



Arco Vara AS

INTERIM REPORT FOR THE
III QUARTER AND NINE MONTHS OF 2018
(UNAUDITED)

INTERIM REPORT FOR THE THIRD QUARTER AND NINE MONTHS OF 2018
(UNAUDITED)

Company name: Arco Vara AS

Registry number: 10261718

Address: Rävåla pst 5, 10143 Tallinn, Republic of Estonia

Telephone: +372 6 144 630

Fax: +372 6 144 631

E-mail: info@arcovara.ee

Corporate website: www.arcorealestate.com

Regional websites: www.arcovara.ee

www.arcoreal.bg

Core activities: Real estate development (EMTAK 41201)

Renting and operating of real estate (EMTAK 6820)

Activities of real estate agencies (EMTAK 6831)

Real estate management (EMTAK 6832)

Financial year: 1 January 2018 – 31 December 2018

Reporting period: 1 January 2018 – 30 September 2018

Supervisory board: Hillar-Peeter Luitsalu, Rain Lõhmus, Allar Niinepuu,
Kert Keskaik, Steven Yaroslav Gorelik

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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DIRECTORS' REPORT FOR Q3 AND 9 MONTHS 2018

GENERAL INFORMATION

Activities of the group

Arco Vara AS and other entities of Arco Vara group (hereafter together 'the group') are engaged in real estate development and services related to real estate. The group considers Estonia and Bulgaria as its home markets. The group has two business lines: the Service Division and the Development Division.

The Service Division is engaged in real estate brokerage, valuation, management and consulting. The Service Division offers to the group additional value by generating analytical data on market demand and supply, and behavior of potential clients. Analytical data allows making better decisions on real estate development: purchase of land plots, planning and designing, pricing end products, and timing the start of construction.

The Development Division develops complete living environments and commercial real estate. Fully developed housing solutions are sold to the end-consumer. In some cases, the group also develops commercial properties until they start to generate cash flow for two possible purposes: for the support of the group's cash flows or for resale. The group is currently holding completed commercial properties that generate rental income.

Vision and mission

Arco Vara's vision:

- We are the most people focused real estate company
- We know real estate the best
- We help the largest number of people.

Arco Vara's mission is to excel in helping people find their own place and leaving them with unforgettable experiences beyond expectations.

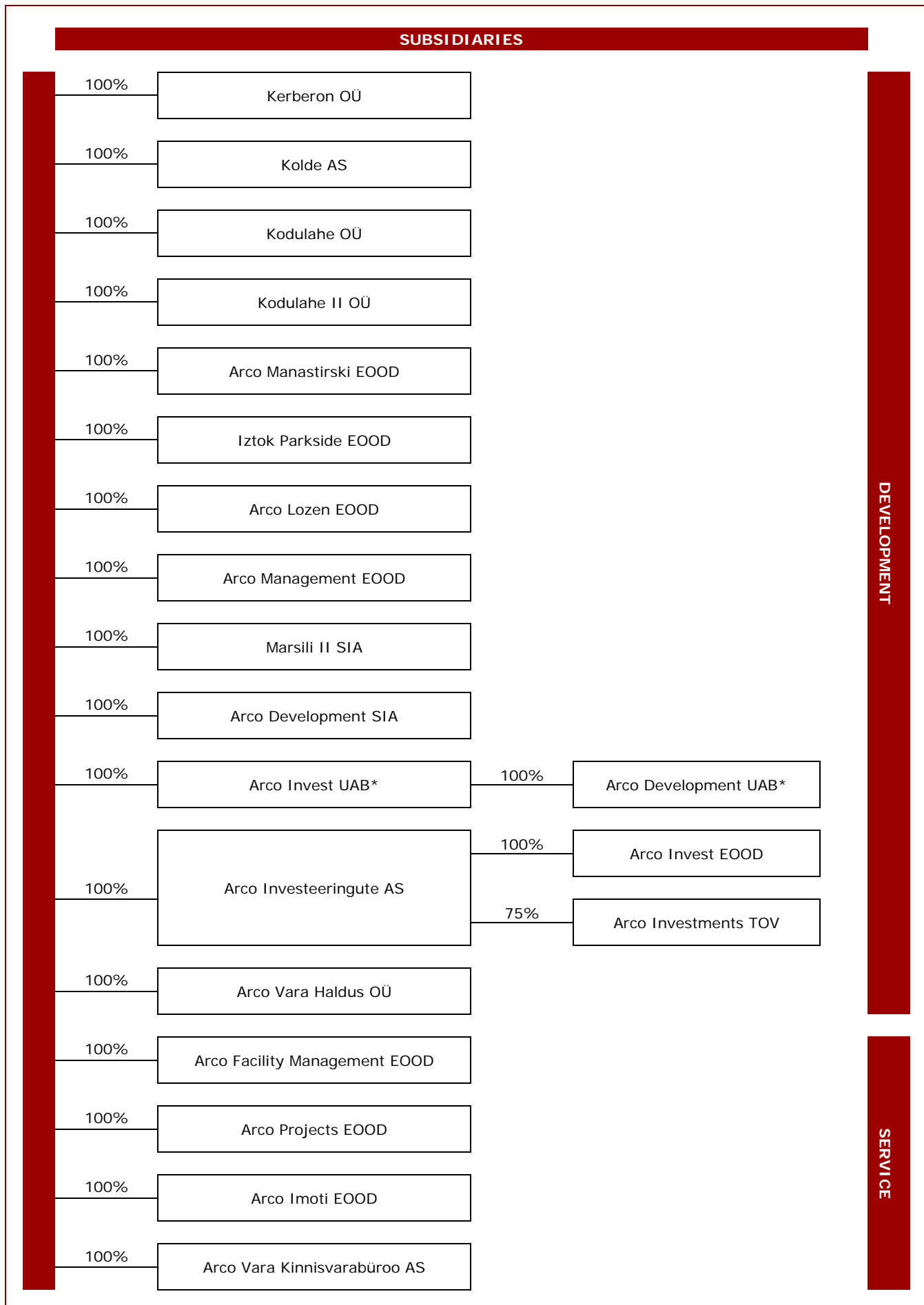
Group structure

As of 30 September 2018, the group consisted of 21 companies, which is one more than 31 December 2017. During the first nine months of the year, one company was sold, one liquidated, one purchased and one established.

Significant subsidiaries as of 30 September 2018

Company name	Location	Segment	Share capital (nominal value)	Equity balance on 30 September 2018	The group's interest
In thousands of euros					
Arco Invest EOOD	Bulgaria	Development	28,762	-87	100%
Iztok Parkside EOOD	Bulgaria	Development	1,433	605	100%
Arco Lozen EOOD	Bulgaria	Development	2,931	2,763	100%
Kodulahe OÜ	Estonia	Development	3	2,039	100%
Arco Vara Kinnisvarabüroo AS	Estonia	Service	42	-18	100%
Arco Imoti EOOD	Bulgaria	Service	444	240	100%

Group structure as of 30 September 2018



* In liquidation

KEY PERFORMANCE INDICATORS

- In Q3 2018, the group's revenue was 2.1 million euros, which is 3.7 times less than the revenue of 7.7 million euros in Q3 2017. In 9 months 2018, the group's revenue was 5.3 million euros, which is 49% less than the revenue of 10.3 million euros in 9 months 2017. The revenue of the Development Division amounted to 1.3 million euros in Q3 2018 and 3.1 million euros in 9 months 2018 (2017: 7.0 million euros in Q3 and 8.5 million euros in 9 months); revenue of the Service Division increased to 0.9 million euros in Q3 and 2.6 million euros in 9 months (in 2017: 0.8 million euros in Q3 and 2.2 million euros in 9 months).
- In Q3 2018, the group's operating loss (=EBIT) was 0.2 million euros and net profit 0.1 million euros (in 9 months 2018: no operating profit and net loss of 0.4 million euros). In Q3 2017, the group had operating profit of 0.8 million euros and net profit of 0.7 million euros. In 9 months 2017, the group made operating loss of 0.4 million euros and net profit of 0.1 million euros. The Development Division made an operating profit of 0.2 million euros in Q3 2018, 9 months ended with the same result. The Development Division made 0.9 million operating profit in Q3 2017 as well as in 9 months 2017. The Service Division made zero result in Q3 2018 but had an operating loss of 0.1 million euros in 9 months 2018, as well as in 9 months 2017.
- In Q3 2018, 4 apartments and 2 commercial spaces were sold in projects developed by the group (in 9 months 2018: 12 apartments, 2 commercial spaces and 1 land plot). In Q3 2017, 59 apartments and 2 commercial spaces were sold (60 apartments, 2 commercial spaces and 6 land plots in 9 months).
- In the first 9 months of 2018, the group's debt burden (net loans) decreased by 1.9 million euros down to the level of 11.8 million euros as of 30 September 2018. As of 30 September 2018, the weighted average annual interest rate of interest-bearing liabilities was 4.8%. This is a decrease of 0.6 percentage points compared to 31 December 2017.

Main financial figures

	9 months 2018	9 months 2017	Q3 2018	Q3 2017
In millions of euros				
Revenue				
Development	3.1	8.5	1.3	7.0
Service	2.6	2.2	0.9	0.8
Eliminations	-0.4	-0.4	-0.1	-0.1
Total revenue	5.3	10.3	2.1	7.7
Operating profit (EBIT)				
Development	0.2	0.9	0.2	0.9
Service	-0.1	-0.1	0.0	0.0
Parent company	-0.1	-0.4	0.0	-0.1
Total operating profit/loss (EBIT)	0.0	0.4	0.2	0.8
Finance income and expense	-0.4	-0.3	-0.1	-0.1
Net profit/loss	-0.4	0.1	0.1	0.7
Cash flows from/used in operating activities	-0.7	-2.3	-0.3	0.7
Cash flows used in investing activities	-3.3	-0.4	0.0	0.0
Cash flows from/used in financing activities	4.2	3.0	1.0	-0.3
Net cash flows	0.2	0.3	0.7	0.4
Cash and cash equivalents at beginning of period	2.3	0.8	1.8	0.7
Cash and cash equivalents at end of period	2.5	1.1	2.5	1.1
Total assets, at period end	30.6	28.4		
Invested capital, at period end	27.5	23.9		
Net loans, at period end	11.8	13.7		
Equity, at period end	13.1	9.0		

Key ratios

	9 months 2018	9 months 2017	Q3 2018	Q3 2017
EPS (in euros)	-0.04	0.01	0.00	0.11
Diluted EPS (in euros)	-0.04	0.01	0.00	0.10
ROIC (rolling, four quarters)	1.4%	-5.1%		
ROE (rolling, four quarters)	3.0%	-14.0%		
ROA (rolling, four quarters)	1.3%	-4.3%		
Current ratio	2.62	0.88		
Quick ratio	0.49	0.10		
Financial leverage	2.34	3.16		
Average loan term (in years)	1.2	0.4		
Average annual interest rate of loans	4.8%	5.3%		
Number of staff, at period end	138	132		

Revenue and net profit/loss during last years

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Total 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Total 2017	Q1 2018	Q2 2018	Q3 2018	9M 2018
In millions of euros														
Revenue	5.1	2.1	1.2	1.3	9.7	1.6	1.0	7.7	8.0	18.3	2.1	1.1	2.1	5.3
Net profit/loss	1.1	-0.2	-0.4	-1.3	-0.8	-0.3	-0.3	0.7	0.8	0.8	-0.1	-0.3	0.1	-0.4

Formulas used:

Earnings per share (EPS) = net profit attributable to owners of the parent / weighted average number of ordinary shares outstanding during the period

Diluted earnings per share (Diluted EPS) = net profit attributable to owners of the parent / (weighted average number of ordinary shares outstanding during the period + number of all potentially issued shares)

Invested capital = current + non-current interest-bearing loans and borrowings + equity (at the end of period)

Net loans = current + non-current interest bearing loans and borrowings – cash and cash equivalents – short-term investments in securities (at the end of period)

Return on invested capital (ROIC) = net profit of last four quarters / average invested capital

Return on equity (ROE) = net profit of last four quarters / average equity

Return on assets (ROA) = net profit of last four quarters / average total assets

Current ratio = current assets / current liabilities

Quick ratio = (current assets - inventory) / current liabilities

Financial leverage = total assets / equity

Number of staff = number of people working for the group under employment or service contracts

Discontinued operations

In October 2018, Arco Vara AS signed agreements for selling its 100% holdings in its subsidiaries Arco Vara Kinnisvarabüroo AS (subsidiary registered in Estonia) and Arco Imoti EOOD (subsidiary registered in Bulgaria) to the management teams of these subsidiaries as of 01.01.2019. Arco Vara Kinnisvarabüroo AS and Arco Imoti EOOD will continue to operate under Arco Vara trademarks and to use the databases and other intellectual property of Arco Vara under a 5-year license agreement. As a result of the sale of shares, the two companies will not belong to Arco Vara consolidation group from 01.01.2019, but the license fees calculated on the basis on sales revenues of both companies will remain to contribute to the revenues of Arco Vara group.

In addition, Arco Vara has started to sell the 15 apartments in the Madrid Blv building in Sofia, which have so far been kept for offering accommodation service. The proceeds from the sale of apartments will be used to decrease within year 2019 the loan balance associated with the Madrid Blv building to a level, which is necessary for refinancing the existing loan at a lower interest rate. The activities of two group companies – Arco Projekti EOOD (which has offered accommodation service with the apartments) and Arco Facility Management EOOD (which has offered facility management services in Madrid Blvd building) – will be discontinued.

In relation to these changes, the Service Division in Arco Vara group will cease to exist from 01.01.2019 and the group will continue with the Development Division only.

From the consolidated group turnover, the Service Division contributed 2.3 million euros (43 per cent) in 9 months of 2018 and 1.9 million euros (18 per cent) in the first 9 months of 2017. As the net result of Service Division has been close to zero in recent periods, its discontinuation will not have a significant effect on the bottom line of the group.

Consolidated profit and loss statements for continuing and discontinued operations

	9 months 2018			9 months 2017		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
In thousands of euros						
Revenue from sale of own real estate	2,537	0	2,537	8,063	0	8,063
Revenue from rendering of services	512	2,298	2,810	377	1,851	2,228
Total revenue	3,049	2,298	5,347	8,440	1,851	10,291
Cost of sales	-2,102	-1,444	-3,546	-7,098	-1,175	-8,273
Gross profit	947	854	1,801	1,342	676	2,018
Other income	133	20	153	19	35	54
Marketing and distribution expenses	-96	-298	-394	-107	-240	-347
Administrative expenses	-837	-646	-1,483	-672	-553	-1,225
Other expenses	-62	-15	-77	-33	-10	-43
Gain on sale of subsidiaries	15	0	15	0	0	0
Operating profit/loss	100	-85	15	549	-92	457
Finance income and costs	-375	0	-375	-384	0	-384
Net profit/loss	-275	-85	-360	165	-92	73
Net profit/loss for the period	-275	-85	-360	165	-92	73

GROUP CEO'S REVIEW

Quarterly net result of below 100 thousand euros is a very small amount even for a very small sales revenue of 2 million euros.

It will take two more quarters for sales revenues and profits to increase, as the sale of Iztok Parkside apartments is scheduled to start in Q1 2019 and the sale of Kodulahe stage 2 apartments in Q4 2019. At the moment, construction and presales are in process. Year 2018 will thus end with a modest result, being supported only by the results of the Service Division, rental income from the Madrid Blvd building and sale of the little remaining stock. It must be noted that weak results should not be blamed on poor market conditions or design and construction related bureaucracy – although the latter has in some cases turned out to be unpleasantly complicated. We ourselves failed in two things – starting earlier and executing faster –, so that nothing important gets finalized in 2018. One can make it on time even on a road roller, when starting earlier. But we could not foresee it and lost valuable time.

On a positive side, we have good land plots, we are strongly capitalized and have developed reliable processes and team. The management – whose mandate was extended in October – began its 3-year plan with selling off the real estate services companies and signing license agreements. We also started the sale of rental apartments in Madrid Blvd building and optimizing overhead costs. As a result of these initiatives, the overhead of the group should decrease, and profitability increase substantially from Q1 2019. Quarterly base revenue from license fees and Madrid Blvd rental income should exceed 220 thousand euros in 2019.

The group will continue to pursue its main goals with development business, as has been the case so far. In 2019, we should sell more than 130 apartments in Sofia and Tallinn; the land plots of the group allow to have at least 260 units under construction at the end of 2019. We will continue construction only if market conditions support it. The support is sufficient when enough presale agreements have been signed with clients, and when net sales margin of a development exceeds 10%.

SERVICE DIVISION

In Q3 2018, revenue of the Service Division amounted to 942 thousand euros (Q3 2017: 780 thousand euros), which included intra-group revenue of 74 thousand euros (Q3 2017: 115 thousand euros). In 9 months 2018, the revenue of 2,602 thousand euros had increased by 21.5% compared to the revenue of 2,142 thousand euros in 9 months 2017.

The main services of the Service Division are real estate brokerage and evaluation services through real estate agencies. In 9 months 2018, revenue of the real estate agencies increased by 27% compared to 9 months 2017. Sales figures for real estate agencies in the table below show an increase of 46% in revenue from the Bulgarian office compared to the first 9 months of 2017 and increase of 33% if one compares Q3 2018 to Q3 2017.

Revenue of real estate agencies from brokerage and valuation

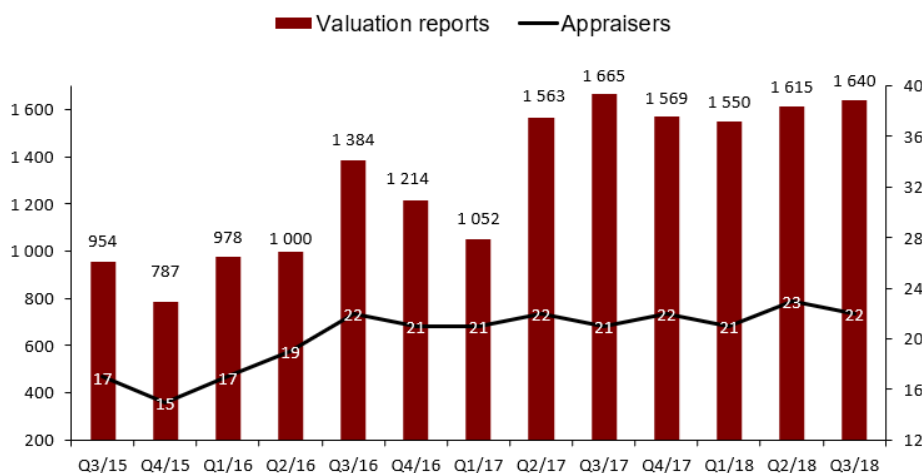
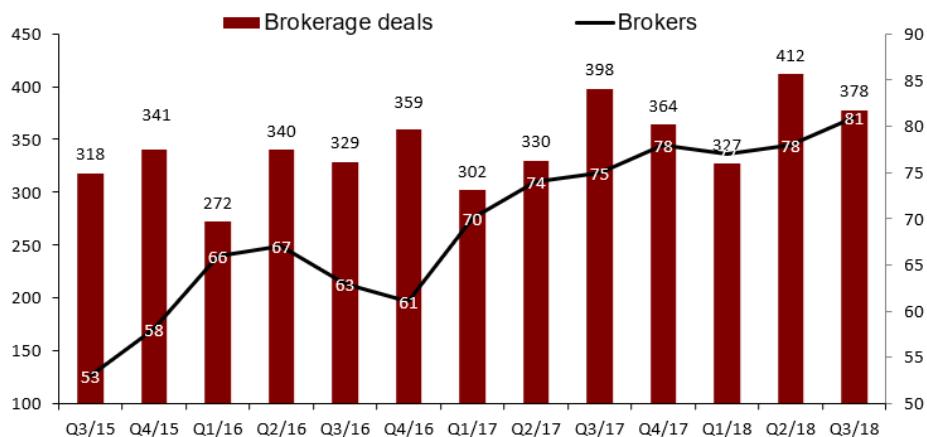
	9 months 2018	9 months 2017	Change %	Q3 2018	Q3 2017	Change %
In thousands of euros						
Estonia	1,579	1,325	19%	619	484	28%
Bulgaria	818	560	46%	273	206	33%
Total	2,397	1,885	27%	892	690	29%

In Q3 2018, Estonian agency had net profit of 13 thousand euros and net loss of 63 thousand euros, respectively (in 2017: net loss of 4 thousand euros in Q3 and 112 thousand euros in 9 months). Bulgarian agency bore net loss of 2 thousand euros in Q3 2018 and 19 thousand euros in 9 months 2018 (2017: net profit of 12 thousand euros in Q3 and 53 thousand euros in 9 months).

In addition to brokerage and valuation services, the Service Division also provides real estate management and accommodation services in Bulgaria. The revenue from real estate management was 47 thousand euros in 9 months 2018, 40 thousand euros of which was intra-group revenue (9 months 2017: 92 thousand and 78 thousand euros, respectively). Revenue from accommodation services amounted to 135 thousand euros in 9 months 2018, of which 49 thousand euros was made in Q3 (2017: 135 thousand euros in 9 months and 49 thousand euros in Q3).

The numbers of brokerage deals and valuation reports of the Service Division, together with the number of staff, in Estonia and Bulgaria combined are shown in the following graphs.

Transaction volumes of the Service Division during the last 3 years



On 30 September 2018, the number of staff in the Service Division was 124 (on 31.12.2017: 118).

DEVELOPMENT DIVISION

The revenue of the Development Division totaled 1,273 thousand euros in Q3 2018 (in Q3 2017: 7,042 thousand euros) and 3,114 thousand euros in 9 months 2018 (in 9 months 2017: 8,511 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 1,045 thousand euros in Q3 and 2,537 thousand euros in 9 months (2017: 6,627 thousand euros in Q3 and 6,875 thousand euros in 9 months).

Most of the other revenue of the Development Division consisted of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 167 thousand euros in Q3 2018 and 419 thousand euros in 9 months 2018 (2017: 148 thousand euros in Q3 and 360 thousand euros in 9 months). In Q3 2018, all office and commercial spaces together with parking places were rented out.

In Q3 and 9 months 2018, the Development Division had an operating profit of 204 thousand euros and 203 thousand euros, respectively. In 2017, the Development Division had an operating profit of 894 thousand euros in Q3 and 851 thousand euros in 9 months.

Revenue and profitability figures were higher in 2017 due to the completion of most sale agreements for the apartments in Stage I of Kodulahe project. The construction of the apartment building with 125 apartments and 5 commercial areas was finished in Q3 2017. By the publishing date of the interim report, 1 commercial space (which is rented out) remains unsold.

In Q3 2018, construction works continued for Stage II of Kodulahe project, a building with 68 apartments and 1 commercial space. The project is expected to be finalized by the end of 2019. By the publishing date of the interim report, 41 apartments have been presold.

In Iztok Parkside project in Sofia, construction continued during Q3 2018. By the publishing date of the interim report, presale agreements for 44 apartments have been concluded. Iztok project consists of three apartment buildings with 67 apartments (7,070 square meters of apartments' sellable area).

In Q1 2018, Arco Vara acquired land plots in the Lozen project in Bulgaria with total area of 5.3 ha, and also signed an agreement for the design of Stage I. The design works continued in Q3 and are scheduled to end in early 2019. Stage I will include ca 170 residential units (apartments and houses), commercial spaces and a kindergarten.

As of 30 September 2018, 5 Marsili residential plots remained unsold in Latvia, one of which is presold. In 9 months 2018, one plot was sold in the project.

As of 30 September 2018, 6 people were employed in the Development Division, which is one more than at the end of 2017.

Summary table of Arco Vara's active projects as of 30 September 2018

Project name	Address	Product main type	Stage	Area of plot(s) (m ²)	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	23
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	1,501	16
Iztok Parkside	Iztok, Sofia	Apartments	S4	2,470	7,070	67
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	8,156	5
Kodulahe, stage 1	Lahepea 7, Tallinn	Apartments	S5/S6	6,102	134	1
Kodulahe, stage 2	Lahepea 9, Tallinn	Apartments	S4	3,686	5,079	69
Kodulahe, stages 3-5	Soodi 4, Pagi 3, 5, Tallinn	Apartments	S3	10,578	<8,100>	<120>
Oa street apartments	Oa street 37,39,41, Tartu	Apartments	S3	4,146	1,950	30
Lehiku carpet building	Lehiku 21,23 Tallinn	Apartments	S3	5,915	<700>	<5>
Lozen, stage 1	Lozen, near Sofia	Apartments, houses	S3	47,450	<26,000>	<170>
Lozen, stage 2	Lozen, near Sofia	Apartments, houses	S1	63,350	<55,000>	<330>

Note: Values presented between < > sign represent future target values for projects where the building rights or the design have not been finished yet. The table does not reflect sellable or lettable volumes below grade including parking spaces and storages. The table does not give complete overview of the group's land bank.

Description of stages

- S1: Land plot acquired
- S2: Building Rights Procedure
- S3: Design and Preparation Works
- S4: Construction
- S5: Marketing and Sale
- S6: Facility Management and/or Lease

PEOPLE

Remuneration

As of 30 September 2018, 138 people worked for the group (140 as of 31 December 2017). Employee remuneration expenses in 9 months 2018 amounted to 2.2 million euros, out of which 0.8 million euros in Q3 2018 (2017 same periods: 1.8 million euros and 0.7 million euros, respectively).

The remuneration of the member of the management board / CEO, and the members of the supervisory board of the group's parent company including social security charges amounted to 80 thousand euros in 7 months 2018, out of which 25 thousand euros in Q3 2018 (in 9 months and Q3 2017: 87 thousand euros and 25 thousand euros, respectively).

Management board and supervisory board

The management board of Arco Vara AS has one member. Since 22 October 2012, the member of the management board and chief executive officer of Arco Vara AS has been Tarmo Sild who has a mandate until October 2021.

The supervisory board of Arco Vara AS has 5 members. Since 10 February 2015, the supervisory board consists of Hillar-Peeter Luitsalu (the Chairman), Allar Niinepuu, Rain Lõhmus, Steven Yaroslav Gorelik and Kert Keskskaik.

Additional information on key persons of Arco Vara is presented on company's corporate web page www.arcorealestate.com.

SHARES AND SHAREHOLDERS

Share price

Arco Vara AS has issued a total of 8,998,367 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.23 euros on 30 September 2018, the closing price was 1.52 euros on 31 December 2017. During the period, the highest traded price per share was 1.53 euros and the lowest price 1.22 euros. As of 30 September 2018, market capitalization of shares amounted to 11,068 thousand euros and P/B (price to book value) ratio was 0.72 (31 December 2017: 9,891 thousand euros and 1.01 respectively). P/E (price to earnings) ratio of the share was 31.44 on 30 September 2018, 12.60 on 31 December 2017.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 9 months 2018 and during the last three years.

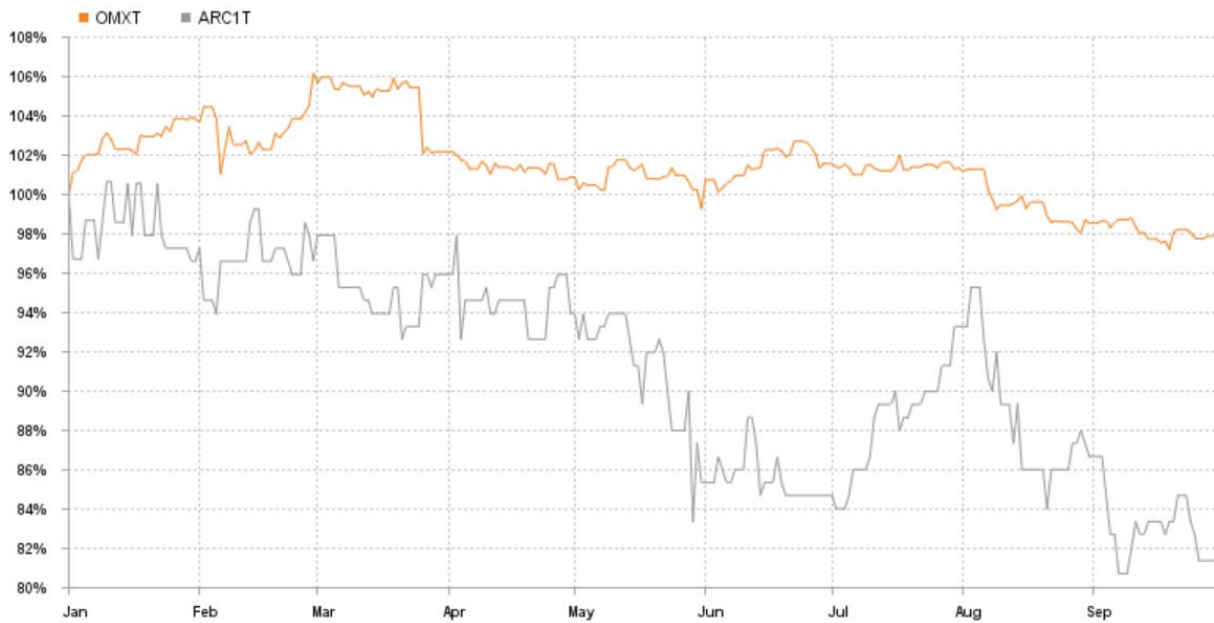
Performance of Arco Vara's shares in 9 months 2018



Performance of Arco Vara's shares from 30 September 2015 until 30 September 2018



Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 9 months 2018

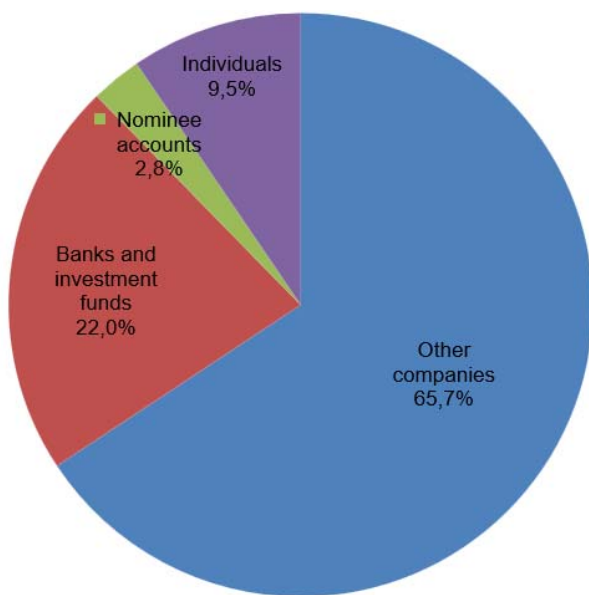


Index/equity	1 Jan 2018	30 Sept 2018	+/-%
—OMX Tallinn	1,242.12	1,215.84	-2.12
—ARC1T	1.51 EUR	1.23 EUR	-18.61

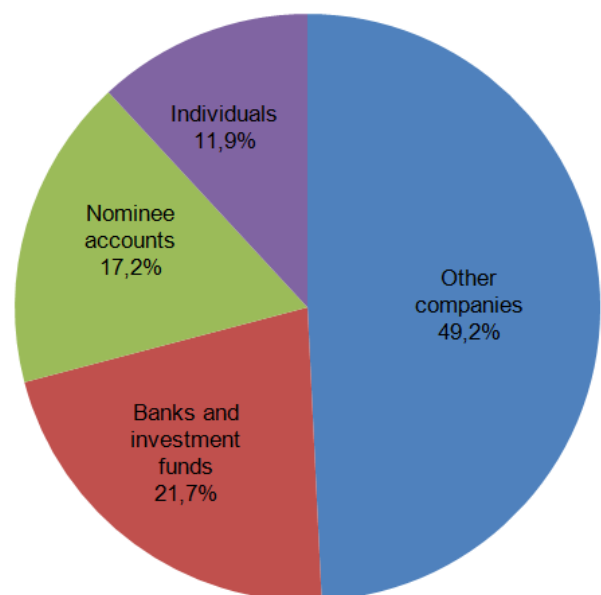
Shareholder structure

As of 30 September 2018, Arco Vara had 1,373 shareholders (on 31 December 2017: 1,403), including 1,183 individuals as shareholders (on 31 December 2017: 1,211 individuals) who jointly owned 9.5% (on 31 December 2017: 11.9%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams:

Ownership structure as of 30 September 2018



Ownership structure as of 31 December 2017



Major shareholders on 30 September 2018

Name	No of shares	Share, %
Alarmo Kapital OÜ	2,517,405	28.0%
AS Lõhmus Holdings	850,000	9.4%
Baltplast AS	837,498	9.3%
LHV Pensionifond L	832,026	9.2%
Gamma Holding Investment OÜ	562,893	6.3%
LHV Pensionifond XL	365,619	4.1%
Firebird Republics Fund LTD	356,428	4.0%
HM Investeeringud OÜ	330,505	3.7%
Firebird Avrora Fund LTD	185,800	2.1%
Firebird Fund L.P.	150,522	1.7%
Other shareholders	2,009,671	22.2%
Total	8,998,367	100.0%

Holdings of management and supervisory board members on 30 September 2018

Name	Position	No of shares	Share, %
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	2,517,405	28.0%
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	850,000	9.4%
Hillar-Peeter Luutsalu (HM Investeeringud OÜ. related persons)	chairman of supervisory board	369,259	4.1%
Kert Keskaik (privately and through K Vara OÜ)	member of supervisory board	206,371	2.3%
Steven Yaroslav Gorelik ¹	member of supervisory board	0	-
Total		3,943,035	43.8%

¹ - Steven Yaroslav Gorelik is active as fund manager in three investment funds holding interest in Arco Vara (Firebird Republics Fund Ltd. Firebird Avrora Fund Ltd and Firebird Fund L.P) of 692.750 shares (total of 7.7% interest).

CEO'S CONFIRMATION ON DIRECTORS' REPORT

The CEO and member of the management board of Arco Vara AS confirms that the directors' report of Arco Vara for the second quarter and 9 months ended on 30 September 2018 provides a true and fair view of business developments, financial performance and financial position of the group as well as a description of the main risks and uncertainties.



Tarmo Sild
Chief Executive and Member of the Management Board of Arco Vara AS
On 8 November 2018

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	9 months 2018	9 months 2017	Q3 2018	Q3 2017
In thousands of euros					
Continuing operations					
Revenue from sale of own real estate		2,537	8,063	1,045	6,877
Revenue from rendering of services		512	377	211	141
Total revenue	3,4	3,049	8,440	1,256	7,018
Cost of sales	5	-2,102	-7,098	-878	-5,919
Gross profit		947	1,342	378	1,099
Other income		133	19	92	20
Marketing and distribution expenses	6	-96	-107	-28	-35
Administrative expenses	7	-837	-672	-260	-205
Other expenses		-62	-33	-15	-20
Gain on sale of subsidiaries		15	0	0	0
Operating profit/loss		100	549	167	859
Finance income and cost	8	-375	-384	-150	-113
Net profit/loss from continuing operations		-275	165	17	746
Net profit/loss from discontinued operations		-85	-92	25	-31
Net profit/loss for the period		-360	73	42	715
Total comprehensive income/expense for the period		-360	73	42	715
Earnings per share from continuing operations (in euros)					
- basic		-0.03	0.03	0.00	0.11
- diluted		-0.03	0.02	0.00	0.11
Earnings per share (in euros)					
- basic	9	-0.04	0.01	0.00	0.11
- diluted		-0.04	0.01	0.00	0.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2018	31 December 2017
In thousands of euros			
Cash and cash equivalents		2,523	2,284
Receivables and prepayments	10	813	747
Inventories	11	14,482	8,974
Total current assets		17,818	12,005
Investments		58	34
Receivables and prepayments	10	18	18
Investment property	12	11,722	11,299
Property, plant and equipment		689	704
Intangible assets		306	275
Total non-current assets		12,793	12,330
TOTAL ASSETS		30,611	24,335
Loans and borrowings	13	2,782	1,871
Payables and deferred income	14	3,838	2,507
Provisions		177	38
Total current liabilities		6,797	4,416
Loans and borrowings	13	10,710	10,132
Payables and deferred income	14	3	0
Total non-current liabilities		10,713	10,132
TOTAL LIABILITIES		17,510	14,548
Share capital		6,299	4,555
Share premium		2,285	292
Statutory capital reserve		2,011	2,011
Other reserves	9	134	134
Retained earnings		2,372	2,795
TOTAL EQUITY		13,101	9,787
TOTAL LIABILITIES AND EQUITY		30,611	24,335

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	9 months 2018	9 months 2017	Q3 2018	Q3 2017
In thousands of euros				
Cash receipts from customers	9,155	7,436	3,748	3,795
Cash paid to suppliers	-8,343	-8,130	-3,448	-1,859
Other taxes paid and recovered (net)	-539	-548	-184	-650
Cash paid to employees	-900	-703	-326	-243
Other cash payments and receipts related to operating activities (net)	-29	-278	-6	-290
NET CASH FROM/USED IN OPERATING ACTIVITIES	-656	-2,223	-216	753
Payments made on purchase of tangible and intangible assets	-99	-74	-27	-26
Payments made on purchase and development of investment property	-344	-346	-4	-15
Proceeds from sale of a subsidiary	41	0	0	0
Payments made on purchase of a subsidiary	-2,939	0	0	0
Loans provided	0	-7	0	0
Repayment of loans provided	0	2	0	2
Other receipts related to investing activities	14	23	0	23
Other payments related to investing activities	-24	-23	-8	-15
NET CASH USED IN INVESTING ACTIVITIES	-3,351	-425	-39	-31
Proceeds from loans received	13	2,796	5,202	1,342
Settlement of loans and borrowings	13	-1,434	-1,456	-207
Interest paid	-390	-616	-100	-165
Dividends paid	-90	-65	0	0
Proceeds from share capital increase	3,737	0	0	0
Other payments related to financing activities	-373	-104	-42	-60
NET CASH FROM/USED IN FINANCING ACTIVITIES	4,246	2,961	993	-316
NET CASH FLOW	239	313	738	406
Cash and cash equivalents at beginning of period	2,284	845	1,785	752
Increase in cash and cash equivalents	239	313	738	406
Cash and cash equivalents at the end of period	2,523	1,158	2,523	1,158

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total equity
In thousands of euros						
Balance as of 31 December 2016	4,555	292	2,011	52	2,075	8,985
Increase of share capital	0	0	0	0	-65	-65
Total comprehensive income for the period	0	0	0	0	73	73
Balance as of 30 September 2017	4,555	292	2,011	52	2,083	8,993
Balance as of 31 December 2017	4,555	292	2,011	134	2,795	9,787
Increase of share capital	1,744	1,993	0	0	0	3,737
Dividends paid	0	0	0	0	-90	-90
Sale of a subsidiary	0	0	0	0	27	27
Total comprehensive income for the period	0	0	0	0	-360	-360
Balance as of 30 September 2018	6,299	2,285	2,011	134	2,372	13,101

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the third quarter and 9 months ended on 30 September 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements for the year ended on 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

All amounts in the financial statements are presented in thousands of euros unless indicated otherwise.

2. Discontinued operations

From 1st of January 2019 Arco Vara AS will sell its two real estate agencies to the managements of these companies. In addition, 15 apartments have been put on sale in the Madrid Blv Building in Sofia, which until now have been used for providing accommodation services. Based on the above, the entire service segment has been classified as discontinued in this report.

Consolidated profit and loss statement for discontinued operations

	9 month 2018	9 month 2017	Q3 2018	Q3 2017
In thousands of euros				
Revenue from rendering of services	2,298	1,851	867	666
Total revenue	2,298	1,851	867	666
Cost of sales	-1,444	-1,175	-516	-421
Gross profit	854	676	351	245
Other income	20	35	5	15
Marketing and distribution expenses	-298	-240	-103	-94
Administrative expenses	-646	-553	-226	-196
Other expenses	-15	-10	-2	-1
Operating profit/loss	-85	-92	25	-31
Net profit/loss from discontinued operations	-85	-92	25	-31

Consolidated cashflows of discontinued operations

	9 months 2018	9 months 2017	Q3 2018	Q2 2017
In thousands of euros				
Cash from/used in operating activities	148	132	83	79
Cash from/used in investing activities	-17	35	-14	9
Cash from/used in financing activities	0	-40	0	-10
Net cashflows of discontinued operations	131	127	69	78

3. Segment information

The group has the following reportable operating segments:

- Development - development of residential and commercial real estate environments, as well as making investments for rental income;
- Service - real estate services: real estate brokerage, valuation and accommodation.

Inter-segment transactions are conducted at market prices and priced on the same basis as transactions with external counterparties. A significant proportion of inter-segment transactions is generated by the service segment providing real estate brokerage services to the development segment.

Revenue and operating profit by segments

Segment	Development		Service		Parent company		Eliminations		Consolidated	
	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017	9M 2018	9M 2017
In thousands of euros										
External revenue	3,038	8,437	2,298	1,851	11	3	0	0	5,347	10,291
Annual change	-64.0%		24.1%						-48.0%	
Inter-segment revenue	76	74	304	291	0	0	-380	-365	0	0
Total revenue	3,114	8,511	2,602	2,142	11	3	-380	-365	5,347	10,291
Annual change	-63.4%		21.5%						-48.0%	
Operating profit/loss	203	851	-27	-23	-136	-377	-25	6	15	457

Segment	Development		Service		Parent company		Eliminations		Consolidated	
	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017
In thousands of euros										
External revenue	1,254	7,017	868	665	2	1	0	0	2,124	7,683
Annual change	-82.1%		30.5%						-72.4%	
Inter-segment revenue	19	25	74	115	0	0	-93	-140	0	0
Total revenue	1,273	7,042	942	780	2	1	-93	-140	2,124	7,683
Annual change	-81.9%		20.8%						-72.4%	
Operating profit/loss	204	894	19	34	-29	-107	-3	6	191	827

Assets and liabilities by operating segment

Segment	Development		Service		Parent company		Consolidated	
	30 Sept 2018	31 Dec 2017	30 Sept 2018	31 Sept 2017	30 Sept 2018	31 Sept 2017	30 Sept 2018	31 Sept 2017
In thousands of euros								
Assets	29,387	23,104	525	527	699	705	30,611	24,335
Liabilities	15,886	12,569	484	457	1,140	1,522	17,510	14,548

4. Revenue

	9 months 2018	9 months 2017	Q3 2018	Q3 2017
In thousands of euros				
Sale of own real estate	2,537	8,063	1,045	6,877
Rental of real estate	428	338	170	126
Property management services	63	36	29	14
Other revenue	21	3	12	1
Total revenue	3,049	8,440	1,256	7,018

5. Cost of sales

	9 months 2018	9 months 2017	Q3 2018	Q3 2017
In thousands of euros				
Cost of real estate sold (note 11)	-1,841	-6,924	-813	-5,857
Personnel expenses	-16	0	-9	0
Property management costs	-199	-107	-51	-25
Depreciation, amortization and impairment losses	-1	-1	-1	0
Other costs	-45	-66	-4	-37
Total cost of sales	-2,102	-7,098	-878	-5,919

6. Marketing and distribution expenses

	9 months 2018	9 months 2017	Q3 2018	Q3 2017
In thousands of euros				
Advertising expenses	-46	-55	-10	-17
Brokerage fees	-6	-9	-1	0
Market research	-1	0	0	0
Other marketing and distribution expenses	-43	-43	-17	-18
Total marketing and distribution expenses	-96	-107	-28	-35

7. Administrative expenses

	9 months 2018	9 months 2017	Q3 2018	Q3 2017
In thousands of euros				
Personnel expenses	-437	-346	-150	-121
Office expenses	-69	-52	-20	-18
IT expenses	-89	-92	-30	-20
Services purchased	-103	-94	-24	-25
Depreciation, amortization and impairment losses	-75	-48	-26	-9
Legal service fees	-40	-12	-1	-3
Vehicle expenses	-13	-12	-4	-4
Other expenses	-11	-16	-5	-5
Total administrative expenses	-837	-672	-260	-205

8. Financial income and expenses

	9 months 2018	9 months 2017	Q3 2018	Q3 2017
In thousands of euros				
Interest expenses	-327	-339	-107	-111
Other financial income and costs	-48	-45	-43	-2
Total financial income and costs	-375	-384	-150	-113

9. Earnings per share

Basic earnings per share are calculated by dividing profit or loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Calculations for the number of shares for 9 months 2018 take into account that 2,491,355 new shares issued during the latest share offering were registered in the Commercial register on 29 January 2018.

Diluted earnings per share are calculated by taking into account all potentially issued shares.

According to the decision of the annual general meeting of Arco Vara AS, held on 30 May 2017, twelve convertible bonds were issued with the nominal value of 500 euros each. The convertible bonds allow key employees of the group to subscribe to the total of up to 200 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year

2020 if the employees still work at the company at the time and if the net profit for years 2017-2019 combined is at least 5.5 million euros.

According to the decision of the annual general meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the CEO of the group's parent company the right to subscribe to up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. An equity reserve in the amount of 134 thousand euros has been formed for the option associated with the bond. See also note 15.

	9 months 2018	9 months 2017	Q3 2018	Q3 2017
Weighted average number of ordinary shares outstanding during the period	8,742,843	6,507,012	8,998,367	6,507,012
Number of ordinary shares potentially to be issued (at period end)	590,000	590,000	590,000	590,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	-360	73	42	715
Earnings per share (in euros)	-0,04	0,01	0,00	0,11
Diluted earnings per share (in euros)	-0,04	0,01	0,00	0,10

10. Receivables and prepayments

Short-term receivables and prepayments

	30 September 2018	31 December 2017
In thousands of euros		
Trade receivables		
Receivables from customers	216	192
Total trade receivables	216	192
Other receivables		
Loans provided	6	3
Miscellaneous receivables	12	6
Total other receivables	18	9
Accrued income		
Prepaid and recoverable taxes	198	163
Other accrued income	9	26
Total accrued income	207	189
Prepayments	372	357
Total short-term receivables and prepayments	813	747

Long-term receivables and prepayments

	30 September 2018	31 December 2017
In thousands of euros		
Prepayments	18	18
Total long-term receivables and prepayments	18	18

11. Inventories

	30 September 2018	31 December 2017
In thousands of euros		
Properties purchased and being developed for resale	14,470	8,963
Materials and finished goods	12	11
Total inventories	14,482	8,974

Properties purchased and being developed for resale

	2018	2017
In thousands of euros		
Balance at the beginning of period, 1 January	8,963	14,571
Properties purchased for development	2,936	12
Construction costs of apartment buildings	3,831	6,228
Capitalized borrowing costs	130	267
Inventory write-down	0	-3
Other capitalized costs	451	167
Reclassification to/from investment property (note 12)	0	10
Cost of sold properties (note 5)	-1,841	-6,924
Balance at the end of period, 30 September	14,470	14,328

12. Investment property

	2018	2017
In thousands of euros		
Balance at the beginning of period, 1 January	11,299	10,835
Capitalized development costs	70	30
Capitalized borrowing costs	49	0
Reclassification to/from inventories (note 11)	0	-10
Purchase of land plots	304	300
Balance at the end of period, 30 September	11,722	11,155

13. Interest bearing liabilities

	As of 30 September, 2018			As of 31 December, 2017		
	Total	of which current portion	of which non-current portion	Total	of which current portion	of which non-current portion
In thousands of euros						
Bank loans	12,436	1,732	10,704	10,625	500	10,125
Bonds	806	800	6	1,127	1,120	7
Finance lease liabilities	0	0	0	1	1	0
Other loans	250	250	0	250	250	0
Prepayments	810	0	810	265	265	0
Total	14,302	2,782	11,520	12,268	2,136	10,132

In 9 months 2018, the group settled loans in the amount of 1,434 thousand euros (in 9 months 2017: 1,456 thousand euros) through cash transactions and raised new loans in the amount of 2,796 thousand euros (in 9 months 2017: 5,202 thousand euros). In addition to loan liabilities, there are non-cash settlements and changes in interest bearing prepayments.

In 9 months 2018, the following major loan obligations were settled:

- 719 thousand euros of Madrid Blvd project's bank loan principal to Piraeus Bank;
- 395 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 1,120 thousand euros of Arco Vara bonds (out of which 800 thousand euros were settled with new bonds);
- 265 thousand euros of interest bearing prepayments.

In 9 months 2018, the group raised the following new liabilities:

- 2,796 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 800 thousand euros of Arco Vara bonds (settled with previous bonds);
- 110 thousand euros of interest bearing prepayments.

14. Payables and deferred income

Short-term payables and deferred income

	30 September 2018	31 December 2017
In thousands of euros		
Trade payables	713	261
Miscellaneous payables	31	22
Taxes payable		
Value added tax	50	37
Corporate income tax	0	30
Social security tax	50	48
Personal income tax	35	27
Land tax	71	70
Garbage tax	133	140
Other taxes	3	15
Total taxes payable	342	367
Accrued expenses		
Payables to employees	156	170
Interest payable	31	61
Other accrued expenses	191	900
Total accrued expenses	378	1,131
Deferred income		
Prepayments received on sale of real estate	2,349	695
Guarantee deposits	15	21
Other deferred income	10	10
Total deferred income	2,374	726
Total short-term payables and deferred income	3,838	2,507

Long-term payables and deferred income

	30 September 2018	31 December 2017
In thousands of euros		
Retentions and deposits received	3	0
Total long-term payables	3	0

15. Related party disclosures

The group has conducted transactions or has balances with the following related parties:

- 1) companies under the control of the chief executive and the members of the supervisory board of Arco Vara AS that have a significant interest in the group's parent company;
- 2) other related parties: the CEO and the members of the supervisory board of Arco Vara AS and companies under their control (excluding companies that have a significant interest in the group's parent company).

Transactions with related parties

	9 months 2018	9 months 2017
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Services purchased	21	41
Paid interest	0	9
Other related parties		
Services sold	1	2

Balances with related parties

	30 September 2018	31 December 2017
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Bonds issued	0	100
Other related parties		
Bonds issued	1	1

In 9 months 2018, the remuneration provided to the group's key management personnel, i.e. the CEO / member of the management board and the members of the supervisory board of the group's parent company, including social security charges, amounted to 80 thousand euros, of which 26 thousand euros in Q3 (in 9 months and Q3 2017: 87 thousand euros and 25 thousand euros respectively). The remuneration provided to the CEO / member of the management board is based on his service contract. The termination benefits agreed with Tarmo Sild, who was appointed the CEO / member of the management board of Arco Vara AS in October 2012, amount to up to five months' base remuneration. The mandate of the CEO was extended by 3 years (until October 2021) on the supervisory board meeting held in October 2018. The basis for the remuneration provided to the members of the supervisory board was changed in July 2013 and was slightly amended in February 2015. According to the resolutions of the general meeting of Arco Vara AS, the members of the supervisory board will receive 500 euros (net amount) for every meeting where they have participated, but not more than 1,000 euros (net amount) per month. The payment of the remuneration is dependent on the signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating on the board meetings are also compensated to the members of the supervisory board. The group's key management personnel have not been granted or received any other remuneration or benefits (bonuses, termination benefits, etc) in the reporting period.

According to the decision of the annual general meeting of Arco Vara AS, held on 30 May 2017, twelve convertible bonds were issued with the nominal value of 500 euros each. The convertible bonds will give to the key employees of the group the right to subscribe to the total of up to 200 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2020 if the employees still work at the company at the time and if the net profit for years 2017-2019 combined is at least 5.5 million euros. The Black-Scholes model was used to calculate the fair value of the key employee option, according to which no equity reserve has been formed.

According to the decision of the annual general shareholders' meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the CEO of the group's parent company the right to subscribe for additional 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. An equity reserve in the amount of 134 thousand euros has been formed for the option associated with the bond. See also note 9.

STATEMENT BY THE CEO / MEMBER OF THE MANAGEMENT BOARD

The CEO / member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the third quarter and 9 months ended on 30 September 2018.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and they give a true and fair view of the financial position, financial performance and cash flows of Arco Vara AS. Arco Vara AS is a going concern.



Tarmo Sild
Chief Executive and Member of the Management Board of Arco Vara AS
On 8 November 2018