

UBS-EVA

Annual Report and Accounts 2017

UBS (Lux) Euro Value Added Real Estate Fund (in liquidation)

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Senior Portfolio Manager's Report

Liquidation update

The liquidation of the Fund's structure remains ongoing, with one former property-holding SPV, VA No1 (Montefeltro) S.r.l. (Montefeltro) and VA No1 Holdco S.A (Holdco) remaining alongside the Fund's FCP. The liquidation of Montefeltro is expected to be completed in 2Q18 with the last withholding tax liability, as described below, having been paid in 1Q18. This liability has been accrued in the Fund's accounts since the end of 2016. A further tax issue arose due to a tax audit taking place following the liquidation of the VA No1 Lux (Munich) SA (Munich) company.

Further details of how we have resolved this issue are also described below:

An advance on liquidation proceeds was made on December 15, 2017 for EUR 0.12 per unit, with the remainder of the investment to be returned upon the final liquidation of the Fund, which is expected to be in the first half of 2018.

We have now been able to resolve all remaining issues so the orderly liquidation of the Fund structure can be completed. Consequently the actions we have taken in respect of the Italian (Montefeltro) withholding tax (WHT) and the German (Munich) audit issues we believe to be in the best interest of all Unitholders.

Summary of Italian withholding tax issues

Montefeltro has been unable to make internal interest payments during the period the Italian property was held, due to both vacancy and incurred capex. Therefore EUR 6.1 million of interest on its intercompany loans has been accrued.

In Italy, unlike other European countries, accrued interest is subject to WHT at a current rate of 26%. The WHT is due regardless of whether the interest amounts are being paid or waived, as would be the case now when liquidating Montefeltro. The amounts could be waived without payment of the withholding tax only if Montefeltro were to be maintained for an additional five years (statute of limitation), and if Montefeltro was not selected to be audited (a risk which would be deemed low according to the Fund's Italian tax advisers).

Due to an ongoing proceeding for a comparable mandate, we know that the Italian tax authorities take the position that the domestic WHT rate should apply on similar structures. Any reduction in WHT rates would be through an applicable treaty or Parent/Subsidiary Directive, which would require the beneficial ownership of the interest at the level of the lender, which cannot be defended in this fund structure.

Given both the Fund's and Montefeltro's ongoing liquidation, and based on the knowledge of the position taken by Italian tax authorities in similar cases and that Italian tax authorities would have up to five years to appeal a tax position by Montefeltro, we have concluded that the only realistic option to be able to finalize the liquidation of the Fund in an expedient manner was to pay the full 26% WHT (i.e. approximately EUR 1.6 million) on the interest accrued by Montefeltro.

Should another option, involving either a lower WHT rate or keeping the accrued interest in the books, have been chosen (without guarantee of a successful outcome), the Fund would have needed to be maintained for an estimated five additional years at an operational cost of up to EUR 1 million, with Unitholders unable to be released from their investment in the Fund and effectively postponing the liquidation. Due to the current status of the Fund, which no longer holds any properties, we believe that this is an excessive length of time.

Summary of German (Munich) tax audit issue

In 2016 a German tax audit was started on Munich, focusing on the interest rates charged on intercompany loans. During the audit, the tax inspector adopted a very strong approach on what is an acceptable level of interest – something which we believed not to be in the best interest of Unitholders since the tax rates proposed were lower than the external debt in place on the property. In order to defend our position, a full transfer pricing study was undertaken, providing a clear and convincing case that supported the interest rates used. Despite this, the tax inspector did not revise his views. We also ensured that the potential worst-case tax liability had been accrued in the Fund's accounts.

Senior Portfolio Manager's Report (continued)

In the meantime, the Fund's German tax adviser was involved in a court case that covered a very similar situation, which in the end was decided in favor of the taxpayer, thus supporting Munich's case. The Fund's tax adviser informed the tax auditor accordingly and held a follow-up meeting in the last week of November 2017 to discuss this case and how it impacted on the current audit of the Munich entity.

The audit was unfortunately initiated after liquidation of the Munich entity, which limited the Fund in its actions in this respect. We believed that accepting the outcome of the audit was not in the best interest of Unitholders; however, without a legal entity the Fund would not have been able to take this case to court. We considered reinstating the company should this have been necessary; but, this is not possible

from a Luxembourg legal perspective. Furthermore, any court case would have added a further one to two years onto the liquidation of the Fund, with the costs of maintaining the structure further impacting the Fund with no guarantee of a successful outcome.

Following the last discussions with the German tax authorities, a more favorable outcome for Unitholders was reached, reducing the tax burden currently accrued in the Fund's NAV. There was a risk that should we not have agreed to the reduced taxable amount, the case could have been taken on by another auditor who would in all probability have adopted the same views as the original auditor. The tax liability has therefore now been paid and the case has been closed.

UBS (Lux) Euro Value Added
Real Estate Fund (in liquidation)

Fonds Commun de Placement
Audited Consolidated Financial Statements
for the year ended December 31, 2017

Audited Consolidated Financial Statements

For the year ended December 31, 2017
UBS (Lux) Euro Value Added Real Estate Fund (in liquidation)

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Management and Administration of the Fund

Management Company (acting as liquidator)

UBS VA No.1 Fund Management Company S.à r.l.
33A, avenue J.F. Kennedy
1855 Luxembourg
Luxembourg

Real Estate Manager

UBS Asset Management (UK) Ltd.
5 Broadgate
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Custodian

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Luxembourg

Auditor

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B.P. 1443
1014 Luxembourg
Luxembourg

Tax Advisor

PricewaterhouseCoopers Société coopérative
2, rue Gerhard Mercator
B.P. 1443
1014 Luxembourg
Luxembourg

Legal Advisors

Hogan Lovells (Luxembourg) LLP
52, boulevard Marcel Cahen
1311 Luxembourg
Luxembourg

Administrative Agent, Registrar, Transfer Agent and Paying Agent

Brown Brothers Harriman (Luxembourg) S.C.A.
Aire building
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1470 Luxembourg
Luxembourg

Domiciliation Agent

UBS Fund Services (Luxembourg) S.A.
33A, avenue J.F. Kennedy
1855 Luxembourg
Luxembourg



Audit report

To the Unitholders of
UBS (Lux) Euro Value Added Real Estate Fund, FCP-SIF (in liquidation)

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of UBS (Lux) Euro Value Added Real Estate Fund, FCP-SIF (in liquidation) (the “Fund”) and its subsidiaries as at 31 December 2017, and of the results of its consolidated operations and changes in its net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the consolidated financial statements.

What we have audited

The Fund’s consolidated financial statements comprise:

- the consolidated statement of net assets as at 31 December 2017;
- the consolidated statement of operations for the year ended 31 December 2017;
- the consolidated statement of cash flow for the year ended 31 December 2017;
- the consolidated statement of changes in net assets for the year ended 31 December 2017;
- the consolidated statement of changes in Units in Issue for the year ended 31 December 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of July 23, 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the “Commission de Surveillance du Secteur Financier” (CSSF). Our responsibilities under those Law and standards are further described in the “Responsibilities of the “Réviseur d’entreprises agréé” for the audit of the consolidated financial statements” section of our report.

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

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

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Other information

The Board of Directors of the Management Company is responsible for the other information. The other information comprises the information stated in the Annual report but does not include the consolidated financial statements and our audit report thereon.

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

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

Responsibilities of the Board of Directors of the Management Company for the consolidated financial statements

The Board of Directors of the Management Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the consolidated financial statements, and for such internal control as the Board of Directors of the Management Company determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors of the Management Company is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of the Management Company either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit 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 the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 13 April 2018

A handwritten signature in blue ink, appearing to read 'Kenneth Kai Siong Iek', written over a light blue circular stamp.

Kenneth Kai Siong Iek

Audited Consolidated Statement of Net Assets

As at December 31, 2017

UBS (Lux) Euro Value Added Real Estate Fund (in liquidation)

	Notes	As at Dec 31, 2017 EUR '000	As at Dec 31, 2016 EUR '000
Assets			
Non-current assets			
Real estate investment properties		–	–
Current assets			
Cash and cash equivalents	3	10,903	13,952
Accounts receivable	4	477	2,320
Total assets		11,380	16,272
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	5	410	469
Taxation		2,025	1,560
Total liabilities		2,435	2,029
Total net assets		8,945	14,243
Unitholders' equity			
Capital calls subscribed	6	262,550	262,550
Less: Capital distribution paid	7	(162,657)	(158,182)
Less: Income distribution paid	7	(32,553)	(32,553)
Retained Earnings – Operating loss		(10,885)	(7,723)
Retained Earnings – Realized loss		(46,317)	(59,479)
Retained Earnings – Unrealized gain/(loss)		(370)	14,980
Loss for the year		(867)	(3,162)
Unrealized gain/(loss)		–	(15,350)
Realized gain/(loss)		44	13,162
Total Unitholders' equity		8,945	14,243
Units in issue and net asset value per unit:			
Class A units		37,294,031	37,294,031
Net Asset Value per unit		EUR 0.24	EUR 0.38

The accompanying notes on pages 16 to 22 form an integral part of these Audited Consolidated Financial Statements.

Audited Consolidated Statement of Operations

For the year ended December 31, 2017

UBS (Lux) Euro Value Added Real Estate Fund (in liquidation)

	Notes	Year ended Dec 31, 2017 EUR '000	Year ended Dec 31, 2016 EUR '000
Income			
Rental income		–	2
Other property related income		–	9
Interest income		149	163
Total income		149	174
Expenses			
Direct property expenditure		–	140
Direct property taxation		–	20
Property valuation fees		–	(3)
Management fees	8	–	–
Custodian fees	9	40	44
General and administrative expenses	10	223	462
Bank interest		41	29
Legal and professional fees	11	146	101
Total expenses		450	793
Net operating loss before taxation		(301)	(619)
Taxation		(566)	(2,543)
Net operating loss after taxation		(867)	(3,162)
Unrealized gain/(loss)			
Change in net unrealized gain/(loss) on real estate investment properties		–	(15,350)
Total unrealized gain/(loss) for the period		–	(15,350)
Disposal of investment properties			
Proceeds from sale of real estate investment property	12	44	53,970
Carrying value of real estate investment property sold		–	(40,808)
Total net realized gain/(loss) on disposal of investment properties		44	13,162
Total net realized gain/(loss)		44	13,162
Net gain/(loss) of the year		(823)	(5,350)

The accompanying notes on pages 16 to 22 form an integral part of these Audited Consolidated Financial Statements.

Audited Consolidated Statement of Cash Flows

For the year ended December 31, 2017

UBS (Lux) Euro Value Added Real Estate Fund (in liquidation)

	Year ended Dec 31, 2017 EUR '000	Year ended Dec 31, 2016 EUR '000
Cash flows from operating activities		
Net gain/(loss) for the year	(823)	(5,350)
Adjustment for:		
Taxation	566	2,543
Finance costs	41	29
(Gain)/loss on disposal of investment properties	(44)	(13,162)
Net unrealized (gain)/loss on fair value of real estate investment properties	–	15,350
Movements in working capital		
(Increase)/decrease in trade and other receivables	4	(69)
(Increase)/decrease in other assets	1,838	208
(Increase)/decrease in accounts payable and accrued expenses	(76)	(2,779)
Increase/(decrease) in deferred income and charges	8	120
Increase/(decrease) in other current liabilities	10	(26)
Cash generated used in operations	1,524	(3,136)
Interest paid	(41)	(29)
Income taxes paid	(101)	(198)
Net cash generated used in operating activities	1,382	(3,363)
Cash flows from investing activities		
Capital expenditure on real estate investment properties	–	(1,867)
Proceeds from disposal of real estate investment properties	44	53,713
Net cash generated from investing activities	44	51,846
Cash flows from financing activities		
Repayment of borrowings	–	–
Dividends paid to Unitholders	(4,475)	(45,126)
Net cash used in financing activities	(4,475)	(45,126)
Net increase/(decrease) in cash and cash equivalents	(3,049)	3,357
Cash and cash equivalents at the beginning of the year	13,952	10,596
Cash and cash equivalents at the end of the year	10,903	13,952

The accompanying notes on pages 16 to 22 form an integral part of these Audited Consolidated Financial Statements.

Audited Consolidated Statement of Changes in Net Assets

For the year ended December 31, 2017
UBS (Lux) Euro Value Added Real Estate Fund (in liquidation)

	Notes	Year ended Dec 31, 2017 EUR '000	Year ended Dec 31, 2016 EUR '000
Net assets at the beginning of the year		14,243	64,719
Net increase/(decrease) in net assets resulting from operations			
Net operating loss		(867)	(3,162)
Change in net unrealized gain/(loss) on real estate investment properties		–	(15,350)
Net realized gain/(loss) on real estate investment properties	12	44	13,162
Total net increase/(decrease) in net assets resulting from operations		(823)	(5,350)
Net decrease in net assets resulting from capital transactions			
Capital contributions: Class A units and Class B units	6	–	–
Income distribution paid: Class A units	7	–	–
Capital distribution paid: Class A units	7	(4,475)	(45,126)
Total net decrease in net assets resulting from capital transactions		(4,475)	(45,126)
Total net assets at the end of the year		8,945	14,243

The accompanying notes on pages 16 to 22 form an integral part of these Audited Consolidated Financial Statements.

Audited Statement of Changes in Units in Issue

For the year ended December 31, 2017

UBS (Lux) Euro Value Added Real Estate Fund (in liquidation)

	Number of units at the beginning of the year	Number of units subscribed over the year	Number of units redeemed during the year	Total number of units at the end of the year
Class A units	37,294,031	–	–	37,294,031
Class B units	10	–	–	10
Total	37,294,041	–	–	37,294,041

Statistical Information

As at December 31, 2017

	Total net assets at the end of the year EUR	Total units in issue	Net asset value per unit at the end of the year EUR	Distribution payable per unit EUR
Class A units	8,945,217	37,294,031	0.24	–
Class B units	–	10	–	–
Total	8,945,217	37,294,041		

Total net asset value

	Dec 31, 2017 EUR	Dec 31, 2016 EUR	Dec 31, 2015 EUR
Class A units	8,945,271	14,243,173	64,718,636
Total	8,945,271	14,243,173	64,718,636

Total net asset value per unit

	Dec 31, 2017 EUR	Dec 31, 2016 EUR	Dec 31, 2015 EUR
Class A units	0.24	0.38	1.74

The accompanying notes on pages 16 to 22 form an integral part of these Audited Consolidated Financial Statements.

Notes to the Audited Consolidated Financial Statements

For the year ended December 31, 2017
UBS (Lux) Euro Value Added Real Estate Fund (in liquidation)

1. Organization

The UBS (Lux) Euro Value Added Real Estate Fund (in liquidation since August 31, 2014) (the "Fund") is a mutual investment fund organized as a Fonds Commun de Placement under the laws of the Grand-Duchy of Luxembourg, for a limited period of time.

The registered office of the Fund is located at 33A, avenue J.F. Kennedy, 1855 Luxembourg City, Luxembourg. The Fund's financial year begins on January 1 and closes on December 31, and the Fund's accounts are prepared in euro (EUR).

The Fund's assets are held in common by and managed in the interest of its co-owners (the "Unitholders") by UBS VA No 1 Fund Management Company S.à r.l., (the "Management Company"). The Fund was incorporated on December 8, 2004 under the law of July 19, 1991 dealing with undertakings for collective investment, the securities of which are not intended to be placed with the public. From February 13, 2007, the law of July 19, 1991 has been replaced by the Special Investment Fund Law.

On August 31, 2014, the Fund expired in accordance with article 22.2 of its management regulations dated November 1, 2009 and the terms of its private placement memorandum dated November 2006, completed with an addendum on September 1, 2009. As a consequence the Fund automatically entered into liquidation on August 31, 2014. In accordance with article 49 (1) of the February 13, 2007 law on specialized investment funds, UBS VA No1 Fund Management Company S.à.r.l. has been appointed as the Fund's liquidator.

The Management Company has the exclusive right to manage the Fund and is vested with broad powers to administer and manage the Fund in the name of and on behalf of the Unitholders, subject to the rules and regulations set out in the Management Regulations.

The Fund invests in real estate properties located in the eurozone. The Fund may take any measures and carry out any transaction which it may deem useful for the fulfilment and development of its purposes to the largest extent permitted under the law of February 13, 2007 on specialized investment Funds.

The Audited Consolidated Financial Statements of the Fund were authorized for issuance by the Board of Directors on March 22, 2018.

2. Summary of significant accounting principles

The Audited Consolidated Financial Statements of the Fund are presented in euro, and all values are rounded to the nearest thousand (EUR '000) except where otherwise indicated.

These Audited Consolidated Financial Statements are presented for the year ended December 31, 2017 and prepared in accordance with Luxembourg legal and regulatory requirements applicable to investment funds.

The preparation of the Audited Consolidated Financial Statements in accordance with Luxembourg legal and regulatory requirements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the Audited Consolidated Financial Statements and reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Reclassification of prior year figures

Where necessary, certain prior year figures in the Audited Consolidated Financial Statements have been regrouped/reclassified, to conform to changes to the current year's presentation for comparative purposes.

The significant accounting principles applied by the Fund are as follows:

Basis of accounting

Principles of consolidation

The Audited Consolidated Financial Statements include all activities of the Fund and its direct subsidiaries (together the "Group") for the year ended December 31, 2017. The financial statements of the Fund and those of its subsidiaries are prepared for the same reporting year.

Notes to the Audited Consolidated Financial Statements (continued)

For the year ended December 31, 2017
UBS (Lux) Euro Value Added Real Estate Fund (in liquidation)

Basis of accounting (continued)

Subsidiary companies

Subsidiaries are defined as entities in which the Group, directly or indirectly, has a controlling interest and are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The accounting principles of the Group may differ from those applied in other countries. Where necessary, the accounts of the underlying entities have been adjusted or reclassified on consolidation to be consistent with the accounting principles of the Group.

The cost of investment in a subsidiary is eliminated against the Group's share in the net assets at the date of acquisition or contribution. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill is amortised over five years, unless it is impaired and therefore expensed to the Audited Consolidated Statement of Operations. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Intercompany transactions, balances, and unrealized gains on transactions between group companies are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

A list of consolidated entities is included in Note 14.

Real estate investment properties

Investment in real estate comprises investment in land and buildings and is initially recorded at cost including acquisition costs such as transfer taxes, stamp duty and legal fees. Expenditure on renovation and similar type development of investment properties expected to result in future economic benefit, is also initially capitalized within cost. Real estate investment properties are re-valued to Open Market Value ("OMV"), as determined by third party independent evaluators.

The OMV is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, but it is not intended to represent the liquidation value of the property, which would be dependent upon the price negotiated at the time of sale less any associated selling costs. In order to reflect that the Fund is in liquidation, a provision has been made in the Audited Consolidated Financial Statements to reflect the potential sales costs of each asset. The OMV is largely based on estimates using real estate appraisal techniques and other valuation methods as outlined below. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

The evaluators derive the OMV by applying the methodology and valuation guidelines as set out by the Royal Institution of Chartered Surveyors.

The gain or loss arising from a change in the OMV of the investment properties is included in the Audited Consolidated Statement of Operations in the year in which it arises under "Net unrealized gain/(loss) on real estate investment properties".

Realized gains and losses on the disposal of real estate investment properties are included in the Audited Consolidated Statement of Operations in the year in which it arises under "Total realized gain/(loss) on disposal of real estate investment properties".

For the purposes of these financial statements, the carrying amount of any asset resulting from the treatment of lease incentives and/or minimum lease payments will not be recognized in addition to the fair market value of the relevant property but will be reserved and charged against the unrealized gain or loss on the asset concerned.

Acquisitions and disposals are recognized in the year in which an unconditional and irrevocable contract is executed. Where transactions have been initiated and then do not proceed, the costs incurred are charged to the Audited Consolidated Statement of Operations.

Basis of accounting (continued)

Formation costs

Fund formation costs

Formation costs consist of the costs incurred in the initial set-up of the Fund. Formation costs are amortized on a straight-line basis over a five-year period from the date of inception of the Fund and the amortization is charged through to the Audited Consolidated Statement of Operations under "Amortization of formation costs".

SPV establishment costs

These costs include capital duty, registry and notary fees and legal fees incurred in the start up and arrangement of the Special Purpose Vehicles ("SPV") within the equity structure of the Group, as well as fees incurred in increasing the share capital or share premium of the SPV. The costs are amortized over five years from the date of purchase of the share capital to which the costs relate. The amortization is charged through to the Audited Consolidated Statement of Operations under "Amortization of formation costs".

Formation costs have been fully written-off as the Fund entered into liquidation.

Accounts receivable

Accounts receivable are stated at nominal values less provisions for doubtful debts, if any. Recoverability of receivables relating to the rental income are assessed on a tenant-by-tenant basis throughout the year.

Cash and cash equivalents

Cash includes cash-in-hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash.

Deferred debt financing costs

These include deferred debt financing costs such as loan arrangement fees, utilization fees and legal fees paid to agents and advisers. They do not include internal administrative costs. These costs are capitalized and amortized over the period of the related debt.

Taxation

The Fund and its subsidiaries are subject to taxation in the countries in which they operate. Current taxation is provided for at the applicable current rates on the respective taxable profits.

Significant judgement is required in determining the total provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded such differences will impact the income tax provision in the period in which the determination is made.

The Fund is subject to an annual subscription tax amounting to 0.01% per annum based on the net asset value at the end of each quarter.

Deferred income tax

Deferred income tax liabilities are provided in full, on temporary differences arising between the tax bases of liabilities and their carrying amounts in the Audited Consolidated Financial Statements for real estate investment properties where the Management Company believes the exit strategy is an asset disposal. Deferred income tax liabilities are determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred income tax liability is settled.

Provision for latent capital gain taxes relates to investments where the exit strategy is anticipated to be a disposal of shares in the relevant entity instead of an asset disposal. As actual deferred taxes may not arise on the disposal of shares, this provision is based on management estimates and view of market conditions of the probable amount that may affect eventual negotiated proceeds from the disposal of shares of the relevant entity.

Notes to the Audited Consolidated Financial Statements (continued)

For the year ended December 31, 2017
UBS (Lux) Euro Value Added Real Estate Fund (in liquidation)

Basis of accounting (continued)

Provisions and expense accruals

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and 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 reviewed at each balance sheet date and adjusted to reflect the current best estimate.

As the Fund entered into liquidation, additional provisions and accruals have been recognized.

Deferred income

Deferred income represents rental income which has been billed to customers as at the balance sheet date but which relates to future periods.

Interest rate derivatives

Interest rate derivatives are recorded at their trade dates. They are fair valued and the fair valuation is based on the present value of the sum of its anticipated future cash flows. The unrealized gains or losses resulting from changes in fair values are recorded on the Audited Consolidated Statement of Net Assets and under "Change in net unrealized gain/(loss) on interest rate derivatives" in the Audited Consolidated Statement of Operations.

Distributions to Unitholders

Distributions are recognized in the Audited Consolidated Financial Statements when the Management Company has approved the proposed distribution.

Revenue recognition – rental income

The Group leases its buildings to tenants under agreements classified as operating leases.

Rental income, together with any related rental incentives, represents rents charged to tenants and is recognized net of value-added tax on a straight-line basis over the term of the lease. The lease incentives under this method may result in an accrual item recorded in the balance sheet. Where the accrual item is also already included within the value of a real estate investment property, it is reduced by an adjustment under "Change in the net unrealized gain/(loss) on real estate investment properties" in the Audited Consolidated Statement of Operations.

Revenue recognition – other property related income

In addition to rent, tenants may be charged for the operating costs of the buildings they occupy. These service charges are used to cover the operational costs incurred on the building for the related year. Accordingly, this income is matched with the operational costs on an accrual basis with any over or under recovery being refunded/charged to the tenants. The service charge costs are disclosed under "Direct property expenditure" in the Audited Consolidated Statement of Operations.

Expense recognition

Expenses are accounted for on an accrual basis. Expenses are charged to the Audited Consolidated Statement of Operations. Those incurred in the acquisition of an investment are capitalized as part of the cost of the investment. Expenses arising on the disposal of investments are deducted from the disposal proceeds. Leasing commissions incurred in the negotiating a new or renewed operating lease are either expensed as incurred through the Audited Consolidated Income Statements or amortized throughout the length of the lease.

Bank interest

The bank interest relates to interest paid and payable on custody expenses.

Subsequent events

Post-year end events that provide additional information and evidence of conditions about the Group's position at the balance sheet date are reflected in the Audited Consolidated Financial Statements. Post-year end events that are not adjusting events are disclosed in the Notes when significant.

Contingencies

Contingencies are not recognized in the Audited Consolidated Financial Statements. They are disclosed unless the possibility and outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the Audited Consolidated Financial Statements but disclosed when an inflow of economic benefits is probable.

3. Cash and cash equivalents

	As at Dec 31, 2017 EUR '000	As at Dec 31, 2016 EUR '000
Cash at bank	6,015	10,121
Short-term deposits	4,888	3,831
Total cash and cash equivalents	10,903	13,952

4. Accounts receivable

	As at Dec 31, 2017 EUR '000	As at Dec 31, 2016 EUR '000
Value added tax recoverable	447	291
Operating accounts receivable	30	2,029
Total accounts receivable	477	2,320

5. Accounts payable and accrued expenses

	As at Dec 31, 2017 EUR '000	As at Dec 31, 2016 EUR '000
Operating accounts payable	410	469
Total accounts payable and accrued expenses	410	469

6. Unitholders' equity

Participations in the Fund are divided into two classes of units; Class A and Class B units. Units represent a Unitholder's proportionate undivided interest in the Fund and, accordingly, an undivided share of all the assets held by or on behalf of the Fund and any income arising therefrom. No unit shall have preference or priority over another. Each unit confers the right to one vote at any meeting of unitholders and to participate, pro-rata, in any distributions by the Fund and, in the event of termination of the Fund, in the net assets of the Fund remaining after satisfaction of all liabilities.

By the August 31, 2009, the Fund had received irrevocable subscriptions for 37,289,999 Class A units at a price of EUR 10.00 per unit, representing a total private offering of EUR 372,899,990. As of September 1, 2009 the new capital commitment price was reduced to EUR 7.44 per unit, representing a total private offering of EUR 277,264,184. At the start of 2010, the Fund accepted a new subscription of 4,032 Class A units, increasing the number of units in the Fund to 37,294,031 units and the total commitment to EUR 277,294,184. As at August 31, 2012, the Fund reached the end of its extended acquisition period, thereby releasing all undrawn commitments.

The Fund issued 10 Class B units with a nominal value of EUR 1.00 per unit to UBS AG when the Fund was first launched, to preserve certain voting rights for UBS AG on material issues.

The amount called per unit as at December 31, 2017 amounted to EUR 7.04.

Notes to the Audited Consolidated Financial Statements (continued)

For the year ended December 31, 2017
UBS (Lux) Euro Value Added Real Estate Fund (in liquidation)

7. Distribution payable

During the year an advance on the liquidation proceeds for the amount of EUR 4,475,283,72 was paid to Unitholders on the December 15, 2017.

8. Management and performance fees

Management fees

On each Valuation day, the Group will pay the Management Company or its designee an annual base Management Fee quarterly in arrears equal to 75 basis points per annum of the gross asset value of the Fund. Such Management Fee shall be subject to a maximum of 150 basis points per annum on the NAV of the Fund. Due to the Fund reaching the end of its 12-month liquidation period, no minimum fee requirements will be charged.

As at December 31, 2015 the Fund's the liquidation process was extended and therefore an additional accrual until the year's end 2015 for management fees was included.

The management fee accrual for Jan 1, 2016 until the completion of liquidation has been based on two elements:

1) Liquidation of the Fund structure – the fixed element

A fixed fee of EUR 250.000 has been charged to Unitholders over the course of the Fund's remaining lifespan, ensuring a timely liquidation of the Fund's structure.

2) Managing the redevelopment program – the pro-rata element

EUR 1.5 Million had been placed on escrow, with monies now paid in full to the Management Company – UBS VA No1 Fund Management Company S.à r.l. – as all milestones have been met on the sale of Les Saisons.

As at December 31, 2017, these management fees did not, in any case, exceed the minimum management fee of EUR 1.75 million that would normally have been applied.

Performance fees

The Group will pay the Management Company a Performance fee payable upon the winding up of the Group but will be accrued over the life period of the Group on the following basis: 20 per cent of all distributions by the Group will be accrued in an escrow account maintained by the Management Company in the name of the Group after Unitholders have received distributions equal to (i) an amount equal to their respective invested capital on their units, and (ii) a look-back IRR of 9 per cent per annum compounded quarterly on invested capital in respect of each unit, such return to be calculated quarterly over the life of the Group to reflect the timing of invested capital and return of capital.

As at December 31, 2017 no performance fee has been accrued.

9. Custodian fees and administration fee

Brown Brothers Harriman (Luxembourg) SCA provides the services of administrative agent, registrar and transfer agent, custodian services and paying agent under a central administrative agreement and custodian bank agreement. The total amount accounted for in this year for the above services is EUR 40,000. The Custodian and Central Administration fees are calculated based on the Fund's Gross Asset Value on a quarterly basis. The Registrar, Transfer Agent and Paying Agent costs are calculated based on the number of unit classes, investors and transactions in the Fund on a quarterly basis.

10. General and administrative expenses

	Year ended Dec 31, 2017 EUR '000	Year ended Dec 31, 2016 EUR '000
Bookkeeping costs	100	204
Bank/financing charges	24	94
Administration costs	54	59
Other fees (local administration and registration duties)	45	105
Total general and administrative expenses	223	462

11. Legal and professional fees

	Period ended Dec 31, 2017 EUR '000	Year ended Dec 31, 2016 EUR '000
Tax advisor fees	67	54
Legal fees	14	(19)
Audit fees	32	57
Other fees	33	9
Total legal and professional fees	146	101

12. Sales proceeds

The Group received a total amount of EUR 44,421 for a late subsequent sale of furniture and equipment missing from the previous disposal of VA No1 (Montefeltro) S.r.l. property.

13. Related party transactions

UBS Fund Services (Luxembourg) S.A. acts as Domiciliary and Service Agent and receive fees from the Fund in line with the domiciliation agreement. The fees for the service for this year are included in Note 10 "General and Administrative Expenses" and amount to 11,637 EUR.

UBS VA No. 1 Fund Management Company S.à r.l. has entered into a real estate management agreement with UBS Asset Management (UK) Ltd (the "Real Estate Manager"). Fees are payable by UBS VA No. 1 Fund Management Company S.à r.l. under the terms of the agreement. Please find the related fees as described in Note 8.

The Real Estate Manager has delegated some of its functions to UBS Immobilier (France) S.A. and UBS Real Estate GmbH, which are wholly or partly owned subsidiaries of UBS AG. The fees for these delegated functions are included in the Management Fee.

Administrative and operational services relating to fund accounting have been procured by the Real Estate Manager from UBS Real Estate GmbH. The fees for these services are included in the Management Fee.

14. Subsequent events

There have been no significant subsequent events.

15. Investment in subsidiaries

All the companies listed below are subsidiaries of the Group. VA No 1 Holdco S.A. (formerly VA No 1 Holdco S.à r.l.)¹ is the principal holding company that in turn holds the shares of the other subsidiaries within the structure.

Company/Partnership	Shareholding %	Share capital EUR	Country of incorporation
VA No1 Holdco S.A.(formerly VA No1 Holdco S.à r.l.) ¹	100	31,000	Luxembourg
VA No1 (Montefeltro) S.r.l. (in liquidation)	100	10,000	Italy

¹ On December 27, 2007 the company was merged together with VA No1 (Les Saisons) S.A.

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