishes a series of services to be rendered and the fees to be received by the management company, as is described in Note 1.2.	We obtained the calculations of the management fee and success fee accounted by the Company and we have applied the following procedures, among others: - We verified that calculations were applied to the bases established in the management agreement and their accuracy.

Most relevant aspects of the audit	How our audit addressed the most relevant aspects of the audit
A management and success fee are the two primary fees calculated based on percentages applied to the carrying amount of all consolidated assets and consolidated profits, respectively. The expense relating to those fees amounts to €540 thousand in respect of the success fee and €391 thousand in respect of the management fee. See Note 16. The significance of the fees compared with the net result from real estate operations and the number of variables that affects the calculation, such as investments properties valuations, lead the calculation of the management and success fee to be considered a most relevant aspect of the audit.	- Specifically in the case of the calculation of the success fee, we verified that the "Hurdle rate", described in Note 1.2, is higher than 8% in 2017, which is the requirement stipulated in the management agreement for such fee to accrue. - We verified that the amounts used in the calculation match those obtained from the consolidated annual accounts. Furthermore, we evaluated the sufficiency of the information disclosed in the consolidated annual accounts prepared by VBARE Iberian Properties SOCIMI, S.A. and subsidiaries regarding this matter. As a result of the procedures performed, we consider that the result of the calculations made, as well as the disclosures in the consolidated annual accounts are reasonable.

Other information: Consolidated directors' report

Other information comprises only the consolidated directors' report for the 2017 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated director's report. Our responsibility regarding the consolidated director's report, in accordance with legislation governing the audit practice, is to evaluate and report on the consistency between the consolidated director's report and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements, and does not include information different to that obtained as evidence during our audit. Likewise, our responsibility is to evaluate and report on whether the content and presentation of the consolidated director's report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described in the previous paragraph, the information contained in the consolidated directors' report is consistent with that contained in the consolidated annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts 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 legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.
As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.

- Conclude on the appropriateness of the Parent company´s 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 Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company´s directors 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.

From the significant risks communicated with the Parent company´s directors, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are, therefore, considered to be the most significant risks.

We describe these risks in our auditor´s report unless law or regulation precludes public disclosure about the matter.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Gonzalo Sanjurjo Pose (18610)

23 February 2018

AUDITORES
INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Año 2018 Nº
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Informe de auditoría de cuentas sujeto a la normativa de auditoría de cuentas española o internacional

VBARE Iberian Properties SOCIMI, S.A. and subsidiaries

Annual Consolidated Financial Statements at 31 December 2017 prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and Consolidated Directors' Report

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Consolidated Statement of Financial Position as at 31 December 2017 and 31 December 2016

(€ Thousand)

Assets	Notes	31 December 2017	31 December 2016
Non- Current Assets		**28,620**	**23,417**
Property, plant and equipment		4	1
Investment properties	6	28,542	23,390
Non - Current financial assets	7	74	26
Current Assets		**8,494**	**3,949**
Trade and other receivables		53	68
Trade debtors	7	21	27
Other receivables from Public Administrations	12	32	41
Other current financial assets	7	18	273
Other receivables group companies and associates	7,16	9	9
Short term accruals		40	22
Cash and cash equivalents	7, 8	8,374	3,577
Total Assets		**37,114**	**27,366**

Notes 1 to 20 and Appendix I of the accompanying notes are an integral part of these Consolidated Financial Statements for the year ended 31 December 2017.

Consolidated Statement of Financial Position as at 31 December 2017 and 31 December 2016

(€ Thousand)

Equity and Liabilities	Notes	31 December 2017	31 December 2016
Net Equity		**29,973**	**20,882**
Share capital	9	10,746	8,013
Share Premium	9	11,720	7,688
Treasury shares	9	(248)	(323)
Retained earnings	9	7,755	5,504
Non-current Liabilities		**6,227**	**4,254**
Non-current financial liabilities		6,227	4,254
Bank Borrowings	7,11	6,100	4,156
Other financial liabilities	7	127	98
Current Liabilities		**914**	**2,230**
Current financial liabilities		238	383
Bank Borrowings	7,11	223	113
Other financial liabilities	7	15	270
Current financial liabilities group companies	7,16	3	3
Trading creditors and other accounts payable		673	1,844
Trade Payables	7	65	459
Trade payables, group companies and associates	7,16	577	1,343
Accruals, wages and salaries	7	1	5
Other payables with Tax Administration	12	18	17
Advances from creditors	7	12	20
Equity and Liabilities		**37,114**	**27,366**

Notes 1 to 20 and Appendix I of the accompanying notes are an integral part of these Consolidated Financial Statements for the year ended 31 December 2017.

Consolidated Income Statement for the year ended 31 December 2017 and 31 December 2016

(€ Thousand unless otherwise stated)

Continuing operations	Note	31 December 2017	31 December 2016
Gross Rental income	6	1,076	483
Property operating expenses	13b	(533)	(340)
Gross profit		**543**	**143**
Gain from fair value on investment properties	6 ,13a	3,266	5,905
Net result from real estate operations		**3,809**	**6,048**
General and administrative expenses	13c	(1,447)	(1,740)
Operating result		**2,362**	**4,308**
Finance result	13d	(111)	(24)
Profit for the period		**2,251**	**4,284**
Corporate income tax	12	-	-
Profit for the period attributable to the shareholders		**2,251**	**4,284**
Basic and diluted earnings per share (Euro)	9	**1.25**	**2.78**

Notes 1 to 20 and Appendix I of the accompanying notes are an integral part of these Consolidated Financial Statements for the year ended 31 December 2017.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2017 and 31 December 2016

(€ Thousand)

	Note	31 December 2017	31 December 2016
Profit for the year		**2,251**	**4,284**
Other comprehensive income:			
Items that may subsequently be reclassified to results		-	-
Items that will not be reclassified to results		-	-
Total comprehensive income for the year		**2,251**	**4,284**
Attributable to the Parent Company's shareholders		**2,251**	**4,284**

Notes 1 to 20 and Appendix I of the accompanying notes are an integral part of these Consolidated Financial Statements for the year ended 31 December 2017.

Consolidated Statement of Changes in Equity for the year ended 31 December 2017 and 31 December 2016

(€ Thousand)

	Share Capital	Share Premium	Treasury shares	Advances on Share capital and Share premium	Retained earnings	Total
OPENNING BALANCE AS AT 1 JANUARY 2016	**6,941**	**6,764**	**-**	**330**	**1,220**	**15,255**
Profit for the year	-	-	-	-	4,284	**4,284**
Transactions with shareholders						
Share capital increase (net of issuance costs)	1,072	924	-	(330)	-	**1,666**
Operation with treasury shares	-	-	(323)	-	-	**(323)**
FINAL BALANCE AS AT 31 DECEMBER 2016	**8,013**	**7,688**	**(323)**	**-**	**5,504**	**20,882**
OPENING BALANCE AS AT 1 JANUARY 2017	**8,013**	**7,688**	**(323)**	**-**	**5,504**	**20,882**
Profit for the year	-	-	-	-	2,251	**2,251**
Transactions with shareholders						
Share capital increase (net of issuance costs)	2,733	4,351	-	-	-	**7,084**
Distribution of share premium	-	(319)	-	-	-	**(319)**
Operation with treasury shares	-	-	75	-	-	**75**
FINAL BALANCE AS AT 31 DECEMBER 2017	**10,746**	**11,720**	**(248)**	**-**	**7,755**	**29,973**

Notes 1 to 20 and Appendix I of the accompanying notes are an integral part of these Consolidated Financial Statements for the year ended 31 December 2017.

Consolidated Statement of Cash Flows for the year ended 31 December 2017 and 31 December 2016

(€ Thousand)

	Note	31 December 2017	31 December 2016
CASH FLOW FROM OPERATING ACTIVITIES		**(1,851)**	**(389)**
Profit for the year		**2,251**	**4,284**
Adjustments required to reflect the cash flows from operating activities:		**(4,102)**	**(4,673)**
Income and expenses not involving cash flows:		**(3,101)**	**(5,852)**
- Depreciation of Property, Plant and equipment		1	-
- Gain from fair value on investment properties	6	(3,266)	(5,905)
- Variation in provisions and losses on bad debts	7	53	29
- Finance income	13d	(1)	(8)
- Finance expense	13d	112	32
Changes in operating asset and liability items:		**(1,001)**	**1,179**
- Trade receivables and other accounts receivables		199	(112)
- Trade payables and other accounts payables		(1,200)	1,291
CASH FLOW FROM INVESTING ACTIVITIES		**(1,936)**	**(11,271)**
- Payments for property, plant and equipment		(3)	(1)
- Payments for investment properties	6	(1,933)	(11,281)
- Collections from financial investments	6	-	11
CASH FLOW FROM FINANCING ACTIVITIES		**8,584**	**5,721**
- Collections from capital increase (net of issuance costs)	9	6,882	1,806
- Payments on acquisitions of treasury shares	9	(45)	(323)
- Collections on disposals of treasury shares	9	120	-
- Distribution of share premium	9	(319)	-
- Collections from bank financing (net of arrangement fees)	11	2,152	4,305
- Payments for bank financing	11	(206)	(67)
Net increase in cash & cash equivalents		**4,797**	**(5,939)**
Cash & cash equivalents at beginning of the year	**8**	**3,577**	**9,516**
Cash & cash equivalents at the end of the year	**8**	**8,374**	**3,577**

Notes 1 to 20 and Appendix I of the accompanying notes are an integral part of these Consolidated Financial Statements for the year ended 31 December 2017.

Notes to the Annual Consolidated Financial Statements for the year ended 31 December 2017

1. General information

VBARE Iberian Properties SOCIMI, S.A. (hereafter the "**Company**" or the "**Parent Company**"), is a private company, which was incorporated on 5 March 2015, in Spain in accordance with the revised text of the Capital Companies Act approved by Royal Legislative Decree 1/2010 of 2 July ("the Capital Companies Act") by public deed executed before the notary of Madrid, Mr. Antonio Morenés Gilés, with number 267/15 of its protocol, filed in the Madrid Mercantile Registry, volume 33.274, sheet 61, section 8, page M-598783, entry 1. Its registered office is at Calle Almagro, 3, 5° Izq. 28010 - Madrid.

On 21 of April 2015 the Company changed its corporate name from VBA Real Estate Investment Trust 3000, S.A. to VBA Real Estate Investment Trust 3000, SOCIMI, S.A., by public deed executed before the notary and registered in the Mercantile Registry of Madrid.

On the same date, it was publicly registered the minute of the Universal Meeting of Shareholders held on 23 March 2015 where it was agreed to apply the scheme for the Spanish Real Estate Investment Trust Regime (hereafter "Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario" or "SOCIMI"), regulated by the Law 11/2009 of October 26, also, amended by the Law 16/2012, of 27 December.

Afterwards, on 13 of May 2015, and with retroactive effects from the financial year beginning since its incorporation, on 5 March 2015, the Company formally informed to the Tax Authorities of its tax registered office, the option chosen by its shareholders to be eligible for the SOCIMI special regime regulated by the SOCIMI Law 11/2009, of October 26, amended by the Law 16/2012, of 27 December.

All of the shares of VBARE Iberian Properties SOCIMI, S.A. are listed since 23 December 2016, and they are traded on the alternative stock market (MAB) being part of the SOCIMIs segment.

The Company's main activity is the acquisition, development and management of real estate investment properties in Spain for leases purposes under the Law 11/2009 of October 26, also, amended by the Law 16/2012, of 27 December regulating the Sociedades Anónimas Cotizadas de Inversion en el Mercado Inmobiliario) (the "**SOCIMI**" Law).

Its corporate objects according to its bylaws consist in:

a. The acquisition and refurbishment and development of urban properties for leasing purposes. Development activity includes the rehabilitation of buildings in the terms established by Law 37/1992 of 28 December, of the Value Added Tax.

b. The ownership of interests in the share capital of other Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario (SOCIMIs) or other companies not resident in Spain with a corporate object identical to that of the former and that are subject to a regime similar to that established for the SOCIMI in relation to the mandatory, legal or statutory profit distribution policy.

c. The ownership of interests in the share capital of other companies, resident or not in Spain, which its main corporate object is the acquisition of urban properties for leasing purposes, that are subject to a regime similar to that established for the SOCIMI in relation to the mandatory, legal or statutory profit distribution policy and meet the investment requirements regulating the SOCIMIs.

d. The ownership of shares or ownership interests in property Collective Investment Undertakings ("Instituciones de Inversión Colectiva Inmobiliaria") governed by the Collective Investment Undertakings Law 35/2003, of 4 November. The Company is regulated in accordance with the Capital Companies Act.

e. Any other activities ancillary to those referred to above, meaning any activities generating, in the aggregate, less than 20% of the income of the Company for each tax period or otherwise deemed ancillary in accordance with applicable laws from time to time.

SOCIMI Regime

VBARE Iberian Properties SOCIMI, S.A. is regulated in accordance with the Law 11/2009, of October 26, also, amended by the Law 16/2012, of 27 December, governing Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario. On the Articles 3 to 6 of the mentioned law it is stated the main requirements and obligations to be complied with by this kind of companies:

Investment requirements (Art. 3)

1. The SOCIMI must have invested at least 80% of the value of their assets in urban properties for leasing purposes, in land to develop properties to be earmarked for that purpose, provided that development begins within three years following its acquisition, and in equity investments in other companies referred to in Article 2.1 of above mentioned Law 11/2009, of October 26.

   The mentioned percentage will be calculated on the consolidated balance sheet in the event that the Parent Company of a group according to the criteria set out in Article 42 of the Code of Commerce, regardless of the residence and the obligation to prepare Consolidated Financial Statements. The group will be composed exclusively by the SOCIMI and the other entities that paragraph 1 of Article 2 of the Law that regulates concerns.

   The asset value is determined by the average of the quarterly individual balance sheets of each financial year. The Company can choose to calculate that value by substituting the book value by the market value of the elements of such balances sheets, which apply to all balances sheet for the financial year.

2. At least, 80% of the income for the fiscal year corresponding to each year, excluded those arising from the transfer of the shares and investment properties used by the Company to achieve its main corporate object, once the retention period referred to below has been elapsed, should arise:

   - From the lease of investment properties
   - From dividends or profit on shares coming from the aforementioned investments

   This percentage will be calculated on the consolidated result in the event that the Company is the parent of a group according to the criteria set out in Article 42 of the Code of Commerce, regardless of the residence and the obligation to prepare Consolidated Financial Statements. The group will be composed exclusively by the SOCIMI and the other entities that paragraph 1 of Article 2 of the Law that regulates concerns.

   The Company is the parent company of the VBARE Group (hereafter 'the Group'), accordingly, the requirements as explained above will be calculated based on the consolidated figures of the Group.

3. The investment properties included in the Company's assets should remain leased for at least three years. The time during which the properties have been made available for lease will be included in calculating this term, with a maximum of one year.

   In this sense, the period shall begin:

   a) Regarding real estate assets owned by the Company before having opted for the Socimi Regime, the period would be computed from the initial date of its first tax period in which the special tax regime set out in the act, provided that at such date the property were leased or offered for lease.

   b) Regarding real estate assets subsequently acquired or promoted by the Company, from the date on which they were leased or offered for lease for the first time.

   Regarding shares in entities as specified in paragraph 1 of Article 2 of the act, they shall be maintained by the Company for at least three years from its acquisition or, if applicable, from the beginning of the first tax period in which the special tax regime set out in the act is applied.

Obligation of being listed on a regulated market or in a multilateral trading system (Art. 4)

The shares of the SOCIMI must be admitted to trading on a Spanish regulated market or a multilateral system Spanish negotiation or any other Member State of the European Union or the European Economic Area or in a regulated market of any country or territory with in which there is an effective exchange of tax information, continuously throughout the whole tax period. The shares must be nominative.

Minimum capital required (Art. 5)

The minimum share capital figure is set at Euro 5 Million.

Notes to the Annual Consolidated Financial Statements for the year ended 31 December 2017

Results Distribution Obligation (Art. 6)

The Company must distribute as dividends, after fulfilling the mercantile requirements:

- 100% of profits from dividends by entities as stated in paragraph 1 of Article 2 of the Law 11/2009.
- At least 50% of the profits derived from the transfer of the investment properties and shares as stated in paragraph 1 of Article 2 of the Law 11/2009, made after expiry of the minimum holding periods, affected to its main corporate object. The rest of these benefits must be reinvested in other investment properties or shares affecting the attainment of that objective, within the three years following the date of transmission.
- At least 80% of the rest of the profits obtained. When the dividend distribution is made out of reserves from profits of a year in which has been applied the special tax regime, the distribution will necessarily be taken as previously described.

The agreement for the distribution of dividends must be agreed within six months following the end of each financial year and paid within the month following the date of the distribution agreement.

The obligation to distribute dividends described above will be according to regulations in force and will only work in the event that the Company records profits under Spanish accounting principles.

However, the company intends to propose the distribution of a dividend (including the share premium, in case the Company does not generate profits in accordance with Spanish accounting principles) equivalent to 3% of the opening balance of the Consolidated Net Equity according to IFRS - EU. This annual amount will be paid in two instalments corresponding to 1.5% each, the first during the third quarter and the second after the approval of the annual accounts of the Company. For this purpose, the General Shareholders' Meeting of the Parent Company held on 12 December 2017, at the proposal of the Board of Directors of the Parent Company, approved the execution of a distribution of share premium among the shareholders in proportion to their stake in the share capital figure of the Parent Company. It has been delegated to the Board of Directors the execution of said agreement as well as for the determination of the date of payment and amount to be distributed.

As established the first Transitional Provision of the Law 11/2009 of October 26, amended by Law 16/2012, of 27 December, the SOCIMI can opt for the application of the special tax regime under the terms established in Article 8 of that Law, even if the requirements are not completed, but such requirements are met within two years from the date since the Company opted for the SOCIMI regime.

As of 31 December 2017 and 2016, the Company meets all the requirements of the SOCIMI regime according to the Parent Company's Directors.

The failure to comply with any of the above conditions means that the Company will be taxed under the general corporate income tax regime, from the tax period in which such failure arises, unless it would be restored in the following year. In addition, the Company will be obligated to pay the quote of the currently tax period, and also the difference between the amount that the tax resulting from applying the general corporate income tax regime and the tax paid resulting from applying the SOCIMI regime in previous tax periods, subject to corresponding interest, recharges and penalties, if any, may be applicable.

The tax rate of the SOCIMI in the Corporate Income Tax is set at 0%. However, if the dividends that SOCIMI distribute to its shareholders with a holding percentage higher than 5% are exempt or taxed at a rate lower than 10%, the SOCIMI is subject to a special tax rate of 19%, which will be considered as corporate income tax on the amount of dividend distributed to such shareholders. To be applicable, this special rate must be satisfied by the SOCIMI within two months from the date of the dividend distribution.

The Company is the parent of a group of companies, and presents its Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS - EU). As at 31 December 2017 and 2016, VBARE Iberian Properties SOCIMI, S.A. is the parent company of the VBARE Group.

Notes to the Annual Consolidated Financial Statements for the year ended 31 December 2017

1.1. Subsidiaries

The Company is the parent company of a group of companies and is therefore the Parent Company of the following subsidiary as at 31 December 2017 and 31 of December 2016:

Company name	Address	Activity	Shareholding %	Consolidation Method
VBA SUB 3000, S.L.U.	Spain	Real Estate	100% - direct	Full consolidation

On 2 July 2015, the Company acquired 100% of the shares of VBA SUB 3000, S.L. (Sociedad Unipersonal) (the "Subsidiary"), a private Spanish company, for the amount of Euro 4 Thousand. Since its incorporation, the Subsidiary has not had any activity. Its registered office is at Calle Almagro, 3, 5º Izquierda, 28010 - Madrid.

On 8 March 2016 the Parent Company as sole shareholder of VBA SUB 3000, S.L.U. decided to apply for the Socimi Regime with retroactive effect from 1 January 2016.

When VBA SUB 3000, S.L.U. was acquired by VBARE Iberian Properties SOCIMI, S.A., this last one became the parent company of a group of companies, over which it has control

1.2. Management Agreements

The following information highlights the most relevant points of certain management agreements originally signed in English language.

On 15 April 2015 the Company and VBA Real Estate Asset Management 3000, S.L., a private Spanish company, (the "**Management Company**") signed a management agreement (as amended) (hereafter the "**Management Agreement**") which determines the relationship between the parties. The Management Agreement, describes the main services that the Management Company will be rendering to the Company on an exclusive basis. A description of some of these services is the following:

1) Management of the acquisitions or sales of the assets, refurbishments, maintenance, insurance, rental of the properties, IT platform, overseeing of the property management, and coordination with the Company's legal advisor and with the origination companies to validate opportunities and present such to the Board of Directors, as well as to acquire, lease, sell, transfer or otherwise exchange or dispose of real estate properties on behalf of the Company and to enter and execute any agreement, contract, or arrangement in relation with the purchase, acquisition, holding, lease, exchange, transfer, sell or disposal of any property or property related investment, among other.

2) Provide the Company with services of Key Executive.

3) Provide the Company with strategic services, including formulating the general investment policy of the Company, assistance in locating investment opportunities, raising of capital and other funds by the Company and assistance in locating and contracting with service providers, as well as entering into financing agreements and ancillary agreements or documents on behalf of the Company.

The Management Agreement took effect on 2 July 2015, the date on which initial funds were raised by the Company. According to the Management Agreement, all of the following definitions and calculations are made in accordance and over the consolidated financial statements under IFRS-EU.

a) **"Management fee"**: The Management Company shall be entitled to receive a Management Fee which will be calculated quarterly (as defined in the Management Agreement), starting as of the calendar quarter on which the Company has made its first real estate investment. The Management Fee for the Relevant Quarter (as defined in the Management Agreement) will be:

(i) Until the IPO ("**IPO**" means: an initial public offering and/or the listing of the shares of the Company on an OECD Stock Exchange) - the result of multiplying 0.25 in the Relevant Management Fee Percentage (as defined below) and in the Real Estate Value (as defined in the Management Agreement);

(ii) After the IPO - the result of multiplying 0.25 in the Relevant Management Fee Percentage and in the FS Asset (as defined in the Management Agreement).

In any case, VAT shall be added to all payments made in accordance with this section.

b) "**Relevant Management Fee Percentage**" means, the percentage set forth in the table below, with respect to the relevant Real Estate Value or to the FS Asset (as applicable):

Real Estate Value or the FS Asset (Euro Million)	Progressive Management Fee as a Percentage of the Real Estate Value or to the FS Asset
0 to 60	1%
60.01 to 120	0.9%
120.01 to 250	0.8%
250.01 to 500	0.7%
Above 500	0.6%

c) **"Success fee"**: The Company shall pay the Management Company a Success Fee at a rate of 16% multiplied by (1+ applicable VAT rate) of the profit obtained by the Company resulting from its consolidated financial statements prepared under IFRS-EU. The Success Fee shall be subject to a Catch Up Mechanism (including Catch Up for previous years with respect to which the Accrued Catch Up Amount was not fully paid) and shall only be paid after and subject to meeting the minimum Hurdle Rate Amount (at a rate of 8% calculated severally for each annum, based on the formula set forth in the Management Agreement), and subject to a high water mark mechanism (applied on an annual basis), it being clarified that the Success Fee shall be calculated severally for each annum (as defined in the Management Agreement).

The Company shall pay to the Management Company the Success Fee on the following dates:

(a) The cumulative Success Fee with respect to any Relevant Annum (as defined in the Management Agreement) ending prior to completion of the IPO, shall be paid to the Management Company, within 7 days of completion of the IPO;

(b) For any Relevant Annum ending after the completion of the IPO, within 7 Business Days of the execution date of the Company's audited annual consolidated financial statements for such Relevant Annum;

(c) To the extent the Company is liquidated during a Relevant Annum – on the date of the Company's liquidation.

Following the IPO, the Management Company shall have the option, by providing the Company with written notice no later than 31 December of each Relevant Annum to receive all or a part of the Success Fee for such Relevant Annum in listed and tradable shares of the Company. The amount of shares to be issued to the Management Company shall be the result of dividing the Success Fee (excluding VAT) by the quoted price per share of the Company based on the average trading price during the 30 trading days prior to the exercise and consummation of such option. VAT shall be paid in immediately available funds, even if the Success Fee is paid in Company shares, as provided in this clause.

d) **Expenses**: Except for the Management Company Costs and Expenses (as defined in the Management Agreement), the Company shall bear all the costs and expenses related to its business activity. The Company shall bear all costs and expenses relating to its establishment, including all costs relating to the registration and incorporation of the Company; costs relating to the Initial Offering, agent fees and so forth.

e) **Term of the Management Agreement**. The Management Agreement shall be subject to an initial term of five years (the "**Initial Period**") and neither party may terminate this agreement during the Initial Period except in the circumstances set out in the Management Agreement. After the Initial Period shall have elapsed, this Management Agreement shall continue to be in force for consecutive three years renewal periods without any actions required by either of the Parties, except that at any time, after the end of the Initial Period, each of the Management

Company and the Company (by resolution of the shareholders of the Company passed by a majority of at least 75% of the Company's voting rights), shall have a right to terminate the Management Agreement, by giving the other party a 180 days prior notice.

2. Basis of preparation of the Consolidated Financial Statements

These Consolidated Financial Statements were obtained from the accounting records of the Parent Company and its subsidiary as of 31 December 2017, and are presented in accordance with the International Financial Report Standards (IFRS) and the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (together, IFRS-EU), pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council and successive amendments.

The comparative figures included in the Consolidated Financial Statements refer to the year ended 31 December 2016 for the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows.

During the year ended 31 December 2017 there were no significant changes on estimates made at the end of the previous fiscal year.

The Group's Consolidated Financial Statements for the fiscal year ended 31 December 2016 were issued by the Board of Directors on 13 March 2017 and approved by the shareholders in a General Shareholders Meeting on 11 May 2017.

The Parent Company's Directors have prepared these Consolidated Financial Statements for year ended 31 December 2017 on a going-concern basis.

The preparation of these Consolidated Financial Statements in conformity with IFRS-EU requires the use of certain critical accounting estimates. It also requires that Directors exercise judgment in the process of applying the Group's accounting policies. In Note 4 of the current notes are disclosed the areas that require a higher level of judgment or complexity and areas where assumptions and estimates have a significant effect on the Consolidated Financial Statements.

The presentation currency of the Consolidated Financial Statements is the Euro, which is the Group's functional currency.

The figures stated in these Consolidated Financial Statements are expressed in Euro Thousand, unless otherwise stated.

New IFRS - EU standards, amendments and IFRIC interpretations issued

a) Standards, amendments and interpretations which have not yet come into effect but which may be adopted early in the years starting or after 01 January 2016:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenues from contracts with customers"

The Group has not opted for the early application of the previous standards. Currently the Group is analysing the impacts that the new regulations could have on its Consolidated Financial Statements on subsequent years.

b) Standards, amendments and interpretations applied to existing standards may not be adopted early or have not been adopted to date by the European Union at the date these Consolidated Financial Statements were approved by the Board of Directors.

- IFRS 2 (amendment) "Classification and measurement of the share-based payment transactions"
- IFRS 4 (amendment) "Applying IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"
- IFRS 7 "Financial instruments: Disclosures".
- IFRS 10 (amendments) y IAS 28 (amendments) "Investments in Associates and Joint Ventures".
- IFRS 16 "Leases"
- IAS 12 (amendment) "Recognition of deferred tax assets for unrealised losses"
- Annual Improvements to IFRS Standards 2014-2016 Cycle
    - IFRS 1 "First-time Adoption of International Financial Reporting Standards"

- IFRS 12 "Disclosure of Interests in Other Entities"
- IAS 28 "Investments in Associates and Joint Ventures"

- IAS 40 (amendment) "Transfers of Investment Property"
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"

The Parent Company's Directors are analysing the impacts that the new regulations could have on its Consolidated Financial Statements.

3. Accounting policies

The main accounting principles, policies and measurement criteria used by the Group in preparing the current Consolidated Financial Statements and which are in conformity with the IFRS-EU in force at the date of the corresponding Consolidated Financial Statements are detailed below:

3.1. Consolidation policies

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration paid for the acquisition of a subsidiary consists of the fair value of the assets transferred, the liabilities incurred with the former owners of the acquired company and the equity shares issued by the Group. The consideration transferred includes the fair value of any asset or liability deriving from an agreement for contingent consideration. The identifiable assets acquired and the liabilities and contingent liabilities assumed on a business combination are initially measured at fair value on the acquisition date. For each business combination, the Group may opt to recognize any non-controlling interest in the acquired at fair value or at the proportional part of the non-controlling interest of the amounts recognized in respect of the net identifiable assets of the acquired.

Related costs are expensed in the year in which they are incurred.

If the business combination is achieved in stages, the carrying value on the acquisition date of the acquirer's previously held equity interest in the acquired is re-measured at fair value at the acquisition date. Any gain or loss arising on this subsequent measurement is recognized in profit or loss for the year.

Any contingent consideration to be transferred by the Group is recognized at fair value on the acquisition date. Subsequent changes in the fair value of contingent consideration classified as an asset or a liability are recognized in accordance with IAS 39 in profit or loss or in other comprehensive income. Contingent consideration which is classified as equity is not re-measured and its subsequent settlement is recognized in equity.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. Amounts presented by the subsidiaries have been adjusted where necessary to adapt them to the Group's accounting policies.

(b) Changes in the ownership stakes in subsidiaries without any change in control

Transactions involving non-controlling shareholdings that do not result in a loss of control are recognized as equity transactions, i.e. as transactions with owners in their capacity as such. The difference between the fair value of the compensation paid and the acquired proportional amount of the carrying value of the subsidiary´s net assets is recognized under equity. Gains or losses on the disposal of non-controlling shareholdings are recognized under equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any shareholding retained in the Company is restated at fair value on the date on which control is lost, recognizing the change in the carrying value in the income statement. Fair value is the initial carrying value for the purposes of the subsequent recognition of the

shareholding maintained as an associate, joint venture or financial asset. In addition, any amount previously recognized under other comprehensive income with respect to that company is recorded as if the Group had directly sold the related assets and liabilities. This could entail that the amounts previously recognized in the other comprehensive income are reclassified to the income statement.

3.2. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated income statement during the reporting period in which they are incurred.

Depreciation of property, plant and equipment, is calculated systematically using the straight-line method over the assets' estimated useful lives based on the actual decline in value brought about by operation, use and possession.

The estimated useful lives are as follows:

Property, plant & equipment	Useful life (years)
Furniture	5
Data-processing equipment	5

Any changes which, if appropriate, may arise in the residual value, useful life and depreciation method of an asset are reflected as changes in the accounting estimates unless it relates to an error. When the value of an asset exceeds its estimated recoverable amount, its value is reduced immediately to its recoverable amount. Gains and losses on the sale of property, plant and equipment are calculated by comparing the revenue obtained with the carrying value and are recognised in the consolidated income statement.

3.3. Investment property

Investment property comprises buildings under construction and development for use as investment property, which are partially or fully held to generate revenue, profits or both, rather than for use in the production or supply of goods or services, or for the Group's administrative purposes or sale in the ordinary course of business. Investment property also includes land, buildings, other constructions and furniture held to earn rents or for capital appreciation upon disposal due to increases in their respective market prices in the future.

The Parent Company's Directors do not plan to dispose of these assets in the near future and have therefore decided to recognize them as investment property in the Consolidated Statement of Financial Position.

Investment property is initially carried at cost, including related transaction costs and financing costs, if applicable. Following initial recognition, investment property is carried at fair value.

Investment properties are stated at fair value at the end of the reporting period and are not depreciated in accordance with the provisions of IAS 40.

Gains or losses arising from changes in the fair value of investment property are included in the consolidated income statement in the period in which they arise.

While construction work is in progress, the cost of construction work and finance costs are capitalized. When the asset is put to use, it is recognized at fair value. Staff cost directly attributable to the refurbishment of the investment properties has been capitalised as long as the can be considered direct cost.

Subsequent expenses are recognized at the asset's carrying value only when it is likely that future profits associated with the expenses will flow to the Group and the item's cost may be reliably measured. Other

repair and upkeep expenses are recognized under expenses for the year in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is written off.

In accordance with IAS 40, the Group periodically determines the fair value of its investment property to ensure the fair value reflects the actual market conditions of the investment property at that date. Fair value is determined quarterly based on independent expert appraisals.

Initial direct costs incurred by the Group in negotiating and arranging an operating lease, such as letting fees, are added to the fair value of the leased investment properties and recognised as an expense over the minimum lease term on the same basis as the lease income, according to IAS 40 and IAS 17.

3.4. Leases

Leases are always classified as finance leases whenever the terms thereof reveal that the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee.

All other leases are classified as operating leases. As at 31 December 2017 and 31 December 2016, the Group has no finance leases.

Operating Lease

a) Group is the lessee:

Expenses arising from operating leases are charged to the consolidated income statement in the year in which it accrues.

b) Group is the lessor:

Income arising from operating leases is charged to the consolidated income statement in the year in which it accrues.

Any charges that might be made when entering into an operating lease is treated as an advance payment charged as income over the lease term, as they are assigned or receive the benefits of the leased asset on a straight-line basis.

3.5. Financial Assets

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities over 12 months from the date of the consolidated statement of financial position are classified as non-current assets.

These financial assets are initially measured at fair value, including transaction costs that they are directly attributable and subsequently at amortized cost, recognizing the interest accrued based on their effective interest rate, defined as the rate that equals the value carrying the instrument with all its estimated cash flows to maturity.

Notwithstanding the foregoing, the trade receivables maturing in less than one year are measured both at the time of initial recognition and subsequently at their nominal value provided that the effect of not discounting flows are not significant.

At least at the year end, the necessary value adjustments are made to account for impairment when there is objective evidence that all receivables will not be collected.

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the date of initial recognition. Value adjustments, and reversals, where applicable, are recognized in the consolidated income statement.

3.6. Financial Liabilities

a) Creditors and Payables

This includes trade and non-trade payables. Borrowings are classed as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months as from the consolidated statement of financial position date.

Payables are initially recognized at fair value, adjusted for directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method. The effective interest rate is the discount rate that brings the instrument's carrying amount into line with the expected future flow of payments to the maturity date of the liability.

Trade payables falling due in less than one year without a contractual interest rate are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

The Group de-recognizes a financial liability when the obligation is extinguished.

When an exchange of debt instruments occurs, provided they have substantially different conditions, the lower of the original financial liability is recorded and the new financial liability is recognized. In the same way a substantial change in the current conditions of a financial liability is recorded. The difference between the carrying amount of the financial liability, or part thereof has been discharged, and the consideration paid, including attributable transaction cost, and which also includes any new different asset transferred cash or liabilities assumed, is recognized in the consolidated income statement it occurs.

When an exchange of debt instruments that do not have substantially different conditions, the original financial liability is not derecognized from the consolidated statement of financial position, recording the amount of commission paid as an adjustment to the carrying value occurs. The new amortized cost of a financial liability is determined by applying the effective interest rate, which is one that equals the carrying amount of the financial liability at the date of modification with the cash flows payable under the new conditions.

In the event of the renegotiation of existing debts, the financial liability is not deemed to change significantly when the lender of the new loan is the same as the initial lender and the present value of cash flows, including net fees, is not more than 10% higher or lower than the present value of cash flows payable on the original liability, calculated using the same method.

Borrowings

Financial debts are initially recognised at fair value, less any transaction costs incurred. Financial debts are subsequently carried at amortised cost: any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

3.7. Cash and cash equivalents

Cash and cash equivalents include petty cash, bank accounts and deposits with credit institutions and highly liquid investments, including short-term, highly liquid deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Also the balance of "Cash and cash equivalents" includes a certain amount which is considered restricted, whose management have been entrusted to the liquidity provider (Renta 4 Banco, S.A.) in order to facilitate the liquidity of the transactions affecting shares in the Company.

3.8. Share capital

Share capital consists of nominative ordinary shares.

The costs of issuing new shares are recognized directly in equity as a reduction in share premium.

In the event that the Company acquires treasury shares, the compensation paid including any incremental cost that is directly attributable, is deducted from equity until the shares are redeemed, issued again or otherwise disposed of. When treasury shares are subsequently sold or reissued, any amount received is taken to equity net of directly attributable incremental costs.

3.9. Earnings per share

Basic earnings per share are calculated as the ratio between net profit attributable to the Parent Company by the weighted average number of ordinary shares outstanding during the year or period, excluding the average number of shares of the Parent Company held the Group companies.

3.10. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Provisions are carried at the present value of forecast payments that are expected to be required to settle the obligation, using a rate before taxes that reflects the current market assessment of the time value of money and the specific risks of the obligation. The adjustments to the provision due to the restatement are recognized as a financial expense as they would have been accrued.

Provisions maturing in one year or less, the financial effect of which is immaterial, are not discounted. When it is expected that a portion of the payment necessary to cancel the provision will be reimbursed by a third party the reimbursement is recognized as an independent asset, provided that receipt of the reimbursement is practically certain.

The services received under the Success Fee agreement have been treated following IFRS 2 "*Share-based payments*", recognized as a liability at fair value.

3.11. Employee benefits

a) Severance payments

Termination benefits are paid to employees as a result of the Group's decision to terminate its employment contract before the normal retirement age or when the employee agrees to voluntarily resign in exchange for such benefits. The Group recognizes these benefits when there is a proved commitment to terminate the employees in accordance with a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer to encourage a voluntary resignation. Benefits that will not be paid in the twelve months following the consolidated statement of financial position date are discounted to their present value.

b) Profit sharing and bonus plans

The Group recognizes a liability and an expense for bonus and profit sharing based on a formula that takes into account the profit attributable to its shareholders after certain adjustments. The Group recognizes an accrual when it is contractually bound or when practice in the past has created an implied obligation.

3.12. Revenue recognition

Revenue is recognized in profit or loss when it can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from rental incomes are recognized as fair value of the consideration less trade discounts, volume discounts and taxes.

When the Group acts as a principal and is exposed to the risks associated with the transaction, revenues are presented on a gross basis. When the Group acts as an agent and is not exposed to the risks and rewards associated with the transaction, revenues are presented on a net basis. Revenues are measured at the fair value of the consideration less any trade discounts, volume rebates and returns.

Rental income

Rental income is recognized on a straight-line basis over the lease term. Scheduled increases in rental fees over the term of the contract are recognized as income on a straight-line basis over the lease period.

3.13. Operating segment information

Information on operating segments is reported on the basis of the internal information supplied to the ultimate decision making body, the Board of Directors, which have been identified as the highest decision-making authority, being responsible for allocating resources and assessing the performance of operating segments

The members of the Board of Directors have established that the Group has only one activity segment as at the date of these Consolidated Financial Statements.

3.14. Income taxes

General Tax regime

Income tax expense or income tax receivable includes either the current and deferred tax expense or income.

Current tax expense is the tax payable by the Group's companies on its taxable income for a given year. Deductions and other tax benefits, excluding withholdings and prepayments, along with tax loss carry forwards from prior years effectively set off in the current period reduce the current tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences, measured at the amount expected to be payable or recoverable, between the carrying amounts of assets and liabilities and their tax bases, as well as unused tax losses and tax credits. These amounts are measured by applying to the corresponding temporary difference or tax asset, the tax rate at which the asset is expected to be realized or the liability that is expected to be settled.

Deferred tax liabilities are recognized for all taxable temporary differences except where the temporary difference arises from the initial recognition of goodwill, whose amortization is not deductible, or the initial recognition of an asset or liability in a transaction affects neither the accounting result nor taxable profit or tax loss. Deferred tax assets are recognized for temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax asset can be utilized, and the deferred tax assets do not arise from the initial recognition of other assets and liabilities in a transaction that affects neither the accounting result nor taxable profit or tax loss. The remaining deferred tax assets (tax loss carry forwards, temporary differences and unused tax credits) are only recognized if it is considered likely that the consolidated companies will have sufficient taxable profits in the future against which they may be utilized.

Recognized deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments made where there are doubts as to their future recoverability. Also, unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that they will be recovered through future taxable profits.

SOCIMI tax regime

On 13 of May 2015 the Parent Company communicated to the corresponding Tax authorities (*Delegación de la Agencia Estatal de la Administración Tributaria*) its decision to apply for the SOCIMI special tax regime. This application was approved by its shareholders by mean of Universal Shareholders' Meeting held on 23 March 2015. The application has retroactive effect from the fiscal year beginning at the date of its incorporation, 5 March 2015.

On 8 March 2016 the Parent Company as sole shareholder of VBA SUB 3000, S.L.U. decided its subsidiary to apply for the Socimi Regime with retroactive effect from the 1 January 2016.

The SOCIMI special regime, after its modification by the law 16/2012 of December 27, this built upon the basis of a 0% rate taxation on the Corporate Income Tax, as long as certain requirements are fulfilled.

Nevertheless, the tax will rise proportionally to the dividend distribution. On the event of generating tax losses it will not apply the Law 27/2014, of 27 November of the Corporate Income Tax. It will not apply either the regimes of deductions and bonuses stated on the chapters II, III and IV of the mentioned CIT Law. On the rest of events not foreseen on the SOCIMI Law, it will apply what has been established on the Corporate Income Tax Law.

As stated in the article 9 of the SOCIMI Law, the Company will be submitted to a special rate of 19% of the total amount of dividends or shares on profits distributed to the shareholders which shares on the company´s capital is equal or superior to a 5%, provided that the mentioned dividends, on the shareholder place of residence, were exempt or a tax inferior to the 10% applies. The mentioned rate will be considered as the Corporate Income Tax quota. On this sense the Group has established a procedure that guarantees the confirmation by the shareholders of its taxation and the withholding, when applicable, of the 19% of the amount of the dividend distributed to those shareholders who do not fulfil the aforementioned tax requirements.

The application of the SOCIMI regime previously described was initiated from the financial year beginning on 5 March 2015 notwithstanding that the Company did not comply with all the requirements of the standard for its application since, under the First Transitional provision of Law 11/2009 of the SOCIMI regime, the Company has a 2 years period since the SOCIMI regime was opted for, in order to fulfil with all the requirements stated in the mentioned law. As of 31 December 2017 and as of 31 December 2016, the Company meets all the requirements of the SOCIMI Regime according to the Parent Company's Directors.

The proposed distribution of the fiscal year 2016 results from the Parent Company stand-alone annual accounts approved by the Parent Company´s General Shareholders' Meeting was the application of the year losses to previous year's results. The Board of Directors of the Parent Company expect that the loss generated on fiscal year 2016 will be offset by future year's profits. Besides, the group subsidiary has not distributed any dividends to the Parent Company either during the year ended 31 December 2017, nor the year ended 31 December 2016.

Other taxes

Considering the fact that the Group obtains its income mainly from the lease of real estate for residential purposes, it does not apply VAT on its customers. The Parent Company applies in its taxation the rule of the general pro rata, by which the taxpayer can deduct a percentage of the supported VAT that is determined by the quotient of the total volume of transactions that generate the right to deduct between the total volume of operations made with and without right to deduction.

3.15. Related-party transactions

In general, transactions between group companies are initially recognized at fair value. If applicable, where the agreed price differs from the fair value, the difference is recognized based on the economic reality of the transaction. Transactions are subsequently measured in accordance with applicable standards.

3.16. Environmental information

They are considered assets of environmental nature those assets that are used regularly in the Group's core activity, whose main purpose is to minimize environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

The Group activity, by its own nature, has no significant environmental impact.

4. Use of estimates

The preparation of the Consolidated Financial Statements requires Directors to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The Board of Directors reviews these estimates on a continuous basis. However, given the uncertainty inherent to these estimates, there is a significant risk that significant adjustments could arise in the future

regarding the value of the associated assets and liabilities and significant changes in the assumptions, events and circumstances on which they are based.

In preparing these Consolidated Financial Statements, the significant judgments made by the Parent Company's Directors in applying the group's accounting policies and the key sources of estimation uncertainty are as follows:

Fair value of investment properties

Fair value is determined by independent external valuation experts ("**appraiser**") using valuation techniques and assumptions as to estimates of projected future cash flows from the property and estimate of the suitable discount rate for these cash flows and also by management's evaluations which are based on economic models.

As for investment properties under development also requires an estimate of construction costs. If applicable, fair value is determined based on recent real estate transactions with similar features and location than the valued property.

The best evidence of the fair value of investment property in an active market is the price of similar assets. In the absence of such information, the appraiser determines fair value using a range of reasonable values. When making such judgments, the appraiser uses a series of sources, including:

i. Current prices on an active market of different kinds of properties in different conditions or locations, adjusted for differences with the Group's assets.
ii. Recent prices of properties on other less active markets, adjusted for changes in economic conditions since the transaction date.
iii. Discounting of cash flows based on estimates deriving from the terms and conditions of current lease contracts and, if possible, the evidence of the market prices of similar properties in the same location, through the use of discount rates reflecting the uncertainty of the time factor.

Valuation techniques and assumptions used to measure fair value

The fair values of financial assets and financial liabilities are determined as follows:

- Fair values of financial assets or liabilities with standard terms and conditions traded on active liquid markets are determined by reference to their quoted market price.
- Fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions and dealer quotes for similar instruments.

  Financial instruments measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

  - Level 1: Measurements derived from (unadjusted) quoted prices in active markets for identical assets or liabilities.
  - Level 2: Measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
  - Level 3: Measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (non-observable inputs).

In Note 6 also is provided information on how the fair value of investment properties is calculated in accordance with the valuation techniques described in the said note. The investment properties measured at fair value (without taking into account the advance on payments in investment properties, if any) as at 31 December 2017 and 31 December 2016 are as follows:

	Level 1	Level 2	Level 3	Total
Investment properties (note 6)	-	-	28,542	28,542
Total 31.12.2017	**-**	**-**	**28,542**	**28,542**

Investment properties (note 6)	-	2,714	20,676	23,390
Total 31.12.2016	**-**	**2,714**	**20,676**	**23,390**

Corporate income tax

The Company has opted for the tax regime established in the Law 11/2009, 26 October, governing the Sociedades Cotizadas de Inversión en el Mercado Inmobiliario (SOCIMI), which in practice means that provided certain requirements are met, the Company is subject to a corporate income tax rate of 0%.

The Parent Company's Directors monitors on a quarterly basis the compliance with the relevant legal requirements in order to secure the tax advantages established therein.

In this respect, the Parent Company's Directors consider that such requirements have been met within the established terms and periods and have therefore recognized no income or expense in respect of the Corporate Income Tax.

5. Financial risk management and Financial instruments

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks. The Group's overall risk management program is based on the uncertainty of financial markets and aims to minimize the adverse effects of such risks on the financial profitability of the Group.

Risk management is undertaken by the Management Company (VBA Real Estate Asset Management 3000, S.L.) in accordance with the policies approved by the Board of Directors.

5.1.1 Market risk

Given the current status of the real-estate sector and in order to mitigate the effects thereof, the Group has specific measures in place to minimize the impact on its financial position.

These measures are applied pursuant to the results of sensitivity analyses carried out by the Group on a regular basis and on the basis of the strategy outlined in their business plan.

- Foreign exchange risk

The Group is not exposed to exchange rate fluctuations as all its operations are in its functional and its presentation currency (Euro).

- Interest rate risk

The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk.

The Group analyses exposure to interest rate dynamically. Various scenarios are simulated, taking into consideration alternative financing sources. Based on these scenarios, the Group calculates the impact on consolidated income statement of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

In nominal terms, borrowings issued at fixed and variable rates as of 31 December 2017 and 31 December 2016 are as follows:

		Euro Thousand
	31/12/2017	31/12/2016
Borrowings at variable rate	1,988	2,063
Borrowings at fixed rate	4,435	2,278
TOTAL	**6,423**	**4,341**

As of 31 December 2017, if interest rate (Euribor 12 months) had been 1% higher with all other variables held constant, post-tax profit for the year would have been 18 euro thousand lower (13 euro thousand lower in 2016). If interest rate had been 1% lower with all other variables held constant, post-tax profit for the year would have been 0 euro thousand higher (0 euro thousand higher in 2016). The simulation is done periodically to verify that the maximum potential loss is within the limits set by the Board of Directors.

5.1.2 Liquidity risk

Liquidity risk is defined as the risk of the Group encountering difficulties meeting its obligations regarding financial liabilities settled in cash or with other financial assets.

The Group conducts prudent management of liquidity risk by maintaining sufficient cash to meet its payment obligations when they fall due, both in normal and stressed conditions, without incurring unacceptable losses or risking the Group's reputation.

The Group monitors on monthly basis the compliance with the requirements stated in the loan agreements as well as the sufficiency for facing the financial obligations derived from the agreement.

5.1.3 Credit risk

The Group holds cash and deposits in Spanish banks. The Group is exposed to the stability of these banks and their solvency risk.

Another credit risk arises from the profile of the Group's tenants. The Group only accepts tenants with the highest credit quality, but there are purchasing operations in which the asset is acquired with valid tenants with no previous validation carried out by the Group. In addition, the Group hedges the risk with security deposits paid by the tenants. A strict scoring process has been put in place in order to minimise the risk of defaults.

5.1.4 Tax risk

As mentioned in Note 1, the Parent Company and its subsidiary have applied for the SOCIMI regime. In accordance with Article 6 of the Law 11/2009, amended by the Law 16/2012, the companies availing themselves of this regime are required to distribute in the form of dividends to their shareholders, following compliance with the pertinent mercantile obligations, the profit obtained in the year. The distribution must be approved within the six months following the year end and paid within one month since the distribution agreement.

If the General Shareholders' Meeting of such companies does not approve the dividend distribution proposed by the Board of Directors, calculated in accordance with the requirements of the SOCIMI Law, they would be in breach of the said Law and they would therefore be taxed under the general tax scheme (Note 3.14.

6. Investment property

Investment properties comprise: apartment buildings, scattered apartments, storage rooms, parking spaces and retail assets owned by the Group for rent on a long-term basis and not occupied by the Group.

Set out below is a breakdown of and movements in the accounts recorded under investment properties:

Euro Thousand

	Investment Properties	Advance payments in investment properties	Total
Balance at 1 January 2016	**5,597**	**606**	**6,203**
Acquisitions	9,894	40	9,934
Transaction cost capitalised	435	-	435
Subsequent disbursements capitalised	901	-	901
Transfers	608	(608)	-
Returns	-	(38)	(38)
Others	50	-	50
Gain from fair value adjustments	5,905	-	5,905
Balance at 31 December 2016	**23,390**	**-**	**23,390**
Acquisitions	1.360	-	1.360
Transaction cost capitalised	67	-	67
Subsequent disbursements capitalised	476	-	476
Others	(17)	-	(17)
Gain from fair value adjustments	3.266	-	3.266
Balance at 31 December 2017	**28.542**	**-**	**28.542**

Under "Others" caption the Group records the letting fees incurred for the commercialisation of the properties (Note 3.4). These are capitalised within the carrying amount of the leased assets and are recognised as an expense during the minimum lease term, on the same basis as the lease derived therefrom, as established in IAS 40 and IAS 17.

From 1 January 2017 to 31 December 2017 the Group has completed the following transactions:

- On 28 June 2017, the Parent Company, by public deed of sale executed, number 1114, before the notary of Madrid Mr. Carlos de Prada Guaita, acquired a building located in calle Carrascales 1, made up of 8 apartments. The acquisition cost of said building was Euro 567 Thousand (including related transaction expenses).

- On 20 July 2017, the Parent Company, by public deed of sale executed, number 1285, before the notary of Madrid, Mr. Carlos de Prada Guaita, acquired a building located in calle Santa Valentina 28, made up of 7 apartments. The acquisition cost of said building was Euro 860 Thousand (including related transaction expenses).

From 1 January 2016 and up to 31 December 2016, the Group completed the following transactions:

- On 19 January 2016, the Group, by public deed of sale executed, number 34, before the notary of Madrid Mr. Carlos de Prada Guaita, acquired several apartments in a residential complex located in Calle Bariloche 5 and 7 in Madrid. This acquisition is made up of 11 apartments with an annex parking space and storage room each. The acquisition cost of said building was Euro 1,509 Thousand (including related transaction expenses). Euro 148 Thousand of the advanced payments on investment

properties, were released and were added to the funds which were transferred to the seller in the framework of the transaction, as the purchase price.

- On 4 February 2016, by public deed of sale executed, number 110, before the notary of Madrid, Mr. Carlos de Prada, the Group acquired a building located in Carnicer 20, Madrid. The building is made up of 46 apartments and 2 retail assets. The acquisition cost of said building was Euro 4,281 Thousand (including related transaction costs). Euro 420 Thousand of the advanced payments on investment properties, were released and were added to the funds which were transferred to the seller in the framework of the transaction, as the purchase price.

- On 14 April 2016, by public deed of sale executed, number 425, before the notary of Madrid, Mr. Carlos de Prada, the Group acquired a building located in Calle Brihuega 9, Madrid. The building is made up of 4 apartments and 2 retail assets. The acquisition cost of said building was Euro 419 Thousand (including related transaction costs). Euro 40 Thousand of the advanced payments on investment properties, were released and were added to the funds which were transferred to the seller in the framework of the transaction, as the purchase price.

- On 21 April 2016, by public deed of sale executed, number 468, before the notary of Madrid, Mr. Carlos de Prada, the Group acquired 2 scattered apartments located in Madrid. The acquisition cost of said apartments was Euro 113 Thousand (including related transaction expenses).

- On 18 May 2016, by public deed of sale executed, number 599, before the notary of Madrid, Mr. Carlos de Prada, the Group acquired a building located in Calle Antonia Ruiz Soro 19, Madrid. The building is made up of 5 apartments with an annex storage room each and 1 retail asset. The acquisition cost of said building was Euro 847 Thousand (including related transaction costs).

- On 31 May 2016, the Group, by deed of sale executed, number 648, before the notary of Madrid Mr. Carlos de Prada Guaita, acquired 1 scattered apartment located in Calle Topacio 3, Torrejón de Ardoz (Madrid). The acquisition cost of said apartment was Euro 64 Thousand (including related transaction expenses).

- Also on 31 May 2016, the Group, by public deed of sale executed, number 649, before the notary of Madrid Mr. Carlos de Prada Guaita, acquired:

  - Several apartments in a residential complex located in Calle Santa Julia 15 in Madrid. This acquisition is made up of 5 apartments. The acquisition cost of said apartments was Euro 312 Thousand (including related transaction expenses).
  - Several apartments in a residential complex located in Calle Vicente Carballal 4 in Madrid. This acquisition is made up of 31 apartments with an annex storage room each. The acquisition cost of said apartments was Euro 2,089 Thousand (including related transaction expenses).
  - Several apartments located in Madrid and Parla (Madrid). This acquisition is made up of 4 scattered apartments one of them with an annex storage room. The acquisition cost of said apartments was Euro 258 Thousand (including related transaction expenses).

- On 22 December 2016, the Group, by deed of sale executed, number 1599, before the notary of Madrid Mr. Carlos de Prada Guaita, acquired a building located in Calle Margaritas 15, Madrid. The building is made up of 16 apartments. The acquisition cost of said apartment was Euro 1,074 Thousand (including related transaction expenses).

The identification of qualified assets included under this note in accordance with the Article 11 of SOCIMI Law and is included in Appendix I to the Consolidated Financial Statements.

Valuation Process

At 31 December 2017 and 31 December 2016 investment properties are recognized at fair value. The fair value of the Group's investment properties is calculated on the basis of independent appraisers' reports not related to the Group.

Below is the cost and fair value of investment properties at 31 December 2017 and 31 December 2016:

Euro Thousand

	31 December 2017		31 December 2016	
	Cost	Fair value	Cost	Fair value
Investment properties	17,720	28,542	15,834	23,390

Gains recognized in the consolidated income statement on measuring investment property at fair value as of 31 December 2017 amount to Euro 3,266 Thousand (2016: Euro 5,905 Thousand). According to IFRS 13, some situations may arise where transaction prices may not represent the fair value of an asset at initial recognition.

These investments have been valued following a market value approach, and these valuations have been performed by an independent expert firm in accordance with the provisions of the RICS Appraisal and Valuation Manual (the "Red Book") published by The Royal Institution of Chartered Surveyors based in England.

The market value is defined as the estimated amount for which an asset can be sold on a given market at the date of valuation between a seller and a willing buyer, being both reasonably knowledgeable about the asset, prudently, free of undue pressure to trade and assuming a reasonable time period is given for completing the transaction.

Methodology:

a) Comparable method:

The methodology used to calculate the fair value of the real estate investment properties which are not suitable to be rented as of 31 December 2017 is the Comparable Method. This is based on the principle of replacement, meaning that we compare the asset with others whose value is already known. The greater the similarity, in terms of building type and location, the more reliable is the result.

The main variables affecting the market, and their relative weighting, have to be ascertained. This can be done directly or using a regression analysis applied to samples. The most commonly considered factors are: location, quality of the building, age, state of repair, standing of the neighbourhood, surface area, and suitability.

The comparable transactions would be sale/rental transactions in the area, the supply of comparable land/buildings and the opinions of other agents/experts. As a result, the value is determined by means of the identification of comparable properties for sale and closed transactions, which are comparable in terms of location as well as state of conservation and functionality. Regarding functionality, it has been assumed that the all properties are vacant and will be available for rent as the Company expects to receive all the permits in the short term.

To obtain a reliable comparable, the first step is to standardize the market unitary prices obtained (comparable) based on a number of parameters such as surface, asset situation, quality/specifications of the asset, etc. and the second step is to weight these standardized values by the degree of similarity between assets being compared. These are considered the main factors or variables that determine variations of the specific market as its proper weight.

b) Discounted cash flows method:

The valuation methodology adopted in terms of determining fair value of currently suitable to be rented properties is the discounted cash flows method with projected net operating income at 5 years and capitalizing the 6th year at an exit yield between 3.5% and 4.75% (between 3.5% and 5.0% as of 31 December 2016) and using an Internal Rate of Return for discounting cash flows obtained between 5.25% and 7.25% (between 5.5% and 7.25% as of 31 December 2016).

The discounted cash flow method is based on predictions of the probable net income that will be generated by assets over a specific time period, taking into account the assets' residual value at the end of that period. Cash flows are discounted at an internal rate of return in order to arrive at the present net value. That internal rate of return is adjusted to reflect the risk associated with the investment and assumptions adopted.

Key variables are therefore net income, approximate residual value and internal rate of return.

Sensitivity analysis

Based on the simulations performed, the impact over fair value of investment properties of a 1% change in the internal rate of return would produce the following impacts:

Euro thousand

	Theoretical value			
	31 December 2017		31 December 2016	
	+1%	-1%	+1%	-1%
Valued using discounted cash flows method	27,745	29,671	19,818	21,584
Valued using comparable method	-	-	2,715	2,715
Fair value of investment properties	**27,745**	**29,671**	**22,533**	**24,299**

Advances on payments on investment properties

Under the caption "Advances on payments on investment properties" the Company included in year 2016 advanced for the acquisition of real estate assets deposited following promissory agreements ("*contratos de arras*").

The promissory agreements ("*contratos de arras*") constitute an irrevocable and binding offer and therefore create an obligation on the Group to acquire the above mentioned portfolios of real estate assets. However, the final execution of the purchase agreements depends on the compliance of a condition precedent consisting of the satisfactory completion of a legal, real estate and tax due diligence, along with the reasonable review and completion of the appropriate legal documentation shall be satisfactory.

The Group's failure to execute the purchase agreement within the exclusivity period for unjustified reasons should lead the vendors to terminate the contract and to retain the deposits by way of damages.

If during the exclusivity period (i) the Group's legal advisors disclose liabilities in any of the assets of the portfolio involving a material adverse effect or (ii) any of the sellers act in breach of the exclusivity undertakings set out in the deposit agreements, the sellers should immediately release the deposits to the Group and pay all reasonably incurred and documented costs and expenses related to the proposed transactions.

Operating leases

The entire amount recognised as revenue for the period has its origin in lease contracts.

Total amount of future minimum collections under non-cancellable operating leases is as follows:

Euro Thousand

	31 December 2017	31 December 2016
Less than one year	1,072	491
Between one and five years	-	-
More than five years	-	-
	1,072	**491**

The lease contracts signed by the Group with its tenants have a typical length of one year being the option granted to the tenant to prorogue them up to three years.

Insurances

It is the Group policy to arrange all the insurance policies necessary to cover possible risks affecting investment properties. The coverage provided by these policies as of 31 December 2017 and 2016 is considered to be sufficient by the Parent Company Directors'.

Commitments

As of 31 December 2017 and 2016 the Group has no contractual commitments for the acquisition, construction or development of investment properties or in relation to repairs, maintenance or insurance.

Mortgages

Certain assets include under the caption Investment Properties, whose whole fair value amounts to Euro 20,530 Thousand (Euro 12,678 Thousand as of 31 December 2016) serves as guarantee of the compliance with the obligations arranged as a result of the financing obtained by the Group (Note 11).

7. Analysis of financial instruments

7.1 Analysis by categories

The carrying amount of each category of financial instruments stipulated in the standard "Financial instruments" is as follows:

a) Financial assets:

Euro thousand

	Non-current assets			
	Debt and equity securities		Loans, derivatives and other	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Credits and other receivables	-	-	74	26
	-	-	74	26

	Current assets			
	Debt and equity securities		Loans, derivatives and other	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Credits and other receivables	-	-	8,422	3,886
	-	-	8,422	3,886
Total financial assets	-	-	8,496	3,912

Under non-current financial assets the Group recognises the amount relating to deposits made with different public bodies derived from leases.

The movement of the corrective accounts representing the impairment losses arising from the credit risk for each class of financial assets is summarized below:

Euro Thousand

	31/12/2017	31/12/2016
Opening balance	29	-
Provisions	60	29
Releases	(7)	-
Write-offs	(45)	-
Closing balance	37	29

b) Financial liabilities:

Euro thousand

	Non-current liabilities			
	Borrowings		Loans, derivatives and other	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016

Loans and payables	6,100	4,156	127	98
	6,100	**4,156**	**127**	**98**

	Current liabilities			
	Borrowings		Loans, derivatives and other	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Loans and payables	223	113	673	2,100
	223	**113**	**673**	**2,100**
Total financial liabilities	**6,323**	**4,269**	**800**	**2,198**

Under non-current financial liabilities they are recognised the deposits to be returned to the tenants. These deposits will be withheld if the lease rents payable by the tenants to the Group are not paid or there is a breach in the lease contract. Also under this caption are recorded the loan agreements arranged by the Group throughout the year ended at 31 December 2017 (Note 11)

Under Current financial liabilities it is recognised the part of the aforementioned loan agreements with maturity in the short term (Note 11)

7.2 Analysis by maturity

The maturity of the financial liabilities as per the Consolidated Statement of Financial Position as at 31 December 2017 is presented in the following table:

Euro thousand

	31/12/2018	31/12/2019	31/12/2020	31/12/2021	Next years	Total
Bank borrowings (Note 11)	223	263	269	286	5,282	6,323
Other financial liabilities	15	127	-	-	-	142
Other financial liabilities group companies (Note 16)	3	-	-	-	-	3
Trade payables	65	-	-	-	-	65
Trade payables, group companies and associates (Note 16)	577	-	-	-	-	577
Accruals, wages and salaries	1	-	-	-	-	1
Advances from clients	12	-	-	-	-	12
Total financial liabilities	**896**	**390**	**269**	**286**	**5,282**	**7,123**

The maturity of the financial assets as per the Consolidated Statement of Financial Position as at 31 December 2017 is presented in the following table:

Euro thousand

	31/12/2018	31/12/2019	31/12/2020	31/12/2021	Next years	Total
Trade debtors	21	-	-	-	-	21
Other financial assets	18	74	-	-	-	92
Other receivables group companies and associates (Note 16)	9	-	-	-	-	9
Cash and cash equivalents	8,374	-	-	-	-	8,374
Total financial assets	**8,422**	**74**	**-**	**-**	**-**	**8,496**

Non-current assets and liabilities relate to deposits linked to lease contracts. Its maturity is conditioned to the maturity of these contracts. It is the Group estimation that the average maturity of leasing contracts will range from two to three years.

Notes to the Annual Consolidated Financial Statements for the year ended 31 December 2017

8. Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash on hand and in banks and short-term deposits with an original maturity of three months or less. The carrying amount of these assets is equal to their fair value.

As of 31 December 2016 under this caption, the Group included a short-term deposit in a financial institution for an amount of Euro 1,050 thousand, constituted on 25 April 2016. This deposit was cancelled on 24 March 2017.

As of 31 December 2017 and 31 December 2016, the balance of "Cash and cash equivalents" is not restricted, except for a total amount of Euro 360 Thousand (Euro 300 Thousand as of 31 December 2016) whose management have been entrusted to the liquidity provider (Renta 4 Banco, S.A.) as of 31 December 2017.

9. Net Equity

Share Capital and share premium

	Number of shares	Euro thousand			
		Share capital	Share Premium	Advances in Capital	Total
Balance as at 1 January2016	**1,388,150**	**6,941**	**6,764**	**330**	**14,035**
Capital Increase	22,053	110	120	(230)	-
Capital Increase	9,588	48	52	(100)	-
Capital Increase	82,149	411	472	-	**883**
Capital Increase	55,842	279	321	-	**600**
Capital Increase	30,502	153	201	-	**354**
Capital Increase	14,291	71	104	-	**175**
Issuance costs	-	-	(346)	-	**(346)**
Balance as at 31 December 2016	**1,602,575 (*)**	**8,013**	**7,688**	**-**	**15,701**
Capital Increase	546,689	2,733	4,374	-	**7,107**
Issuance costs	-	-	(23)	-	**(23)**
Distribution of share premium	-	-	(319)	-	**(319)**
Balance as at 31 December 2017	**2,149,264 (*)**	**10,746**	**11,720**	**-**	**22,466**

(*) This figure includes 20,243 treasury shares (26,269 treasury shares as of 31 December 2016) as disclosed in note below.

The Parent Company was incorporated on 5 March 2015 with an initial share capital of Euro 60 Thousand, consisting of 60,000 shares with a nominal value of 1 Euro each, numbered from 1 to 60,000 and fully subscribed and paid in.

The Board of Directors of the Parent Company, agreed in the meeting held on 5 June 2017, to make a capital increase of the Company up to a maximum of 3,941,505 euros, through the issuance of up to a maximum of 788,301 ordinary shares with a nominal value of 5 euros plus a share premium of 8 euros per share, resulting an issuing price of 13 euros per share. The decision was taken in exercise of the delegation of authority granted by the Shareholders at Extraordinary Universal Shareholders Meeting held on 7 September 2016, which authorized the Board of Directors to increase the capital of the Company pursuant to the provisions of Article 297 b) 1 of the Companies Act (Ley de Sociedades de Capital).

The capital increase took place by public deed on 4 August 2017 before the notary of Madrid Mr. Carlos de Prada Guaita, amounting to Euro 2,733 Thousand through the creation and issuance of 546,689 new shares with a nominal value of Euro 5 each, numbered from 1,602,576 to 2,149,264 fully subscribed and paid. These new shares were issued with a total share premium of Euro 4,374 Thousand. The cash consideration received by the Parent Company from the shareholders in respect of the capital increase and share premium totalled Euro 7,107 Thousand. This capital increase was filed in the commercial registry on 25 August 2017.

Notes to the Annual Consolidated Financial Statements for the year ended 31 December 2017

As of 31 December 2017 the share capital of VBARE Iberian Poperies SOCIMI, S.A. amounts to Euro 10,746 Thousand represented by 2,149,264 nominative ordinary shares represented by book entries with a nominal value of 5 Euro each, granting the same rights to their owners.

All of the shares of VBARE Iberian Properties SOCIMI, S.A. are listed since 23 December 2016, and they are traded on the alternative stock market (MAB) being part of the SOCIMIs segment.

From 1 January 2016 to 31 December 2016 the following transactions on share capital and share premium of the Parent Company took place:

- On 8 March 2016, took place a new capital increase by deed on 18 May 2016 before the notary of Madrid Mr. Carlos de Prada Guaita, with the number 593 of his protocol, amounting to Euro 411 Thousand through the creation and issue of 82,149 new shares with a nominal value of Euro 5 each, numbered from 1,419,792 to 1,501,940 fully subscribed and paid. These new shares were issued with a total share premium of Euro 472 Thousand. The cash consideration received by the Parent Company from the shareholders in respect of the capital increase and share premium totalled Euro 883 Thousand.

- On 31 March 2016, the Parent Company decided to increase its capital by deed on 18 May 2016 before the notary of Madrid, Mr. Carlos de Prada Guaita, using deed number 594, by Euro 279 Thousand through the creation and issue of 55,842 new shares with a nominal value of Euro 5 each, numbered from 1,501,941 to 1,557,782 fully subscribed and paid. These new shares were issued with a total share premium of Euro 321 Thousand. The cash consideration received by the Parent Company from the shareholders in respect of the capital increase and share premium totalled Euro 600 Thousand. This capital increase was filed in the commercial registry as at 12 July 2016.

- On 30 June 2016, the Parent Company decided to increase its capital by Euro 153 Thousand through the creation and issue of 30,502 new shares with a nominal value of Euro 5 each, numbered from 1,557,783 to 1,588,284 fully subscribed and paid. These new shares were issued with a total share premium of Euro 200 Thousand. The cash consideration received by the Parent Company from the shareholders in respect of the capital increase and share premium totalled Euro 353 Thousand. This capital increase was filed in the commercial registry as at 27 September 2016.

- On 20 July 2016, The Board of Directors of the Parent Company decided to increase its share capital, in the exercise of the delegation of authority granted by the Shareholders at Extraordinary Universal Shareholders Meeting held last 8 February 2016, which authorized the Board of Directors to increase the capital of the Company pursuant to the provisions of Article 297 b) 1 of the Capital Companies Act, amounting to Euro 71 Thousand through the creation and issue of 14,291 new shares with a nominal value of Euro 5 each, numbered from 1,588,285 to 1,602,575. These new shares were issued with a total share premium of Euro 104 Thousand. The cash consideration received by the Parent Company from the shareholders in respect of the capital increase and the share premium, amounted to Euro 176 Thousand. This capital increase was filed in the commercial registry as at 27 September 2016.

The share capital and the share premium, including the shares and the share premium that derived from the advances on share capital and share premium, which are totally paid, is as follows:

	31 December 2017	31 December 2016
Number of shares	2,149,264	1,602,575
Par value (Euro)	5	5
Share capital (Euro Thousand)	10,746	8,013
Share Premium (Euro Thousand)	12,266	8,211
	23,012	**16,224**
Issuance Cost Deducted (Euro Thousand)	(546)	(523)
	22,466	**15,701**

Issuance costs have been deducted according to IAS 32.

Distribution of share premium

The General Shareholders' Meeting of the Parent Company held on 12 December 2017, at the proposal of the Parent Company's Board of Directors, approved the distribution of share premium among the shareholders in proportion to their participation in the share capital figure of the Parent Company having delegated to the Board of Directors the execution of said agreement as well as the determination of the date of payment and amount of the share premium to be distributed.

On 20 December 2017, the Board of Directors agreed to carry out a distribution by virtue of the delegation made by the General Shareholders' Meeting. The amount distributed amounted to Euro 319 thousand (0.15 Euro per share), having the payment been made effective on 27 December 2017. This distribution represents 1.52% of the consolidated net equity as of 31 December 2016.

Treasury shares

The movement under this caption during 2016 and 2017 is the following:

Euro thousand

	Number of shares	Value
Balance at 1 January 2016	-	-
Increases / Acquisitions	26,269	323
Decreases / Disposals	-	-
Balance at 31 December 2016	**26,269**	**323**
Increases / Acquisitions	3,680	45
Decreases / Disposals	(9,706)	(120)
Balance at 31 December 2017	**20,243**	**248**

Treasury shares as at 31 December 2017 represent 0.94% (2016 1.64%) of the capital share figure totalling 20,243 shares (2016: 26,269 shares) with an average price of acquisition of 12.262 Euro per share (2016: 12.284 Euro per share).

On 7 September 2016 the General Shareholders Meeting of the Parent Company agreed to authorise the Board of Directors in order to acquire Company's treasury shares by way of purchase, exchange or payment in kind, in one or several transactions, provided that the acquired shares shall not exceed 20% of the Company's share capital. The price or consideration for such shares shall range from a minimum equal to their nominal value to a maximum of (i) in case that the Company's shares have not been admitted to listing on any regulated market or multilateral trading facility, 25 euros per share (ii) in case that the Company's shares are listed on the Alternative Stock Market - SOCIMIs Segment ("MAB-SOCIMIs"), 120% of the listed price for the shares in the Parent Company at the time of the acquisition. This authorisation is in force for a five-year period after the date of the agreement.

Legal reserves and other reserves

In accordance with the Spanish Companies Act, private companies have to transfer an amount equal to 10% of the profit for the year to the legal reserve until this reserve reaches at least 20% of capital. The legal reserve can be used to increase capital in the part of the balance exceeding 10% of the increased capital. Except as mentioned above, while not exceeding 20% of the capital and considering the limitations set forth under the SOCIMI regime, the legal reserve can only be used to offset losses, provided that sufficient other reserves available for this purpose.

In accordance to Law 11/2009, for which SOCIMI are regulated, the legal reserve of the companies that have opted to apply the SOCIMI tax regime, may not exceed 20% of the share capital figure. The bylaws of these companies may not establish any other statutory reserve unavailable different from the legal reserve.

As at 31 December 2017 and 31 December 2016 the Parent Company´s legal reserve is not constituted.

Shareholders

Every shareholder is required to notify the Company any direct or indirect acquisition of shares which causes such shareholder's aggregate stake in the Company to reach, exceed or fall below 5% of the share capital and any successive multiples thereof.

According to the information provided, the main shareholders of the Parent Company as of 31 December 2017 and 31 December 2016, with a percentage higher than 5% of the share capital of the Parent Company, directly or indirectly, are as follows:

	% Number of Shares		
	31 December 2017		
Shareholder	Direct	Indirect	Total
Value Base Ltd.	8.20%	5.47%	13.67%
Meitav Dash Provident Funds and Pension Ltd.	9.30%	-	9.30%
M. Wertheim (holdings) Ltd.	9.30%	-	9.30%
Dan Rimoni	8.92%	-	8.92%
Ido Nouberger	5.69%	-	5.69%

(*) See Note 17, regarding the disclosure that Ido Nouberger also holds shares in Value Base Ltd.

	31 December 2016		
Shareholder	Direct	Indirect	Total
Value Base Ltd.	7.33%	7.33%	14.66%
M. Wertheim (holdings) Ltd.	12.48%	-	12.48%
Ido Nouberger	6.25%	-	6.25%
Dan Rimoni	5.54%	-	5.54%
Adi Savir	6.24%	-	6.24%
Michael Mor	6.24%	-	6.24%

Earnings per share

a) Basic earnings per share:

Basic earnings per share are calculated by dividing the profit / (loss) for the period attributable to shareholders of the Parent Company by the weighted average number of ordinary shares throughout the period, excluding the weighted average number of treasury shares held shares throughout the period.

Details of the calculation of earnings/(losses) per share are as follows:

	31 December 2017	31 December 2016
Net profit for the period attributable to equity holders of the Parent Company (Euro Thousand)	2,251	4,284
Number of the net weighted average shares (treasury shares deducted)	1,798,969	1,542,119
Earnings per share (Euro)	**1.25**	**2.78**

b) Diluted earnings per share:

Diluted earnings per share are calculated by dividing net profit/(loss) of the period attributable to the owners of the Parent Company by the weighted average number of ordinary shares in the period, plus the weighted average number of shares which would be issued when converting all potentially diluting instruments.

For these purposes, they are considered dilutive instruments the ordinary shares presented under "advances capital" which have been issued at the close of each period.

The Parent Company's Directors have evaluated the effect of dilution of these potential shares and their potential impact on the calculation of earnings per share, and have concluded that its effect is not significant, and therefore basic and diluted earnings per share do not differ significantly.

Net result distribution

The distribution of net result of the Parent Company as of 31 December 2017 according to Spanish General Accepted Accounting Principles as per their stand-alone annual proposed by the Parent Company's Directors to be approved by the General Shareholders' Meeting is as follows:

	Euro Thousand
Basis of distribution	
Profit /(Loss)	(1,148)
Distribution	
Losses from prior years	(1,148)

The distribution of results of the Parent Company as of 31 December 2016 according to Spanish General Accepted Accounting Principles as per their stand-alone annual accounts as approved by the General Shareholders' Meeting on 11 May 2017 is as follows:

	Euro Thousand
Basis of distribution	
Profit /(Loss)	(1,680)
Distribution	
Losses from prior years	(1,680)

Dividends distribution policy

The dividend will be paid in cash, and it will be recognized as a liability in the Consolidated Financial Statements in the period in which the dividends are approved by shareholders of the Parent Company or subsidiaries.

The SOCIMI is required to distribute the profit generated during the year to shareholders as dividends. Once the corresponding mercantile obligations have been fulfilled, said distribution must be agreed within six months of the year end. The Company must distribute the following as dividends:

a) 100% of the profit from dividends or shares in profits distributed by the entities referred to in Section 1, Article 2 of the SOCIMI Law.

b) At least 50% of the profits arising from the transfer of the properties, shares or ownership interests referred to in Section 1, Article 2 of the SOCIMI Law, subsequent to expiry of the time limits referred to in Section 3, Article 3 of the Law aforesaid, which are used for pursuit of the entities' principal corporate purpose. The remainder of these profits must be reinvested in other property or investments used for the pursuit of said activity within three years after the transfer date. Otherwise these profits should be distributed in full together with any profit arising in the year in which the reinvestment period expires. If the items subject to reinvestment are transferred before the holding period ends, the related profits must be distributed in full together with any profits arising in the year in which they are transferred. The distribution obligation does not extend to the portion of these profits, if any, which may be allocated to years in which the Company did not file tax returns under the SOCIMI special tax regime.

c) At least 80% of the remaining profits obtained.

When dividend distributions are charged to reserves generated from profits in a year in which the special tax regime applied, the distribution must necessarily be approved as set out above.

The legal reserve of the companies that have opted to apply the SOCIMI special tax regime may not exceed 20% of the share capital. The bylaws of these companies may not establish any other statutory reserve unavailable different from the last. Once all amounts established by Law or the bylaws have been covered, dividends may only be distributed by charging profits for the year or freely available reserves as

long as equity is not less than share capital and will not fall below share capital as a result of the distribution. For these purposes, profits taken directly to equity may not be directly or indirectly distributed. If there are prior-year losses that cause the Company's equity to be lower than share capital, profits must be used to offset those losses.

During the year ended 31 December 2017 and for the fiscal year from 5 March 2016 to 31 December 2016, no dividends have been distributed.

10. Trade payables

The carrying amount of these trade payables is equal to their fair value.

Information on deferred payment to suppliers

The information required under Additional Provision Three of Law 15/2010, of 5 July, is as follows: (Euro Thousand).

It is detailed below the information required by the Second Final Disposition of Law 31/2014, of December 3, which has been prepared applying the resolution of the Instituto de Contabilidad y Auditoría de Cuentas ("ICAC") dated 29 January 2016.

	2017	2016
	Days	
Average payment period to suppliers	29	19
Settled payments ratio	29	20
Outstanding payments ratio	21	17
	Amount (Euro Thousand)	
Total payments made	3,444	4,599
Total outstanding payments	78	589

By "Average payment period to suppliers" will be meant the time that elapses from the date of an invoice to the factual payment of the operation as it is apparent from the resolution of the Institute of Accounting and Auditing (ICAC) mentioned above.

In addition, the "Average payment period to suppliers" will be calculated as the ratio formed by the sum of the settled payments ratio multiplied by the total amount of payments made, plus the outstanding payments ratio multiplied by the total amount of outstanding payments in the numerator. And the total amount of payments made and outstanding payments in the denominator.

The settled payments ratio is calculated as the ratio formed by the sum of the products corresponding to the amounts paid multiplied by the number of paydays (calendar days elapsed from the initiation of the payment term until the material payment of the operation) in the numerator, and the total amount of payments made in the denominator.

Also, the outstanding payments ratio will be the ratio formed by the sum of the products of the outstanding payment amounts multiplied by the number of days in which have been pending of payment (calendar days elapsed from the initiation of the term until the day of closing of the annual accounts) in the numerator, and the total amount of outstanding payments in the denominator.

According to the provisions of Article three of the resolution of the Institute of Accounting and Auditing (ICAC) dated 29 January 2016, the amount of transactions accrued prior to the entry into force of the Law 31 / 2014, December 3 has not been considered.

The maximum legal payment period applicable to the "Company" under Law 11/2013 of 26 July is of 30 days unless there is an agreement between the parties, which will be of a maximum period of 60 days.

11. Borrowings

The breakdown of the Group's financial debt as of 31 December 2017 is as follows:

					Long term debt	Short-term debt			
Financial entity	Signing date	Maturity	Interest rate (annual)	Amount financed	Principal	Principal	Interest due not paid	Financial expense	Interest paid
Bankinter	21/04/2016	21/04/2031	Variable Eur12+1.25%	2,100	1,887	73	5	29	25
Bankinter	19/07/2016	19/07/2031	Fixed 1.8%	750	679	25	3	14	13
Bankinter	19/07/2016	19/07/2031	Fixed 1.8%	300	271	10	1	6	5
Sabadell	30/11/2016	31/12/2031	Fixed 1.8%	600	550	38	-	13	11
Sabadell	30/11/2016	31/12/2031	Fixed 1.8%	637	586	40	-	13	12
Sabadell	26/04/2017	30/04/2032	Fixed 1.8%	187	179	2	-	3	2
Sabadell	26/04/2017	30/04/2032	Fixed 1.8%	1,250	1,212	16	-	17	16
Sabadell	26/04/2017	30/04/2032	Fixed 1.8%	250	241	3	-	4	3
Sabadell	10/05/2017	10/05/2032	Fixed 1.8%	508	495	7	-	6	6
			TOTAL	6,582	6,100	214	9	105	93

The breakdown of the Group's financial debt as of 31 December 2016 is as follows:

					Long term debt	Short-term debt			
Financial entity	Signing date	Maturity	Interest rate (annual)	Amount financed	Principal	Principal	Interest due not paid	Financial expense	Interest paid
Bankinter	21/04/2016	21/04/2031	Variable Eur12+1.25%	2,100	1,958	70	6	20	13
Bankinter	19/07/2016	19/07/2031	Fixed 1.8%	750	705	24	3	7	3
Bankinter	19/07/2016	19/07/2031	Fixed 1.8%	300	281	9	1	3	1
Sabadell	30/11/2016	31/12/2031	Fixed 1.8%	600	589	-	-	1	1
Sabadell	30/11/2016	31/12/2031	Fixed 1.8%	637	623	-	-	1	1
			TOTAL	4,387	4,156	103	10	32	19

The Group's financial debt is recognised at its amortised cost.

All these loans described are guaranteed through a mortgage over the properties which market value at 31 December 2017 amounts to Euro 20,530 Thousand (as of 31 December 2016 Euro 12,678 Thousand) (Note 6).

The abovementioned loan agreements contain certain covenants that are customary in the market for facilities of this nature (based on Loan to Value (LTV) and rental incomes over the asset mortgaged). Failure to meet these covenants represents an event of default and may result in, among other things, an acceleration of the loan's maturity and/or may trigger an early amortization event.

As of 31 December 2017 the Group is in full compliance with all terms, conditions, covenants and provisions of the financing agreements in place.

It is the Director's opinion that the aforementioned ratios are fulfilled at 31 December 2017, at the approval of these Consolidated Financial Statements and that it will be also fulfilled in a year since then.

12. Tax situation

The main current receivable and payable taxes balances as at 31 December 2017 and 31 December 2016 are as follows:

Euro Thousand

	31 December 2017		31 December 2016	
	Tax assets	Tax liabilities	Tax assets	Tax liabilities
Withholding tax	-	12	-	12
VAT	30	-	39	-
Payroll tax	-	6	-	5
Other taxes	2	-	2	-
	32	**18**	**41**	**17**

The Group does not maintain long term balances with tax authorities as at 31 December 2017 and 31 December 2016

Corporate Income Tax

The reconciliation between the consolidated net result for the year ended 31 December 2017 and the taxable base of the Group companies' is set out below:

Euro Thousand

	Consolidated income statement			Income and expense allocated directly to net equity			Total
	Increase	Reductions	Total	Increases	Reductions	Total	
Balance income and expenses of financial period	2,251	-	**2,251**	-	-	-	**2,251**
IFRS and Consolidation Adjustments	-	(3,404)	(3,404)	-	-	-	(3,404)
Corporation Tax	-	-	-	-	-	-	-
Permanent differences	15	-	15	-	(25)	(25)	(10)
Temporary differences:	-	(5)	(5)	-	-	-	(5)
Taxable base			**(1,143)**			**(25)**	**(1,168)**

The taxable base presented in the table above is the sum of the taxable bases of the group companies, having been adjusted the consolidated profit for the year by consolidation and IFRS adjustments.

In accordance with the SOCIMI Law, current Corporate Income Tax is the result of applying 0% to the tax base.

Permanent differences relate to issuance costs for the capital increase carried out by the Parent Company during the year (Note 9). Temporary differences relate to fluctuation of non-deductible accruals.

Years open to review and tax inspections

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute of limitations has expired. As of

31 December 2017, all the taxes applicable for which the Group companies are liable since its incorporation are open to inspection.

As a result, among other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax liabilities may arise in the event of a tax inspection. In any event, the Directors consider that such liabilities, if ever they arise, will not have a significant effect on the accompanying Consolidated Financial Statements.

13. Revenue and expenses

a) Gain from fair value on investment properties

The details of gain from fair value on investment properties are provided in Note 6.

b) Property operating expenses

The breakdown of this caption of the consolidated income statement is as follows:

	Euro Thousand	
	31 December	
	2017	2016
Property management	38	25
Supplies	54	73
Insurance	27	25
Property maintenance	111	55
Maintenance, common areas	90	56
Property Tax	42	21
Renting brokerage fee	118	56
Variation in provisions and losses on bad debts	53	29
Total	**533**	**340**

c) General and administrative expenses

The breakdown of this caption of the consolidated income statement is as follows:

	Euro Thousand	
	31 December	
	2017	2016
Staff cost and related expenses	189	82
Management fee – see note 1.2.1(a) and note 16	391	212
Success fee – see note 1.2.1(c) and note 16	540	1,029
Professional fees and others	324	407
Depreciation of Property, Plant and equipment	1	-
Other taxes	2	10
Total	**1,447**	**1,740**

Notes to the Annual Consolidated Financial Statements for the year ended 31 December 2017

Calculation of the success fee

In the current table it is shown the calculation of the success fee as at 31 December 2017 and 31 December 2016 according to the conditions stated in the Management Agreement as defined in note 1.2.1.c)

	Euro Thousand	
	31 December	
	2017	2016
Net Equity at the beginning of the period	**20,882**	15,255
Net investments during the period (prorated)	2,970	1,370
Result of the relevant period (pre-Success Fee)	2,791	5,313
Hurdle rate (8%)	**1,908**	1,330
Accrued Catch-up amount	458	319
Carried interest	82	710
Total Success Fee (16% plus VAT)	**540**	**1,029**
Consolidated net profit for the Shareholder	**2,251**	**4,284**

Payroll

	Euro Thousand	
	31 December	
	2017	2016
Wages and salaries	162	69
Social Security	27	13
Total	**189**	**82**

The average number of employees throughout the year broken down by category is as follows:

	2017	2016
Qualified profesionals	6	3
Administrative staff and others	1	1
Total	**7**	**4**

The distribution of the Group's employees at the year-end broken down by gender is as follows:

	31 December 2017			31 December 2016		
	Male	Female	Total	Male	Female	Total
Qualified profesionals	2	4	6	2	2	4
Administrative staff and others	-	1	1	1	1	2
Total	**2**	**5**	**7**	**3**	**3**	**6**

During 2017 and 2016, there were no employees, with a disability greater than or equal to 33%.

d) Finance result

The finance result is as at 31 December 2017 and 31 December 2016 is broken-down as follows:

Euro Thousand

	31 December	
	2017	2016
Finance income		
Bank interests of current accounts and deposits	1	8
Financial expenses		
Bank interest from borrowings (Note 11)	(105)	(32)
Other financial expenses	(7)	-
Total	**(111)**	**(24)**

e) Contribution to the consolidated profit by Group company

The contribution to the profit for the year ended 31 December 2017 and 31 December 2016 by each company included in the consolidation scope is as follows:

Euro Thousand

	31 December	
	2017	2016
VBARE Iberian Properties SOCIMI, S.A.	2,256	4,303
VBA SUB 3000, S.L.U.	(5)	(19)
Total	**2,251**	**4,284**

14. Audit fees

The audit fees accrued during the fiscal year ended 31 December 2017 by PricewaterhouseCoopers Auditores, S.L. for the audit and review services rendered amounts to Euro 43 thousand euros (2016: Euro 40 Thousand) and for other assurance services amounts to Euro 0 Thousand (2016: Euro 31 Thousand).

In addition, the fees accrued during the year by other companies in the PwC network as a result of tax advisory services to Group companies totalled Euro 0 Thousand (2016: Euro11 Thousand).

15. Environmental information

Given the activity in which the Group operates, it has no environmental liabilities, expenses, assets, provisions or contingencies that could have a material impact on its equity, financial position and results of its operations.

Therefore, no specific environmental disclosures have been included in these notes to the Consolidated Financial Statements.

16. Related-party transactions

Transactions shown below were carried out with related parties as at 31 December 2017 and 2016 is as follows:

Euro Thousand

	31 December 2017		
	Success fee	Management fee	Other expenses
VBA Real Estate Asset Management 3000, S.L.	540	391	-
Aura Asset Management, S.L.	-	-	107
	540	**391**	**107**

Euro Thousand

	31 December 2016		
	Success fee	Management fee	Other expenses
VBA Real Estate Asset Management 3000, S.L.	1,029	212	-
Aura Asset Management, S.L.	-	-	99
Aura Real Estate Experts, S.L.	-	-	6
	1,029	**212**	**105**

At 31 December 2017 and 31 December 2016 the outstanding balances with the related parties break down as follows:

Euro Thousand

	Trade and other payables	
	31 December 2017	31 December 2016
VBA Real Estate Asset Management 3000, S.L.	551	1,336
Aura Asset Management, S.L.	29	10
Total	**580**	**1,346**

Euro Thousand

	Trade and other receivables	
	31 December 2017	31 December 2016
VBA Real Estate Asset Management 3000, S.L.	9	9
Total	**9**	**9**

As mentioned in note 1.2, the Parent Company has several agreements with VBA Real Estate Asset Management 3000, S.L. (the Management Company).

Additionally, Aura Asset Management, S.L. provides commercial management services to the Parent Company and also charges a monthly invoice for the premises where the Group has its registered office.

Transfer pricing with related parties are adequately supported, so the Parent Company's Directors consider that there are no risks that could result in significant tax liabilities.

The transactions described above are considered with related parties as certain members of the Board of Directors of the Parent Company are themselves shareholders of the Management Company (VBA Real Estate Asset Management 3000, S.L.) and Aura Asset Management, S.L.

17. Board of Directors and senior management

Directors' and senior management remuneration

During fiscal year 2017, the amount accrued by the members of the Parent Company's Board of Directors amounted to Euro 60 thousand (Euro 19 thousand during year ended 2016) as well as the amounts stated in the note above.

During 2017, as in 2016, no contribution has been made in the form of loans or pension plans in favor of former or current members of the Parent Company's Board of Directors. Likewise, no other amounts have been committed for these concepts during the year.

Regarding D&O liability insurance, the Parent Company has underwritten a specific insurance policy involving the payment of Euro 5 Thousand (Euro 5 Thousand in 2016) being the Directors of the Parent Company the beneficiaries.

The members of the Board of Directors of the Parent Company have not received any remuneration relating to profit distribution or bonus. Neither have they received shares or stock options during the year, nor have they exercised options or have options pending exercise.

Remuneration and loans to senior management

As of 31 December 2017 and 2016, the Company does not employ employees who may be considered as senior management. The planning, direction and control of activities will be carried out through joint decisions if they affect economic and strategic policies and are taken by the Board of Directors.

Information regarding conflicts of interest

Article 229 of the Spanish Companies Act 2010, adopted by virtue of Royal Legislative Decree 1/2010, amended by Law 31/2014 of December 3 (the "Companies Act") that specifically modifies the content of Article 229, requires the Directors to notify the Company's governing body of any direct or indirect conflict of interest they may have with the Company's interests.

Likewise, Directors must disclose any direct or indirect interest they or persons related to them may hold in any company engaging in activities which are identical, analogous or complementary to those comprising the company's objects, and also disclose the positions or duties they might have in the same.

In this context, in order to duly comply with the requirements set forth in the Companies Act, some Directors have disclosed they could potentially find themselves in a situation of conflicted interest due to the fact they hold, where appropriate, a direct or an indirect participation, in the Management Company or in companies with the same, similar or complementary activity to the one of the Group companies.

- It is expressly noted that four out of six members of the Board of Directors are also members of the Board of Directors of (i) the Management Company (VBA Real Estate Asset Management 3000, S.L.) and (ii) VBA Sub 3000, S.L. In this regard, the Board of Directors of the two entities is made up of these four individuals who are directors of the Parent Company.

- Mr. Fernando Ernesto Acuña Ruiz and Mr. Juan Manuel Soldado Huertas jointly hold an indirect stake of the Management Company, since they are the owners of Aura Asset Management, S.L.

- Mr. Yair Ephrati holds a 12.5% direct participation in the Management Company.

- Mr. Ido Nouberger holds 20.075% in Value Base Ltd, which holds a 37.5% direct participation and 50% of the voting rights of the Management Company (representing over 50% including the votes of Mr. Yair Ephrati's shares).

- Additionally, Value Base Ltd and Mr. Yair Ephrati's wife holds a 75% and 25% stake respectively in Value Base Mergers and Acquisitions Ltd, which is an entity which has rendered services to the Management Company.

- Mr. Fernando Ernesto Acuña Ruiz holds a participation in the entity Morton Street, S.L., whose corporate purpose is similar to the business activities of the Group.

- Mr. Fernando Ernesto Acuña Ruiz and Mr. Juan Manuel Soldado Huertas are partners in Aura Asset Management, S.L., in which its corporate purpose is similar to the corporate purpose of the Parent Company.

On 8 February 2016 an Extraordinary Universal Shareholders' Meeting of the Parent Company was held in which certain issues were addressed in the agenda that could have been considered as a conflict of interest for any of the shareholders pursuant to the provisions of Article 190 of the Companies Act Capital. However, in order to avoid the materialization of the conflict of Mr. Ido Nouberger, Tracenda Investments Ltd, controlled by Mr. Yair Ephrati, Value Base Ltd, Value Base Hedge Fund Ltd, and Morton Street, SL, whose capital controls Mr. Fernando Ernesto Acuña Ruiz, Aura Asset Management, S.L., on which are partners Mr. Fernando Ernesto Acuña Ruiz and Juan Manuel Soldado Huertas refrained from issuing any vote, as expressly provided in the corresponding

"FOURTH - Approval of the amendment to the management agreement."

"FIFTH - Ratification of the D&O insurance policy"
"SIXTH - Execution of a new D&O insurance policy."

Additionally, in 7 September 2016 the Shareholders on General Shareholders' meeting approved a waiver of the prohibitions stablished on Article 229 of the Spanish Companies Act, in accordance with the article 230 of the aforementioned law, regarding the members of the Board of Directors who are Directors in the Management Company (VBA Real Estate Asset Management 3000, S.L.) in relation to the position they perform in this company, as well as to one of them in relation to the position he performs in this company Aura Asset Management, S.L.

18. Provision and contingencies

As of 31 December 2017 and 31 December 2016 the Group has no claims or demands and no provisions and contingencies have arisen.

19. Information requirements deriving from Socimi regime. Law 11/2009 as amended by the Law 16/2012

Description	31 December 2017	31 December 2016
a) Reserves from years prior to the application of the tax scheme contained in Law 11/2009, amended by Law 16/2012.	N/A	N/A
b) Reserves from years in which the tax scheme contained in Law 11/2009, amended by Law 16/2012, have been applied.	N/A	N/A
c) Dividends distributed against profits each year in which the tax scheme contained in this Law is applicable, differentiating the part from income subject to tax at 0% or 19% from those where tax has been levied at the general rate.	N/A	N/A
d) For distribution against reserves, identifying the year from which the reserves applied derive and if they have been taxed at 0%, 19% or the general rate.	N/A	N/A
e) Date of the agreement for the distribution of dividends referred to in c) and d) above.	N/A	N/A
f) Date of acquisition of buildings for rent and interests in the capital of companies referred to in Article 2.1. of this Law.	Please see note 6 and Appendix I	Please see note 6 and Appendix I
g) Identification of assets taken into account in the 80% referred to in Article 3.1 of this Law.	Please see note 6 and Appendix I	Please see note 6 and Appendix I
h) Reserves from years in which the tax system applicable in this Law was applicable, which were made available in the tax period, not for distribution or offsetting losses, identifying the year from which the reserves derive.	N/A	N/A

20. Events occurring after the reporting period

On 29 January 2018 it was signed a mortgage loan arranged with the financial institution Banco de Crédito Cooperativo amounting to a nominal amount of Euro 676 Thousand, mortgaging a scattered assets portfolio of fifteen apartments located in Madrid municipality. This loan matures in 15 years and bears a fixed interest rate of 2% during the first three years and afterwards until expiration of Euribor 12m + 2%

Additionally, on 31 January 2018 it was signed two mortgage loans arranged with the financial institution Banco Sabadell amounting to a total nominal amount of Euro 816 Thousand, mortgaging the properties located in streets Santa Valentina nº 28 and Carrascales nº1, both located in Madrid municipality. These two loans mature in 12 years bearing a fixed interest rate of 1.8%

On 21 February 2018, the Parent Company has signed an exclusive and binding agreement subject to completion of legal requirements, by which it would acquire 12 dwellings and a commercial premises in the metropolitan area of Madrid for an acquisition cost between Euro 1,000 Thousand and Euro 1,500 Thousand.

Notes to the Annual Consolidated Financial Statements for the year ended 31 December 2017

On 22 February 2018, the same date when these Consolidated Financial Statements have been drawn-up, the Board of Directors of the Parent Company has adopted, among other agreements, the approval of the Reduced Prospectus Document (DAR) to be submitted to the Alternative Investment Market (MAB) needed to make a capital increase including a share premium by using the delegated faculty conferred by the General Shareholder Meeting held on 12 December 2017. It has been stated that there is the possibility that such capital increase will not be fully subscribed. The final amount of the capital increase will be determined in a subsequent Board of Directors.

According to the Parent Company's Directors, no other facts or circumstances occurred after the year ended 31 December 2017 have come to their attention which may have significant impact on these Consolidated Financial Statement.

Appendix I: Investment properties acquired by the Group

Kind of Asset	Location	Acquisition Date
Building	Calle Juan Pascual nº12-14. Madrid.	30/07/2015
Apartment	Calle Venancio Martín, 50, 3º Izquierda. Madrid.	19/11/2015
Apartment	Calle Uva, 7, 2ºB. Madrid.	19/11/2015
Apartment	Calle Zarzuela, 26, 3º Derecha. Madrid.	19/11/2015
Apartment	Calle Abdón Bordoy, 19, 3ºC. Madrid.	19/11/2015
Apartment	Calle Misericordia, 4 BIS, 3º 3. Madrid.	19/11/2015
Apartment	Calle San José y Pasaderas, 33, 3ºC. Madrid.	19/11/2015
Apartment	Travesía de Getafe, 7, 5º 4. Parla.	19/11/2015
Apartment	Avenida Cerro de los Ángeles, 15, 3ºC. Madrid.	19/11/2015
Apartment	Calle Abedul, 8, 3ºB. Madrid	19/11/2015
Apartment	Calle Flor De Lis, 13, 3º D. Madrid.	19/11/2015
Apartment	Calle Concepción de la Oliva, 21, 5º B. Madrid.	17/12/2015
Apartment	Calle León XIII, 4, 4º B. Madrid.	17/12/2015
Apartment	Calle Camino de la Suerte, 17, 3ºC. Madrid.	17/12/2015
Apartment	Calle Buena Madre, 2, 2º D. Madrid.	17/12/2015
Apartment	Calle Aguja, 12, 4º D. Madrid.	17/12/2015
Apartment	Calle Doctor M. Carriche, 2, 4º Drcha. Madrid.	17/12/2015
Apartment	Calle Josué Lillo, 8, 4ºC. Madrid.	17/12/2015
Apartment	Avenida Cerro Prieto, 16, 4º Centro C. Madrid.	17/12/2015
Apartment & Storage	Calle Oropéndola, nº17, Bajo A. Madrid.	17/12/2015
Apartment	Calle Oropéndola, nº17, 1º A. Madrid.	17/12/2015
Apartment	Calle Oropéndola, nº17, 1º B. Madrid.	17/12/2015
Apartment	Calle Oropéndola, nº17, 2º B. Madrid.	17/12/2015
Apartment & Storage	Calle Oropéndola, nº17, Ático B. Madrid.	17/12/2015
Parking	Calle Oropéndola, nº17 Sótano, nº 3. Madrid.	17/12/2015
Apartment & Storage	Calle Cantueso, nº 43, Bajo A. Madrid.	17/12/2015
Apartment & Storage	Calle Cantueso, nº 43, Bajo B. Madrid.	17/12/2015
Apartment & Storage	Calle Cantueso, nº 43, Bajo C. Madrid.	17/12/2015
Apartment & Storage	Calle Cantueso, nº 43, 1º A. Madrid.	17/12/2015
Apartment & Storage	Calle Cantueso, nº 43, 1º B. Madrid.	17/12/2015
Apartment & Storage	Calle Cantueso, nº 43, 1º C. Madrid.	17/12/2015
Apartment & Storage	Calle Cantueso, nº 43, 2º B. Madrid.	17/12/2015
Apartment & Storage	Calle Cantueso, nº 43, 2º C. Madrid.	17/12/2015
Apartment	Calle Ciudad Jardín del Rosario, 25 1, 3º dcha. Madrid.	18/12/2015
Apartment	Calle Cedros nº 5, 3º D. Madrid.	18/12/2015
Apartment	Calle De Rafaela Ybarra, 37, 3ºA. Madrid.	18/12/2015
Apartment	Calle Huésped del Sevillano, 32, 2, 5º Izquierda. Madrid.	18/12/2015
Apartment	Calle Illescas, 68, 4ºB. Madrid.	18/12/2015
Apartment	Calle Ernestina Manuel de Villena, 4, 2º izquierda. Madrid.	18/12/2015
Apartment	Calle Sahara. 46 1, 4ºB. Madrid.	18/12/2015
Apartment, Parking & Storage	Calle Bariloche, nº 5, Bajo E. Madrid.	19/01/2016
Apartment, Parking & Storage	Calle Bariloche, nº 5, 3º G. Madrid.	19/01/2016

Apartment, Parking & Storage	Calle Bariloche, nº 5, 2º H. Madrid.	19/01/2016
Apartment, Parking & Storage	Calle Bariloche, nº 5, 1º H. Madrid.	19/01/2016
Apartment, Parking & Storage	Calle Bariloche, nº 7, Bajo E. Madrid.	19/01/2016
Apartment, Parking & Storage	Calle Bariloche, nº 7, Bajo F. Madrid.	19/01/2016
Apartment, Parking & Storage	Calle Bariloche, nº 7, 3º G. Madrid.	19/01/2016
Apartment, Parking & Storage	Calle Bariloche, nº 7, 3º H. Madrid.	19/01/2016
Apartment, Parking & Storage	Calle Bariloche, nº 7, 2º G. Madrid.	19/01/2016
Apartment, Parking & Storage	Calle Bariloche, nº 7, 1º G. Madrid.	19/01/2016
Apartment, Parking & Storage	Calle Bariloche, nº 7, 1º H. Madrid.	19/01/2016
Building	Calle Carnicer, nº 20. Madrid.	04/02/2016

Notes to the Annual Consolidated Financial Statements for the year ended 31 December 2017

Appendix I: Investment properties acquired by the Group (continued)

Kind of Asset	Location	Acquisition Date
Building	Calle Brihuega 9. Madrid.	14/04/2016
Apartment	Calle Rioconejos 12, 1° Dcha. Madrid.	21/04/2016
Apartment	Calle Alejandro Morán, 38, 3° B. Madrid.	21/04/2016
Building	Calle Antonia Ruiz Soro 19. Madrid.	18/05/2016
Apartment	Calle Topacio, 3, Centro Bajo Izq. Torrejón de Ardoz.	31/05/2016
Apartment & Storage	Calle Amor Hermoso, 59, 1°B. Madrid.	31/05/2016
Apartment	Calle Sanz Raso,11, 1°A	31/05/2016
Apartment	Calle Algaba, 22, 1°B. Madrid.	31/05/2016
Apartment	Calle Alfonso XII, 8, 3°C. Parla.	31/05/2016
Apartment	Calle Santa Julia, 15, Bajo B. Madrid.	31/05/2016
Apartment	Calle Santa Julia, 15, Bajo C. Madrid.	31/05/2016
Apartment	Calle Santa Julia, 15, Bajo D. Madrid.	31/05/2016
Apartment	Calle Santa Julia, 15, 3°B. Madrid.	31/05/2016
Apartment	Calle Santa Julia, 15, 3°C. Madrid.	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 1, 1°C. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 1, 1°D. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 1, Ático A. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 1, 2°G. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 1, Ático B. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 2, 5°G. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 2, Ático A. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 2, Ático B. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 2, Ático F. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 3, 3°H. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 3, 4°C. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 3, 5°H. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 3, Ático F. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 4, Ático A. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 4, Ático B. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 4, 1°B. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 5, 2°D. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 5, 3°E. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 5, 5°D. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 5, Ático A. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 5, Ático B. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 5, Ático F. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 6, Bajo A. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 6, Bajo B. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 6, 1°E. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 6, 1°D. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 6, 2°C. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 6, 3°E. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 6, 4°E. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 6, 5°A. Madrid	31/05/2016
Apartment & Storage	Calle Vicente Carballal, 4, Portal 6, 5°E. Madrid	31/05/2016
Building	Calle Margaritas, 15. Madrid	22/12/2016
Building	Calle Carrascales 1, Madrid	28/06/2017
Building	Calle Santa Valentina 28, Madrid	20/07/2017

Preparation of the Annual Consolidated Financial Statements at 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Consolidated Director's Report for the year 2017

The Directors of the Company have prepared the Annual Consolidated Financial Statements at 31 December 2017 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which comprise:

- Consolidated Statement of Financial Position
- Consolidated Income Statement
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows
- Notes to Consolidated Financial Statements
- Consolidated Director's Report

Madrid, 22nd February 2018

Fernando Ernesto Acuña Ruiz
(Chairman of the Board of Directors)

Yair Ephrati
(Member of the Board of Directors)

Juan Manuel Soldado Huertas
(Deputy Chairman of the Board of Directors)

Ido Nouberger
(Member of the Board of Directors)

Juan José Nieto Bueso
(Member of the Board of Directors)

Yeshayau Manne
(Member of the Board of Directors)

Íñigo Sánchez del Campo Basagoiti
(Secretary of the Board of Directors)
SECRETARY NON-DIRECTOR

Consolidated Directors' Report for the year 2017

1. Organizational structure and operation

VBARE Iberian Properties SOCIMI, S.A. ("**VBARE**" or the "**Company**") was incorporated in Spain on 5 March 2015, in accordance with the Spanish Corporate Law.

The Company reported on 13 May 2015 to the Tax Administration (*Agencia Tributaria*) its option for the application to the SOCIMI (*Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario*) regime.

On 23 December 2016, VBARE's shares were admitted to trading on the MAB ("*Mercado Alternativo Bursátil*") under the SOCIMIs segment, being the initial issuing value of the shares 12.9 euros per share.

During the year 2017 it has taken place a capital increase obtaining a total of Euro 7,107 Thousand (including share premium). As of 31 December 2017, the issued share capital of the Company is made up of 2,149,264 shares (including the treasury shares), amounting to Euro 10,746 Thousand plus a share premium amounting to Euro 11,720 Thousand.

The market capitalization of the Company as of 31 December 2017 stood at Euro 28,971 Thousand (including the treasury shares value) and its shares are quoted at a value per share of 13.48 euros. As of 31 December 2017 the EPRA Net Asset Value (NAV) of the Company was Euro 29,973 Thousand which derived a value per share of 14.077 euros price (without the treasury shares). As of 31 December 2016 the market capitalization of the Company stood at Euro 20,673 Thousand (including the treasury shares value) and its shares were quoted at a value per share of 12.9 euros.

The Company was established with a clear objective to grow its portfolio and is expecting to continue with this objective by future fund raisings new investors (qualified and institutional). For this purpose the Management of the Company is conducting meetings with institutional investors and investing substantial efforts in order to raise new funds and implement its growth strategy to take advantage of the opportunities that we understand exist for this asset class (residential for rent) and which we expect will continue in the next 3 - 5 years.

The Board of Directors of VBARE, which is composed of 6 members (of which 2 are independent), is conducting its activities in accordance with the rules of corporate governance as stated, mainly, in the By-Laws and in response to the Internal Code of Conduct.

The Company signed a management agreement with VBA Real Estate Asset Management 3000, S.L. (the "Management Company"). Even though, it is the Board of Directors, which ultimately supervises and controls the activities of the Company, with jurisdiction over matters such as the approval of the general policies and strategies of the Company, the policy of corporate governance and corporate social responsibility, the policy of control and management of risks and, in any case, on the fulfillment of the requirements for maintaining the status of SOCIMI of the Company.

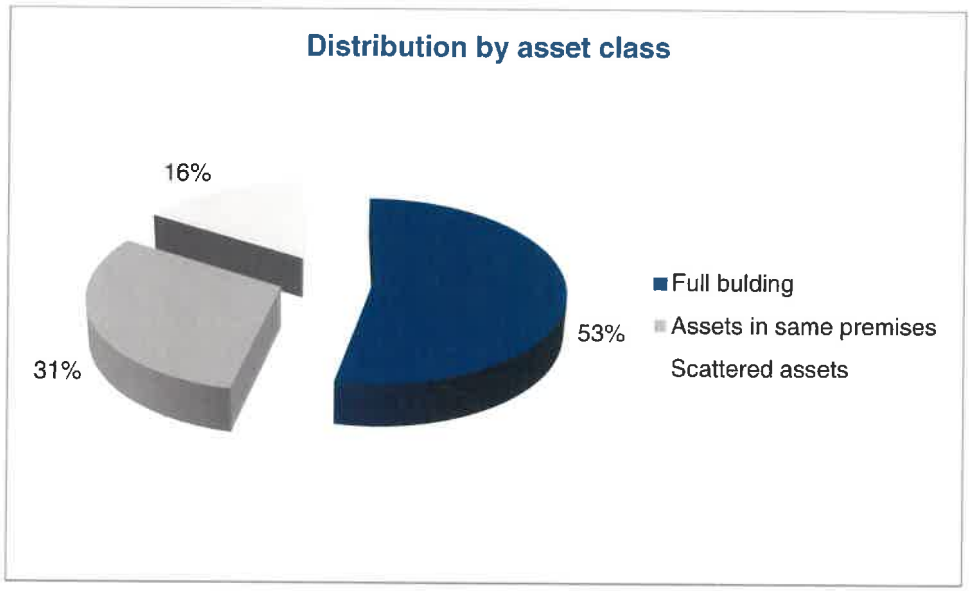
2. Evolution and performance of the business

During financial year ended 31 December 2017 the following significant events took place:

- Acquisition of 15 dwellings concentrated in 2 buildings. The aggregate acquisition price in the financial year 2017 has amounted to Euro 1,360 Thousand. Additionally, on February 21, the Parent Company has signed an exclusive and binding agreement subject to completion of a legal requirement, by which it would acquire 12 dwellings and a commercial premises in the metropolitan area of Madrid for an acquisition cost between Euro 1,000 Thousand and Euro 1,500 Thousand.
- The consolidation of all of the refurbishments of the assets acquired in 2016 and 2017, as well as reaching an occupancy rate of the residential units as of 31 December 2017 of 88.82% of the entire portfolio, which helped to achieve revenues from rental activities in this fiscal year of Euro 1,076 Thousand.
- Obtaining of new financing mortgages on certain assets of the Company in an aggregate nominal amount of Euro 2,195 Thousand. Said mortgages were provided with highly favorable conditions compared to the rest of the market, with an average interest rate of 1.8%, which will contribute to the increase of the initially expected return on the investment. The Company's Loan to Value (LTV) as of 31 December 2017 amounts to 22.5%.

- New funds raising through a capital increase amounting to Euro 7,107 Thousand.

As of 31 December, 2017, the number of assets in the Company's portfolio reaches 197 dwellings and retail units, 28 parking spaces and 61 storage rooms, all of which are located in Madrid city and adjacent cities. The distribution of the portfolio according to the asset class (complete buildings, portfolios of assets scattered and assets in the same complex) is shown in the following chart:

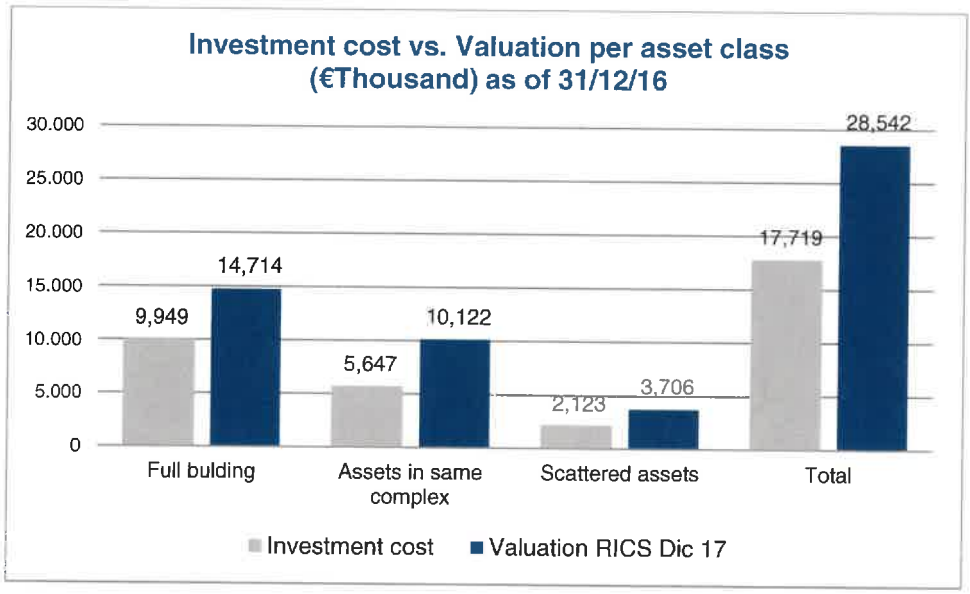


The value of the portfolio as of 31 December 2017 amounts to Euro 28,542 Thousand, which means an average cumulated capital gain of 61% on the Company's total investments (which includes the purchase price, transaction costs, costs of refurbishment and furniture), and a discount of 38% compared to the same variable. The value of the investment properties, in like-for-like basis, compared with the ones of the previous year have increased by 12.7%, mainly as a result of the following factors:

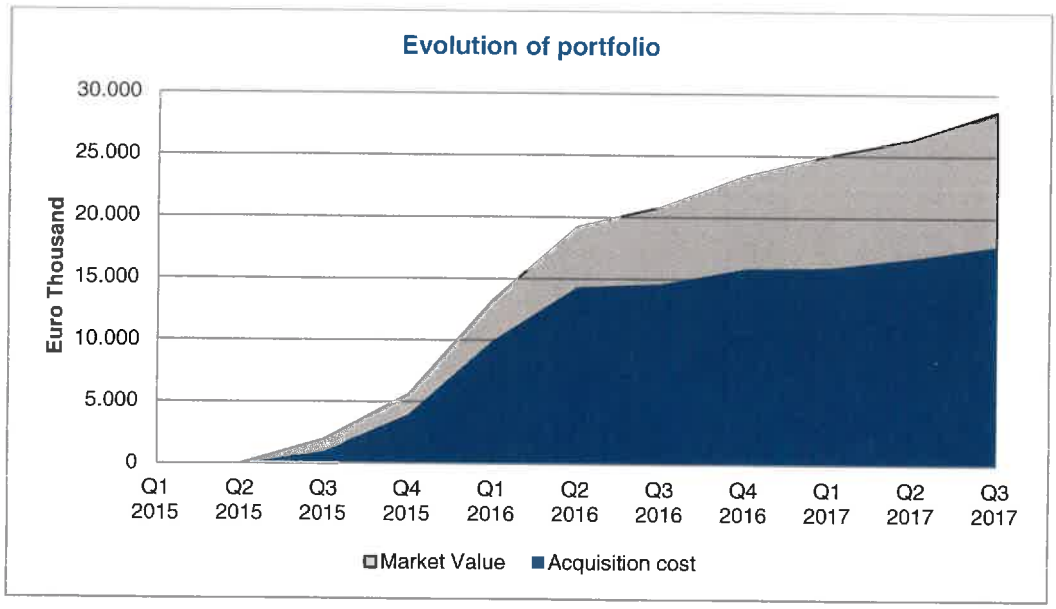
- Completion of the refurbishments which were initiated in 2016 which enabled the Company to start leasing out certain assets.
- The active and efficient management of the Company's investments and monitoring of rental prices, which has led to an average increase of the real rental prices of the units that have been let or re-let for the first time since its acquisition of around 10% in respect to those initially estimated
- An average annual market growth of rental income in the City of Madrid of 7.9% in the year 2017 according to market sources[1].

[1] Idealista

The table below shows the market value of our portfolio as of 31 December 2017 as determined by Aguirre Newman Valoraciones y Tasaciones, S.A.U. (RICS), an independent external appraiser firm, versus the investment type (entire buildings, assets within the same complex or portfolio of scattered assets):



The consolidated profit for the fiscal year of 2017 has amounted to Euro 2,251 Thousand (1.25 euros per share) primarily due to the revaluation of the Company's investment properties, as a result of obtaining an average discount in acquisition price of 38% and also due to the efficient management of the refurbishment and rental prices.



The average occupancy rate as of 31 December 2017 is 88.82%, which is 11% higher than the figure reached as of 31 December 2016.

3. EPRA Information

	31 December 2017	31 December 2016
Company specific Adjusted Earnings	(1,015)	(1,621)
Company specific Adjusted EPS	(0.56)	(1.14)
EPRA Earnings	(1,015)	(1,621)
EPRA Earnings per Share (EPS)	(0.56)	(1.14)
EPRA NAV	29,973	20,882
EPRA NAV per share	14.08	13.25
EPRA NAV	29,973	20,882
EPRA NNNAV per share	14.08	13.25
EPRA NIY (A/B)	3.90%	4.24%
EPRA "topped-up" NIY (C/B)	3.90%	4.24%
EPRA Vacancy Rate	11.18%	22.20%

EPRA Earnings

	31 December 2017	31 December 2016
Earnings per IFRS income statement	2,251	4,284
Adjustments to calculate EPRA Earnings, exclude:		
Changes in value of investment properties, development properties held for investment and other interests	(3,266)	(5,905)
EPRA Earnings	**(1,015)**	**(1,621)**
Basic number of shares	1,798,969	1,417,847
EPRA Earnings per Share (EPS)	**(0.56)**	**(1.14)**
Company specific adjustments:		
Company specific adjustments:	-	-
Company specific Adjusted Earnings	**(1,015)**	**(1,621)**
Basic number of shares	1,798,969	1,417,847
Company specific Adjusted EPS	**(0.56)**	**(1.14)**

EPRA NAV

	31 December 2017	31 December 2016
NAV per the financial statements	**29,973**	**20,882**
Effect of exercise of options, convertibles and other equity interests (diluted basis)	-	-
Diluted NAV, after the exercise of options, convertibles and other equity interests	**29,973**	**20,882**
Exclude:		
Fair value of financial instruments	-	-
Deferred tax	-	-
EPRA NAV	**29,973**	**20,882**
Fully diluted number of shares	2,129,021	1,576,306
EPRA NAV per share	**14.08**	**13.25**

EPRA NNNAV

	31 December 2017	31 December 2016
EPRA NAV	**29,973**	**20,882**
Include:		
Fair value of financial instruments	-	-
Fair value of debt	-	-
Deferred tax	-	-
EPRA NNNAV	**29,973**	**20.882**
Fully diluted number of shares	2,129,021	1,576,306
EPRA NNNAV per share	**14.08**	**13.25**

EPRA Net Initial Yield (NIY) y 'topped-up' NIY

	31 December 2017	31 December 2016
Completed property portfolio	**28,542**	**23.390**
Allowance for estimated purchasers' costs	-	-
Gross up completed property portfolio valuation (B)	**28,542**	**23.390**
Annualised cash passing rental income	1,378	1.223
Property outgoings	(264)	(232)
Annualised net rents (A)	**1,114**	**991**
Add: notional rent expiration of rent free periods or other lease incentives	-	-
Topped-up net annualised rent (C)	**1,114**	**991**
EPRA NIY (A/B)	**3.90%**	**4.24%**
EPRA "topped-up" NIY (C/B)	**3.90%**	**4.24%**

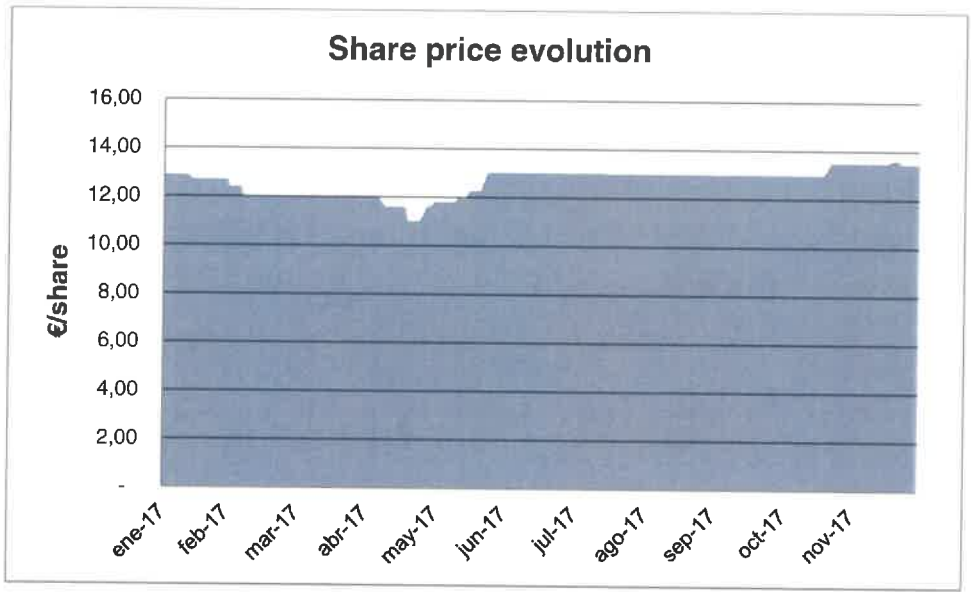
EPRA Vacancy Rate

	31 December 2017	31 December 2016
Estimated Rental Value of vacant space	154	268
Estimated rental value of the whole portfolio	1,377	1,207
EPRA Vacancy Rate	**11.18%**	**22.20%**

4. Evolution of the share and treasury shares

As mentioned above, the shares of the Company have been admitted to trading on MAB SOCIMIs segment since 23 December 2016 with an initial issuing price of 12.9 euros per share.

The evolution of the value of the share during the year 2017 is showed in the following chart:



Throughout the fiscal year 2017, 561,650 shares were negotiated, which implies an average of daily negotiation in that period of 2,292 shares.

As of 31 December 2017, the Company has a total of 20,243 treasury shares handled by the liquidity provider (Renta 4 Banco, S.A.). The treasury shares held by the Company as of 31 December 2017 represent a 0.94% of the total share capital of the Company for that date.

5. Dividend Policy

The SOCIMIs have been regulated by the special tax regime established in the Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, which regulates the investment listed corporations in the real estate market.

SOCIMIs are required to distribute dividends to their shareholders, once the commercial obligations that are applicable, the benefit obtained in the exercise, and agree on its distribution within six months after the conclusion of each exercise, in the following manner:

a) The 100% of the profits from dividends or other shares in profits that were distributed by the entities referred to in paragraph 1 of article 2 of the Law.

b) At least 50% of profits derived from the transfer of real estate and shares or holdings referred to in paragraph 1 of article 2 of the Law, carried out once the periods referred to in paragraph 3 of article 3 of this Law, subject to the fulfillment of its primary object. The rest of these benefits must be reinvested in other estate or interests affections to the fulfillment of that object, within a period of three years from the date of transmission. In his absence, these benefits must be distributed in its entirety in conjunction with the benefits, if any, which come from the year in which ends the period of reinvestment. If the reinvestment object elements are transmitted before the deadline for the maintenance, those benefits must be distributed in its entirety in conjunction with the benefits, as the case may be, the part of these benefits attributable to periods in which the Company will not be taxed by the special tax regime established in this law.

c) At least 80% of the rest of the benefits obtained. The dividend shall be paid within one month of the date of the distribution agreement. When the distribution of dividends with charge to reservations from benefits of an exercise in which it has been applied the special tax regime, its distribution will be taken with the agreement referred to in the previous paragraph. The Company is obliged to allocate 10 per cent of the benefits of exercise to the constitution of the legal reserve, until it reaches the 20% of the capital. This book, as long as it does not exceed the limit of 20% of the social capital, is not available for distribution to shareholders. The statutes of these societies may not establish any other reservation of an unavailable other than the previous one.

As set out in the Prospectus ("*Documento Informativo de Incorporación al Mercado*" or "*DIIM*"), the Company has adopted a dividend policy which consists in the distribution of a dividend (including premium of shares) equal to the greater of the following amounts:

i) The 3% of the annual Consolidated Net Equity; or
ii) The distribution requirements resulting from the application of the SOCIMI Regime.

Dividends will be distributed, provided that sufficient reserves available at that time and within the corporate and tax regime applicable in two payments:

i) Through an interim dividend - initially planned in or around the third quarter of each fiscal year- ; and
ii) A supplementary dividend approved by the General Shareholders Meeting.

The obligation to distribute dividends described in this section shall conform at all times to the legislation in force and is only active in the situation in which the Company has record profits. However, if the Company does not generate sufficient benefits, for the Board of Directors to propose a dividend, the possibility of distributing available reserves such as the share premium will be assessed.

The General Shareholders' Meeting of the Parent Company held on December 12, 2017, at the proposal of the Board of Directors of the Company, approved the distribution of share premium among the shareholders in proportion to their stake in the share capital of the Parent Company having delegated to the Board of Directors the execution of said agreement as well as of the determination of the date of payment and amount of the share premium to be distributed.

The Board of Directors of the Company intends to propose the distribution of the share premium reserve in an amount equivalent to 3% of the annual consolidated net equity until the Parent presents positive distributable results. This annual amount will be paid in two instalments corresponding to 1.5% each, the first during the third quarter and the second after the approval of the annual accounts of the Company.

On December 20, 2017, the Board of Directors agreed to carry out a share premium distribution by virtue of the delegation made by the General Shareholders' Meeting. The amount to be distributed amounted to € 319 thousand (€ 0.15 per share), the payment having been made effective on December 27, 2017. This distribution represents 1.52% of the consolidated net equity as of December 31, 2016.

6. Average payment period to suppliers

The detail of the payments by commercial operations carried out during the fiscal year and outstanding at the end of the consolidated statement of financial position in relation to the legal time limits provided for in the Law 15/2010, as amended by Law 31/2014, is the following:

	2017	2016
	Days	
Average payment period to suppliers	29	17
Settled payments ratio	29	3
Outstanding payments ratio	21	22
	Amount (Euro Thousand)	
Total payments made	3,444	2,235
Total outstanding payments	78	95

7. The team

The team of professionals that make up VBARE constitutes one of the main strengths of the Company. Since its incorporation, has selected the personnel needed to develop its strategy and achieve its objectives. VBARE is a Real Estate Investment Group externally managed by the Management Company. The Management Company works exclusively - and with full dedication - for the Group. It is made up of specialized professionals with extensive experience and proven track record in real estate, financial, valuation, asset management, capital markets and with a deep knowledge of the market.

This expert group of professionals is capable of dealing with investment operations of great complexity in short periods of time and carried out in a comprehensive manner throughout the process of value creation: from the identification of the investment until the active management and potential rotation of the asset. The Company is supervised by a Board of Directors consisting of 6 directors including 2 independent and a Chief Executive Officer, together with competencies in the real estate industry, in the field of valuation, regulatory, financial and legal.

In addition the group has its own staff that ensures the day-to-day operations of the portfolio of investment properties, which include financial control functions and operations, property management, commercialization and project management.

8. Risk Management

VBARE has established a system of control of risks covered by their activity and is suitable for the Company's risk profile. These policies are supervised by the Board of Directors.

The risk control also includes the management of financial risk. Policies to cover each type of risk are detailed in the accompanying Notes to the Consolidated Financial Statements.

9. Activities in the field of research and development

The Group has not carried out activities in the field of research and development in the year 2017.

10. Circumstances that have arisen after the close of the financial year

On 29 January 2018 it was signed a mortgage loan arranged with the financial institution Banco de Crédito Cooperativo amounting to a nominal amount of Euro 676 Thousand, mortgaging a scattered assets portfolio of fifteen apartments located in Madrid municipality. This loan matures in 15 years and bears a fixed interest rate of 2% during the first three years and afterwards until expiration of Euribor 12m + 2%

Additionally, on 31 January 2018 it was signed two mortgage loans arranged with the financial institution Banco Sabadell amounting to a total nominal amount of Euro 816 Thousand, mortgaging the properties located in streets Santa Valentina nº 28 and Carrascales nº1, both located in Madrid municipality. These two loans mature in 12 years bearing a fixed interest rate of 1.8%.

On 21 February 2018, the Parent Company has signed an exclusive and binding agreement subject to completion of legal requirements, by which it would acquire 12 dwellings and a commercial premises in the metropolitan area of Madrid for an acquisition cost between Euro 1,000 Thousand and Euro 1,500 Thousand.

On 22 February 2018, the same date when these Consolidated Financial Statements have been drawn-up, the Board of Directors of the Parent Company has adopted, among other agreements, the approval of the Reduced Prospectus Document (DAR) to be submitted to the Alternative Investment Market (MAB) needed to make a capital increase including a share premium by using the delegated faculty conferred by the General Shareholder Meeting held on 12 December 2017. It has been stated that there is the possibility that such capital increase will not be fully subscribed. The final amount of the capital increase will be determined in a subsequent Board of Directors.

According to the Parent Company's Directors, no other facts or circumstances occurred after the year ended 31 December 2017 have come to their attention which may have significant impact on these Consolidated Financial Statement.

11. Prospects for the 2018 financial year

After a 2017 characterized by the consolidation of the housing recovery, 2018 will be a key year for this sector in Spain and particularly for the Company.

The rental housing market has become attractive to a growing part of the demand, not only because of the difficulty to access the property, but also because of the structural changes that are taking place at a socio-demographic level where new generations are searching for more flexibility from a geographical, labor and financial perspective. The imbalance between supply and demand has caused a significant rise

in the rental price, especially in large cities such as Madrid and Barcelona. However, the rental market still represents a minor portion in Spain compared to other countries, and therefore there is a strong potential for the growth of this market.

The positive evolution in the rental housing market has made it possible to consolidate the residential segment as an asset class for long term investors. The increase in demand and the rebound of rents are generating attractive returns, higher than other alternative investments. All this has generated a significant growth in the volume of residential real estate investments, as shown by the appearance of players specialized in investing and managing rental housing assets.

This increased competition, together with the shortage of product, are the main challenges that the Company will have to face during 2018. In this sense, the Company is well positioned to compete successfully in this environment, thanks to its extensive experience, solid team, deep knowledge of the market and strong financial capacity.

In fiscal year 2018 we will continue our strategy of creating value for our shareholders by improving the profitability of the existing portfolio, as well as the acquisition of new assets at attractive prices, with strong potential rent increase and value in the medium term. For this purpose we are currently reviewing several investment opportunities both in Madrid and in other Spanish cities and we intend to raise new funds among Spanish and international investors to take advantage of the positive market momentum.