



**INTERIM REPORT  
FOR THE FOURTH QUARTER  
AND TWELVE MONTHS OF 2017  
(UNAUDITED)**

## INTERIM REPORT FOR THE FOURTH QUARTER AND TWELVE MONTHS OF 2017 (UNAUDITED)

Company name: Arco Vara AS

Registry number: 10261718

Address: Rävala 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](http://www.arcorealestate.com)

Regional websites: [www.arcovara.ee](http://www.arcovara.ee)  
[www.arcoreal.bg](http://www.arcoreal.bg)

Core activities: Real estate development  
Renting and operating of real estate (EMTAK 6820)  
Activities of real estate agencies (EMTAK 6831)  
Real estate management (EMTAK 6832)

Financial year: 1 January 2017 – 31 December 2017

Reporting period: 1 January 2017 – 31 December 2017

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

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

## CONTENTS

<b>DIRECTORS' REPORT FOR Q4 AND 12 MONTHS OF 2017</b> .....	<b>4</b>
GENERAL INFORMATION .....	4
Group's activities.....	4
Goals and core values .....	4
Group structure .....	4
KEY PERFORMANCE INDICATORS .....	6
GROUP CEO'S REVIEW .....	8
SERVICE DIVISION .....	8
DEVELOPMENT DIVISION .....	9
PEOPLE.....	10
Remuneration .....	10
Management board and supervisory board .....	10
SHARES AND SHAREHOLDERS.....	10
Share price .....	10
Shareholder structure .....	12
CEO'S CONFIRMATION ON DIRECTORS' REPORT .....	14
<b>CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS</b> .....	<b>15</b>
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	15
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	16
CONSOLIDATED STATEMENT OF CASH FLOWS .....	17
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	18
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS.....	19
1. Significant accounting policies .....	19
2. Segment information.....	19
3. Revenue .....	20
4. Cost of sales .....	20
5. Marketing and distribution expenses.....	20
6. Administrative expenses .....	20
7. Financial income and expenses.....	21
8. Earnings per share.....	21
9. Receivables and prepayments.....	21
10. Inventories .....	22
11. Investment property .....	22
12. Loans and borrowings.....	23
13. Payables and deferred income .....	23
14. Related party disclosures.....	24
STATEMENT BY THE CEO / MEMBER OF THE MANAGEMENT BOARD.....	25

## DIRECTORS' REPORT FOR Q4 AND 12 MONTHS OF 2017

### GENERAL INFORMATION

#### Group's activities

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 as well as in short-term investment in residential real estate. The Service Division offers to the group additional value by generating analytical data on market demand and supply, and behaviour 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.

#### Goals and core values

Common goals for all Arco Vara companies are:

- Providing clients with trustworthy real estate services which are based on quality information and integrated real estate products of high use value, while being innovative;
- Achieving stable and strong return on equity for the shareholders, which beats the competition in real estate business and justifies investing into and holding Arco Vara's shares;
- Creating the best conditions for self-realization in real estate industry for the people working for the group.

Arco Vara's core values include:

- Partnership – our client is our partner;
- Reliability – we are reliable, open and honest;
- Professionalism – we deliver quality;
- Caring – we value our clients as individuals;
- Responsibility – we keep our promises.

#### Group structure

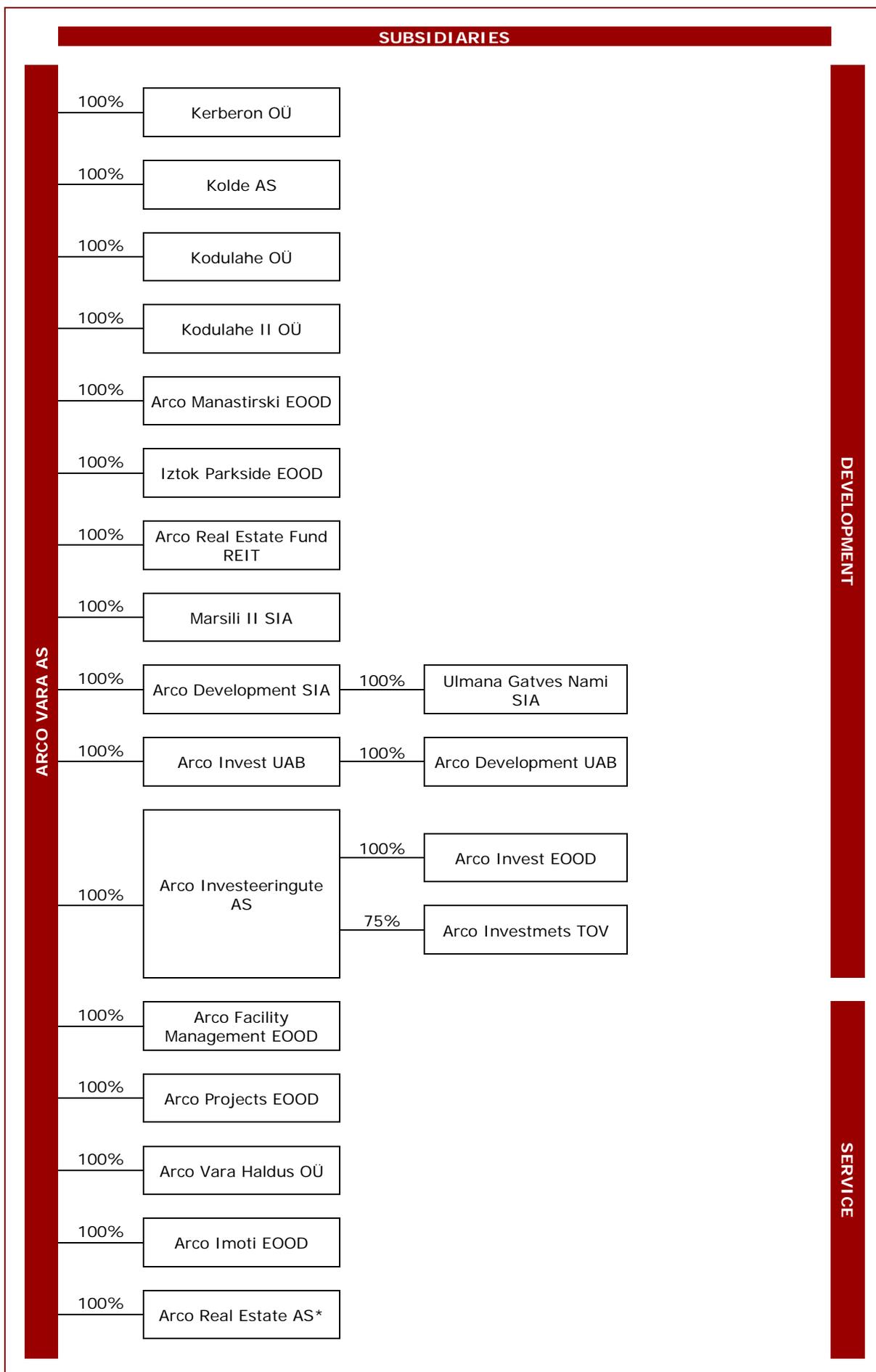
As of 31 December 2017, the group consisted of 21 companies, the same as on 31 December 2016. In 2017, there have been no changes in the group's structure.

#### Significant subsidiaries as of 31 December 2017

Company name	Location	Segment	Share capital (nominal value)	Equity balance on 31 Dec 2017	The group's interest
In thousands of euros					
Arco Invest EOOD	Bulgaria	Development	28,762	233	100%
Iztok Parkside EOOD	Bulgaria	Development	1,433	945	100%
Arco Manastirski EOOD	Bulgaria	Development	4	122	100%
Kodulahe OÜ	Estonia	Development	3	1,943	100%
Kerberon OÜ	Estonia	Development	5	1,398	100%
Marsili II SIA	Latvia	Development	1,524	739	100%
Arco Real Estate AS*	Estonia	Service	42	-205	100%
Arco Imoti EOOD	Bulgaria	Service	444	221	100%

\* Arco Real Estate AS was renamed Arco Vara Kinnisvarabüroo AS on January 23, 2018

Group structure as of 31 December 2017



\* Arco Real Estate AS was renamed Arco Vara Kinnisvarabüroo AS on January 23, 2018

## KEY PERFORMANCE INDICATORS

- In Q4 2017, the group's revenue was 8.0 million euros, which is 5.7 times higher compared to the revenue of 1.2 million euros in Q4 2016. In 2017, the group's revenue was 18.3 million euros, which is 88.7% higher compared to the revenue of 9.7 million euros in 2016. The revenue of the Development Division amounted to 7.4 million euros in Q4 2017 and 15.9 million euros in 2017, and the revenue of the Service Division amounted to 0.8 million euros in Q4 and 2.9 million euros in 2017.
- In Q4 2017, the group's operating profit (=EBIT) was 0.8 million euros and net profit 0.7 million euros. In 2017, operating profit was 1.3 million euros and net profit 0.8 million euros. The operating profit of the Development Division amounted to 1.1 million euros in Q4 2017 and 2.0 million euros in 2017. The Service Division earned a small operating loss in Q4 2017 and operating loss of 0.2 million euros in 2017 as a whole.
- In Q4 2017, 57 apartments were sold in projects developed by the group (in 2017: 117 apartments, 2 commercial spaces and 6 land plots). In 2016, 77 apartments, 9 commercial spaces and 8 land plots were sold. In the first half of 2016, active sales were made in Manastirski project in Bulgaria; in the second half of 2017, Kodulahe I stage apartments got ready for final sale.
- In 2017, the group's debt burden (net loans) decreased by 3.4 million euros down to the level of 10.0 million euros as of 31 December 2017. As of 31 December 2017, the weighted average annual interest rate of interest bearing liabilities was 5.4%, which is 0.1% higher than on 31 December 2016.

## Main financial figures

	12 months 2017	12 months 2016	Q4 2017	Q4 2016
In millions of euros				
<b>Revenue</b>				
Development	15.9	7.0	7.4	0.6
Services	2.9	3.2	0.8	0.8
Eliminations	-0.5	-0.5	-0.2	-0.2
<b>Total revenue</b>	<b>18.3</b>	<b>9.7</b>	<b>8.0</b>	<b>1.2</b>
<b>Operating profit (EBIT)</b>				
Development	2.0	0.6	1.1	-0.9
Services	-0.2	-0.2	-0.1	0.0
Unallocated income and expenses	-0.5	-0.4	-0.2	0.0
Eliminations	0.0	-0.1	0.0	-0.2
<b>Total operating profit/loss (EBIT)</b>	<b>1.3</b>	<b>-0.1</b>	<b>0.8</b>	<b>-1.1</b>
Financial income and expenses	-0.5	-0.6	-0.1	-0.1
Income tax	0.0	-0.1	0.0	-0.1
<b>Net profit/loss</b>	<b>0.8</b>	<b>-0.8</b>	<b>0.7</b>	<b>-1.3</b>
Cash flows of operating activities	-2.0	1.7	0.3	-1.3
Cash flows of investing activities	-0.5	-2.4	-0.1	0.0
Cash flows of financing activities	3.9	0.8	0.9	1.7
<b>Net cash flows</b>	<b>1.4</b>	<b>0.1</b>	<b>1.1</b>	<b>0.4</b>
Cash and cash equivalents at beginning of period	0.8	0.7	1.1	0.4
Cash and cash equivalents at end of period	2.2	0.8	2.2	0.8
Total assets, at period end	24.3	27.7		
Invested capital, at period end	22.1	23.2		
Net loans, at period end	10.0	13.4		
Equity, at period end	9.8	9.0		

**Key ratios**

	12 months 2017	12 months 2016	Q4 2017	Q4 2016
EPS (in euros)	0.12	-0.13	0.11	-0.21
Diluted EPS (in euros)	0.11	-0.13	0.10	-0.20
ROIC (rolling, four quarters)	3.2%	-3.7%		
ROE (rolling, four quarters)	8.8%	-8.4%		
ROA (rolling, four quarters)	2.8%	-3.2%		
Current ratio	2.72	1.15		
Quick ratio	0.69	0.09		
Financial leverage	2.49	3.09		
Average loan term (in years)	1.7	1.2		
Average annual interest rate of loans	5.4%	5.3%		
Number of staff, at period end	140	110		

**Revenue and net profit/loss from continuing operations**

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Total 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Total 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Total 2017
In millions of euros															
Revenue	4.4	2.1	2.1	2.1	10.7	5.1	2.1	1.2	1.3	9.7	1.6	1.0	7.7	8.0	18.3
Net profit/loss	0.7	0.0	0.2	-0.4	0.5	1.1	-0.2	-0.4	-1.3	-0.8	-0.3	-0.3	0.7	0.8	0.8

**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 interest-bearing liabilities + non-current liabilities + equity (at the end of period)

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

Return on invested capital (ROIC) = past four quarters' net profit / average invested capital

Return on equity (ROE) = past four quarters' net profit / average equity

Return on assets (ROA) = past four quarters' net profit / average total assets

Current ratio = current assets / current liabilities

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

Financial leverage = total assets / equity

Number of staff at period-end = number of people working for the group under employment or authorization (service) contracts

## GROUP CEO'S REVIEW

For Arco Vara, year 2017 ended with healthy sales revenue of 18 mln euros, which, among other things, is a sustainable level. Compared to the end of 2016, we had created a much stronger foundation by the end of 2017.

Firstly, we now have two active ongoing developments, Iztok Parkside and Kodulahe, in addition to which we gained opportunities to increase our development volumes. We have used these opportunities by now by acquiring Lozen project in Sofia and Paldiski mnt 74 plot in Tallinn. Figuratively speaking, at any point in time, we have at least two cranes up and working, and 1000+ apartments lined up in the Group's development portfolio.

Secondly, our cash position has improved and our loan burden has decreased by over 20%. In addition, the loan burden has been restructured from mostly short-term to mostly long-term.

Thirdly, the Group made a profit and the profit reached our bank account. As a director and as a shareholder, this is the kind of profit I value the most.

The only thing where we remained below our expectations was the size of the profit, which amounted to 0.8 mln euros. Return on equity of 8.8% p.a. is not enough. Here we have to take a look in the mirror and find opportunities to increase equity turnover. In Madrid Blvd building in Sofia, the rental income was below expectations because we did not achieve full occupancy, and the lost profits were in the same ballpark. In Kodulahe project Estonia, about 10% of the project remained unsold by year-end, to be sold during 2018. We saw no good reason to accelerate sales in the situation where construction prices are on the rise and where we will not have new sellable apartments in Kodulahe before 2019. In our real estate services business, we did not yet reach profit in 2017, despite increased revenues.

In 2018, we will mostly be laying foundation for the results of 2019-2020, which will mostly come from Lozen, Kodulahe and smaller developments. We will continue providing real estate services with the aim of becoming the most people-focused real estate company. Towards the end of the year, we will start selling Iztok Parkside apartments and thus the fourth quarter will have the largest bearing on our annual results. The results of Iztok Parkside project will also have the largest impact on our net profit. In terms of distributing the net profit of 2017, dividend payments should remain at previous levels and earned cash should be reinvested into growth.

In summary, Arco Vara will continue accelerating. As the pace of real estate development is comparable to that of a road roller, the acceleration may be less visible, but will have a longer-lasting impact.

## SERVICE DIVISION

In Q4 2017, revenue of the Service Division amounted to 793 thousand euros (Q4 2016: 827 thousand euros), which included intra-group revenue of 155 thousand euros (Q4 2016: 136 thousand euros). In 2017, the revenue decreased by 9.2% to 2,935 thousand euros, compared to the revenue of 3,231 thousand euros in 2016.

In 2017, revenue of the Service Division from main services (real estate brokerage and valuation services) decreased by 9% compared to 2016. The main reason is that the revenue in the amount of 771 thousand euros from the Latvian agency (which was sold in Q4 2016) was included in the group revenue in 2016. As the table below demonstrates, sales revenues of both Estonian and Bulgarian real estate agencies have actually increased significantly.

### Revenue of real estate agencies from brokerage and valuation

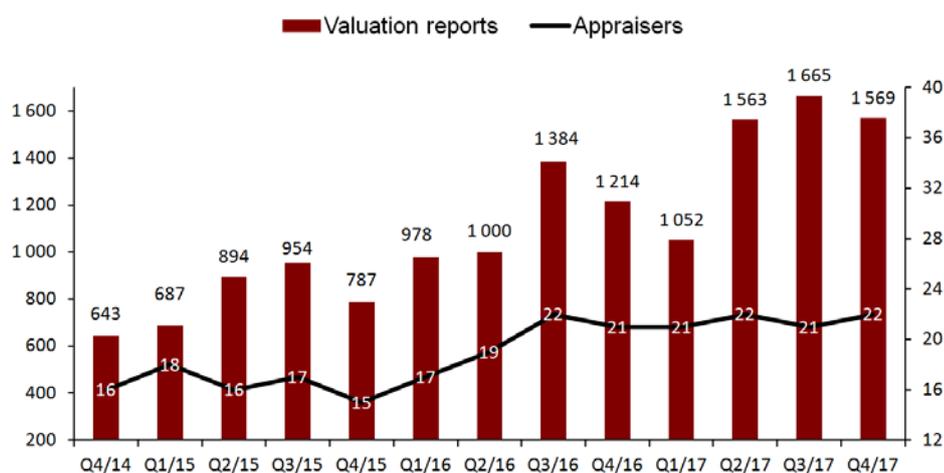
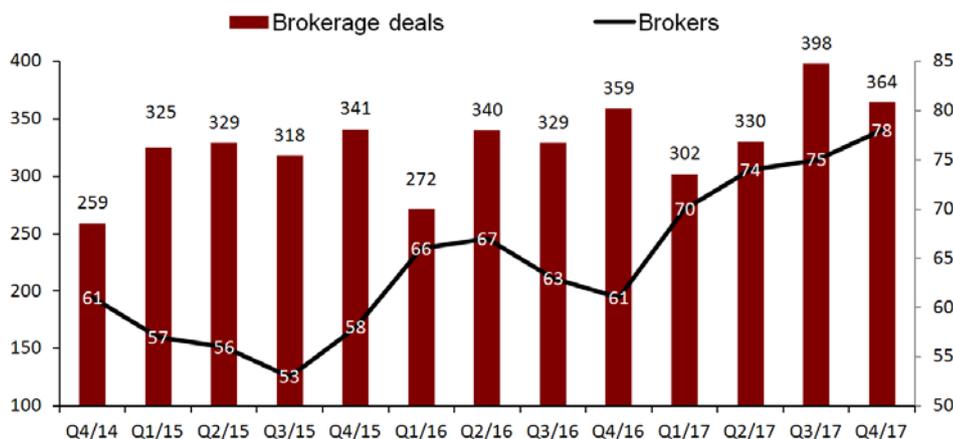
	12 months 2017	12 months 2016	Change, %	Q4 2017	Q4 2016	Change, %
In thousands of euros						
Estonia	1,793	1,422	26%	468	386	21%
Bulgaria	798	639	25%	238	195	22%
Latvia	-	771	-	-	77	-
<b>Total</b>	<b>2,591</b>	<b>2,832</b>	<b>-9%</b>	<b>706</b>	<b>658</b>	<b>7%</b>

In Q4 and 12 months 2017, Estonian agency had net loss of 123 thousand euros and 235 thousand euros, respectively (in 2016: 37 thousand euros and 188 thousand euros). Bulgarian agency earned net profit of 4 thousand euros in Q4 2017 and 50 thousand euros in 12 months 2017. (2016: net loss of 2 thousand euros in Q4 and 19 thousand euros in 12 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 124 thousand euros in 2017, of which 102 thousand euros was intra-group revenue (2016: 118 thousand and 100 thousand euros, respectively). Revenue from accommodation services amounted to 182 thousand euros in 2017, out of which 47 thousand euros was made in Q4 (2016: 144 thousand euros in 12 months and 40 thousand euros in Q4).

The numbers of brokerage deals and valuation reports of the Service Division, together with the number of staff are shown in the following graphs. For better comparability, only Bulgarian and Estonian figures are shown.

**Transaction volumes of the Service Division in the last 3 years**



On 31 December 2017, the number of staff in the Service Division was 126 (on 31.12.2016: 97).

**DEVELOPMENT DIVISION**

The revenue of the Development Division totalled 7,349 thousand euros in Q4 2017 (in Q4 2016: 647 thousand euros) and 15,860 thousand euros in 2017 (in 2016: 7,048 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 7,515 thousand euros in Q4 and 14,390 thousand euros in 12 months (2016: 519 thousand euros in Q4 and 6,562 thousand euros in 12 months). In Q3, the construction of apartments of the first stage apartment building (with 125 apartments and 5 commercial spaces) in the group's largest ongoing development project Kodulahe came close to an end, and active final sales went on in both Q3 and Q4. By the publishing date of the interim report, sale agreements for 115 apartments and 2 commercial spaces have been concluded.

Most of the other revenue of the Development Division consists of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 133 thousand euros in Q4 2017 and 493 thousand euros in 2017 (2016: 117 thousand euros in Q4 and 369 thousand euros in 12 months). By the publishing date of the interim report, last two office spaces remain vacant.

In Q4 and 12 months 2017, the Development Division had operating profit of 1,149 thousand euros and 2 million euros, respectively. In 2016, the Development Division had operating loss of 913 thousand euros in Q4 and operating profit of 611 thousand euros in 12 months.

In Q4 2017, one apartment was sold in Madrid Blvd complex in Sofia. By the end of the quarter, 1 apartment remained unsold. Additional 15 apartments have been furnished and are being rented out as accommodation service. Unsold parking places are also being rented out.

In Q4 2017, preparatory works in the second stage of Kodulahe project continued, where a building with 68 apartments and commercial spaces is planned. Preparatory works also continued for Oa street properties in Tartu, where 4 smaller apartment buildings are planned. Both projects are expected to be finalised by mid-2019.

In Iztok Parkside project in Sofia, construction started in October 2017. By the publication date of this report, presale agreements for 26 apartments have been signed. Iztok project consists of three apartment buildings with 68 apartments (7,070 square meters of apartments' sellable area).

As of 31 December 2017, 6 Marsili residential plots remained unsold in Latvia. During 2017, four plots were sold in the project. Additionally, the sale of Baltezers-3 project (68 undeveloped land plots as a whole) was finished.

As of 31 December 2017, 5 people were employed in the Development Division, the same number as at the end of 2016.

### Summary table of Arco Vara's active projects as of 31 December 2017

Project name	Address	Product main type	Stage	Area of plot(s) (m <sup>2</sup> )	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	S3	2,470	7,070	68
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	10,831	6
Kodulahe, stage 1	Lahepea 7, Tallinn	Apartments, commercial premises	S5	6,102	1,335	15
Kodulahe, stage 2	Lahepea 9, Tallinn	Apartments	S3	3,686	4,979	68
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 residential units	Lehiku 21,23 Tallinn	Apartments	S3	5,915	<700>	<5>

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 31 December 2017, 140 people worked for the group (110 as of 31 December 2016). Employee remuneration expenses in 2017 amounted to 2.6 million euros, out of which 0.8 million euros in Q4 2017 (in 2016: 2.8 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 120 thousand euros in 2017, out of which 33 thousand euros in Q4 2017 (in 2016: 111 thousand euros and 29 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 2018.

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](http://www.arcorealestate.com).

## SHARES AND SHAREHOLDERS

### Share price

Arco Vara AS has issued a total of 8,998,367 of ordinary shares with nominal value of 0.7 euros per share. The share capital of the company increased during the share issue carried out in January 2018. As of 31 December 2017, the company had 6,507,012 issued ordinary shares.

The shares of Arco Vara AS are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.52 euros on 31 December 2017 (1.24 euros on 31 December 2016). During the period, the highest traded price per share was 1.69 euros and the lowest price 1.15 euros. As of 31 December 2017, market capitalization of shares amounted to 9,891 thousand euros and P/B ratio was 1.01 (31 December 2016: 8,069 thousand euros and 0.90, respectively). Based on the last four quarters' profit, P/E ratio was 12.60 on 31 December 2017, but negative on 31 December 2016.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 12 months of 2017 and during the last three years.

**Performance of Arco Vara's shares in 12 months 2017**



**Performance of Arco Vara's shares from 31 December 2014 until 31 December 2017**



**Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 12 months of 2017**

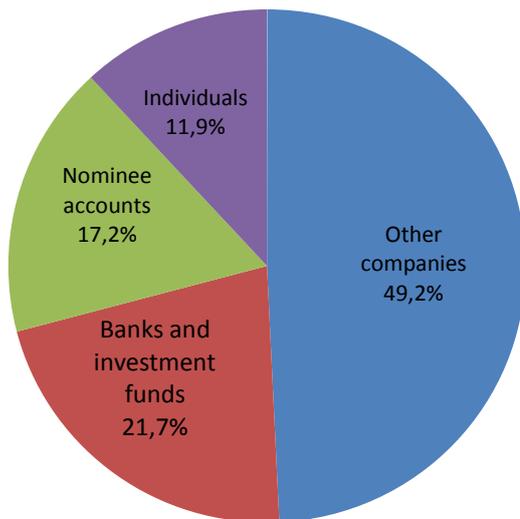


Index/share	31 Dec 2016	31 Dec 2017	+/-%
—OMX Tallinn	1,075.50	1,242.12	+13.99
—ARC1T	1.24 EUR	1.52 EUR	+28.23

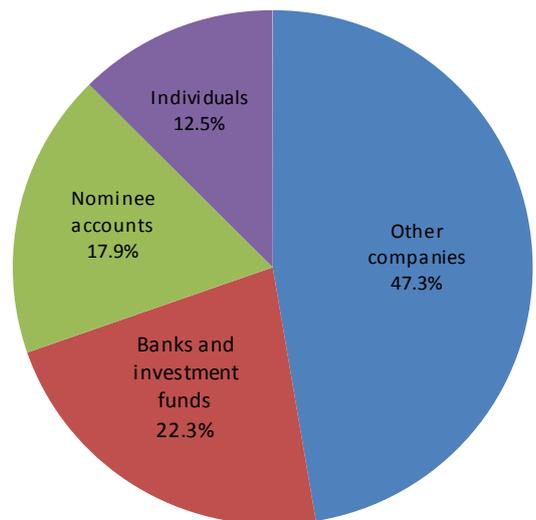
**Shareholder structure**

As of 31 December 2017, Arco Vara AS had 1,403 shareholders (on 31 December 2016: 1,502), including 1,211 individuals as shareholders (on 31 December 2016: 1,297 individuals) who jointly owned 11.9% (on 31 December 2016: 12.5%) of the company. Complete shareholder structures are presented on the following diagrams:

Ownership structure as of 31 December 2017



Ownership structure as of 31 December 2016



**Major shareholders on 31 December 2017**

<b>Name</b>	<b>No of shares</b>	<b>Share, %</b>
Alarmo Kapital OÜ	1,015,805	15.6%
NORDEA BANK FINLAND PLC client	862,820	13.3%
AS Lõhmus Holdings	602,378	9.3%
Gamma Holding Investment OÜ	562,893	8.7%
LHV PENSIONIFOND L	389,765	6.0%
FIREBIRD REPUBLICS FUND LTD	356,428	5.5%
HM Investeeringud OÜ	330,505	5.1%
FIREBIRD AVRORA FUND, LTD.	185,800	2.9%
LHV PENSIONIFOND XL	173,583	2.7%
FIREBIRD FUND L.P.	150,522	2.3%
Other shareholders	1,876,513	28.8%
<b>Total</b>	<b>6,507,012</b>	<b>100.0%</b>

**Holdings of management and supervisory board members on 31 December 2017**

<b>Name</b>	<b>Position</b>	<b>No of shares</b>	<b>Share, %</b>
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	1,015,805	15.6%
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	602,378	9.3%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	chairman of supervisory board	369,259	5.7%
Kert Keskaik (privately and through K Vara OÜ)	member of supervisory board	206,371	3.2%
Steven Yaroslav Gorelik <sup>1</sup>	member of supervisory board	0	-
<b>Total</b>		<b>2,193,813</b>	<b>33.8%</b>

<sup>1</sup> - 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 10.6% 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 fourth quarter and 12 months ended on 31 December 2017 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 15 February 2018

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Note	12 months 2017	12 months 2016	Q4 2017	Q4 2016
In thousands of euros				
Revenue from sale of own real estate	15,245	6,620	7,182	577
Revenue from rendering of services	3,008	3,127	780	732
<b>Total revenue</b>	<b>18,253</b>	<b>9,747</b>	<b>7,962</b>	<b>1,309</b>
Cost of sales	-14,687	-6,745	-6,414	-1,191
<b>Gross profit</b>	<b>3,566</b>	<b>3,002</b>	<b>1,548</b>	<b>118</b>
Other income	346	182	292	147
Marketing and distribution expenses	-487	-556	-140	-138
Administrative expenses	-1,875	-2,064	-650	-545
Other expenses	-350	-99	-307	-70
Gain/loss on revaluation of investment property	88	-584	88	-584
Gain on sale of subsidiaries	0	4	0	3
<b>Operating profit/loss</b>	<b>1,288</b>	<b>-115</b>	<b>831</b>	<b>-1,069</b>
Finance income and costs	-489	-590	-105	-131
<b>Profit/loss before tax</b>	<b>799</b>	<b>-705</b>	<b>726</b>	<b>-1,200</b>
Income tax	-14	-127	-14	-127
<b>Net profit/loss</b>	<b>785</b>	<b>-832</b>	<b>712</b>	<b>-1,327</b>
<b>Net profit/loss for the period</b>	<b>785</b>	<b>-832</b>	<b>712</b>	<b>-1,327</b>
<i>attributable to owners of the parent</i>	<i>785</i>	<i>-832</i>	<i>712</i>	<i>-1,327</i>
<i>attributable to non-controlling interests</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Total comprehensive income/expense for the period</b>	<b>785</b>	<b>-832</b>	<b>712</b>	<b>-1,327</b>
<i>attributable to owners of the parent</i>	<i>785</i>	<i>-832</i>	<i>712</i>	<i>-1,327</i>
<i>attributable to non-controlling interests</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Earnings per share (in euros)</b>				
- basic	0.12	-0.13	0.11	-0.21
- diluted	0.11	-0.13	0.10	-0.20

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	31 December 2017	31 December 2016
In thousands of euros			
Cash and cash equivalents		2,284	845
Receivables and prepayments	9	747	470
Inventories	10	8,974	14,593
<b>Total current assets</b>		<b>12,005</b>	<b>15,908</b>
Receivables and prepayments	9	18	11
Investments		34	0
Investment property	11	11,299	10,835
Property, plant and equipment		704	718
Intangible assets		275	248
<b>Total non-current assets</b>		<b>12,330</b>	<b>11,812</b>
<b>TOTAL ASSETS</b>		<b>24,335</b>	<b>27,720</b>
Loans and borrowings	12	1,871	9,372
Payables and deferred income	13	2,486	4,369
Provisions		59	108
<b>Total current liabilities</b>		<b>4,416</b>	<b>13,849</b>
Loans and borrowings	12	10,132	4,886
<b>Total non-current liabilities</b>		<b>10,132</b>	<b>4,886</b>
<b>TOTAL LIABILITIES</b>		<b>14,548</b>	<b>18,735</b>
Share capital		4,555	4,555
Additional paid-in capital		292	292
Statutory capital reserve		2,011	2,011
Other reserves	8	134	52
Retained earnings		2,795	2,075
<b>Total equity attributable to owners of the parent</b>		<b>9,787</b>	<b>8,985</b>
<b>TOTAL EQUITY</b>		<b>9,787</b>	<b>8,985</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>24,335</b>	<b>27,720</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	12 months 2017	12 months 2016	Q4 2017	Q4 2016
In thousands of euros				
Cash receipts from customers	12,613	14,290	5,177	2,008
Cash paid to suppliers	-10,498	-9,608	-2,367	-2,858
Other taxes paid and recovered (net)	-2,112	-1,737	-1,564	-110
Cash paid to employees	-964	-1,151	-261	-257
Other cash payments and receipts related to operating activities (net)	-1,001	-96	-723	-23
<b>NET CASH FROM/USED IN OPERATING ACTIVITIES</b>	<b>-1,960</b>	<b>1,698</b>	<b>262</b>	<b>-1,240</b>
Payments made on purchase of tangible and intangible assets	-74	-99	0	-18
Proceeds from sale of property, plant and equipment	0	1	0	1
Payments made on purchase and development of investment property	-370	-383	-24	0
Proceeds from sale of a subsidiary	0	41	0	40
Payments made on purchase of a subsidiary	0	-1,890	0	0
Loans provided	-37	0	-30	0
Repayment of loans provided	4	0	2	0
Other receipts related to investing activities	24	0	1	0
Other payments related to investing activities	-34	-3	-11	0
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-487</b>	<b>-2,333</b>	<b>-62</b>	<b>23</b>
Proceeds from loans received	6,085	6,135	883	2,850
Settlement of loans and borrowings	-1,809	-4,637	-353	-1,259
Interest paid	-879	-797	-263	-176
Dividends paid	-65	-61	0	0
Proceeds from share capital increase	0	273	0	273
Other receipts related to financing activities	665	0	665	0
Other payments related to financing activities	-110	-138	-6	0
<b>NET CASH FROM/USED IN FINANCING ACTIVITIES</b>	<b>3,887</b>	<b>775</b>	<b>926</b>	<b>1,688</b>
<b>NET CASH FLOW</b>	<b>1,439</b>	<b>140</b>	<b>1,126</b>	<b>471</b>
Cash and cash equivalents at beginning of period	845	745	1,158	414
<b>Increase in cash and cash equivalents</b>	<b>1,439</b>	<b>140</b>	<b>1,126</b>	<b>471</b>
Decrease in cash and cash equivalents through sale of subsidiaries	0	-40	0	-40
Cash and cash equivalents at the end of period	2,284	845	2,284	845

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands of euros								
<b>Balance as of 31 December 2015</b>	<b>4,282</b>	<b>292</b>	<b>2,011</b>	<b>298</b>	<b>2,656</b>	<b>9,539</b>	<b>91</b>	<b>9,630</b>
Total comprehensive income for the period	0	0	0	0	-832	-832	0	-832
Transactions with owners:	273	0	0	-246	251	278	-91	187
<i>Increase of share capital</i>	273	0	0	-298	298	273	0	273
<i>Dividends paid</i>	0	0	0	0	-61	-61	0	-61
<i>Change in non-controlling interest</i>	0	0	0	0	14	14	-91	-77
<i>Formation of equity reserve</i>	0	0	0	52	0	52	0	52
<b>Balance as at 31 December 2016</b>	<b>4,555</b>	<b>292</b>	<b>2,011</b>	<b>52</b>	<b>2,075</b>	<b>8,985</b>	<b>0</b>	<b>8,985</b>
<b>Balance as of 31 December 2016</b>	<b>4,555</b>	<b>292</b>	<b>2,011</b>	<b>52</b>	<b>2,075</b>	<b>8,985</b>	<b>0</b>	<b>8,985</b>
Total comprehensive income for the period	0	0	0	0	785	785	0	785
Transactions with owners:	0	0	0	82	-65	17		17
<i>Dividends paid</i>	0	0	0	0	-65	-65	0	-65
<i>Formation of equity reserve</i>	0	0	0	82	0	82	0	82
<b>Balance as of 31 Desember 2017</b>	<b>4,555</b>	<b>292</b>	<b>2,011</b>	<b>134</b>	<b>2,795</b>	<b>9,787</b>	<b>0</b>	<b>9,787</b>

## 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 12 months ended on 31 December 2017 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 2016, 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. Segment information

The group has the following reportable operating segments:

- Development - development of residential and commercial real estate environments;
- Service - real estate services: real estate brokerage, valuation, management and short-term investments in real estate.

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. Unallocated items include primarily income, expenses, assets and liabilities of the group's parent company.

#### Revenue and operating profit by operating segment

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	12M 2017	12M 2016	12M 2017	12M 2016	12M 2017	12M 2016	12M 2017	12M 2016	12M 2017	12M 2016
in thousands of euros										
External revenue	15,760	6,932	2,489	2,813	4	2	0	0	18,253	9,747
<i>Annual change</i>	127,4%		-11,5%						87,3%	
Inter-segment revenue	100	116	446	418	0	0	-546	-534	0	0
<b>Total revenue</b>	<b>15,860</b>	<b>7,048</b>	<b>2,935</b>	<b>3,231</b>	<b>4</b>	<b>2</b>	<b>-546</b>	<b>-534</b>	<b>18,253</b>	<b>9,747</b>
<i>Annual change</i>	125,0%		-9,2%							
<b>Operating profit/loss</b>	<b>2,000</b>	<b>611</b>	<b>-143</b>	<b>-174</b>	<b>-533</b>	<b>-455</b>	<b>-36</b>	<b>-97</b>	<b>1,288</b>	<b>-115</b>

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	Q4 2017	Q4 2016	Q4 2017	Q4 2016	Q4 2017	Q4 2016	Q4 2017	Q4 2016	Q4 2017	Q4 2016
in thousands of euros										
External revenue	7,323	616	638	691	1	2	0	0	7,962	1,309
<i>Annual change</i>	1,088.8%		-7.7%						508.3%	
Inter-segment revenue	26	31	155	136	0	0	-181	-167	0	0
<b>Total revenue</b>	<b>7,349</b>	<b>647</b>	<b>793</b>	<b>827</b>	<b>1</b>	<b>2</b>	<b>-181</b>	<b>-167</b>	<b>7,962</b>	<b>1,309</b>
<i>Annual change</i>	1,035.9%		-4.1%							
<b>Operating profit/loss</b>	<b>1,149</b>	<b>-913</b>	<b>-120</b>	<b>-13</b>	<b>-156</b>	<b>32</b>	<b>-42</b>	<b>-175</b>	<b>831</b>	<b>-1,069</b>

#### Assets and liabilities by operating segment

Segment	Development		Service		Unallocated		Consolidated	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
in thousands of euros								
Assets	23,104	26,892	527	385	705	443	24,335	27,720
Liabilities	12,568	16,816	458	344	1,522	1,575	14,548	18,735

### 3. Revenue

	12 months 2017	12 months 2016	Q4 2017	Q4 2016
In thousands of euros				
Sale of own real estate	15,245	6,620	7,182	577
Real estate brokerage and valuation	2,181	2,515	565	562
Rental of real estate	599	486	126	131
Property management services	73	46	22	13
Other revenue	155	80	67	26
<b>Total revenue</b>	<b>18,253</b>	<b>9,747</b>	<b>7,962</b>	<b>1,309</b>

### 4. Cost of sales

	12 months 2017	12 months 2016	Q4 2017	Q4 2016
In thousands of euros				
Cost of real estate sold (note 10)	-12,785	-4,555	-5,861	-512
Personnel expenses	-1,420	-1,578	-383	-371
Property management costs	-297	-301	-116	-111
Vehicle expenses	-40	-25	-10	-7
Depreciation, amortisation and impairment losses	-9	-12	-2	-3
Inventory write-down	0	-124	0	-124
Other costs	-136	-150	-42	-63
<b>Total cost of sales</b>	<b>-14,687</b>	<b>-6,745</b>	<b>-6,414</b>	<b>-1,191</b>

### 5. Marketing and distribution expenses

	12 months 2017	12 months 2016	Q4 2017	Q4 2016
In thousands of euros				
Advertising expenses	-221	-294	-70	-74
Personnel expenses	-119	-119	-35	-25
Brokerage fees	-27	-7	-6	-1
Market research	0	-6	0	-1
Other marketing and distribution expenses	-120	-130	-29	-37
<b>Total marketing and distribution expenses</b>	<b>-487</b>	<b>-556</b>	<b>-140</b>	<b>-138</b>

### 6. Administrative expenses

	12 months 2017	12 months 2016	Q4 2017	Q4 2016
In thousands of euros				
Personnel expenses	-1,069	-1,104	-392	-325
Office expenses	-296	-372	-107	-80
IT expenses	-159	-150	-42	-33
Services purchased	-152	-231	-38	-54
Depreciation, amortisation and impairment losses	-104	-93	-42	-23
Legal service fees	-26	-37	-9	-11
Vehicle expenses	-26	-33	-6	-8
Other expenses	-43	-44	-14	-11
<b>Total administrative expenses</b>	<b>-1,875</b>	<b>-2,064</b>	<b>-650</b>	<b>-545</b>

## 7. Financial income and expenses

	12 months 2017	12 months 2016	Q4 2017	Q4 2016
In thousands of euros				
Interest expenses	-443	-530	-104	-130
Interest income	0	1	0	1
Other financial income and costs	-46	-61	-1	-2
<b>Total financial income and costs</b>	<b>-489</b>	<b>-590</b>	<b>-105</b>	<b>-131</b>

## 8. 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. Diluted earnings per share are calculated by taking into account the effects of all potentially issued shares.

	12 months 2017	12 months 2016	Q4 2017	Q4 2016
Weighted average number of ordinary shares outstanding during the period	6,507,012	6,177,750	6,507,012	6,358,642
Number of ordinary shares potentially to be issued (at period end)	590,000	390,000	590,000	390,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	785	-832	712	-1 327
<b>Earnings per share (in euros)</b>	<b>0.12</b>	<b>-0.13</b>	<b>0.11</b>	<b>-0.21</b>
<b>Diluted earnings per share (in euros)</b>	<b>0.11</b>	<b>-0.13</b>	<b>0.10</b>	<b>-0.20</b>

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 additionally 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 14.

According to the decision of the annual general meeting of Arco Vara AS, held on 5 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 net profit for years 2017-2019 combined is at least 5.5 million euros.

## 9. Receivables and prepayments

### Short-term receivables and prepayments

	31 December 2017	31 December 2016
In thousands of euros		
<b>Trade receivables</b>		
Receivables from customers	192	193
Allowance for doubtful trade receivables	0	0
<b>Total trade receivables</b>	<b>192</b>	<b>193</b>
<b>Other receivables</b>		
Loans provided	3	0
Miscellaneous receivables	6	10
<b>Total other receivables</b>	<b>9</b>	<b>10</b>
<b>Accrued income</b>		
Prepaid and recoverable taxes	163	107
Other accrued income	26	5
<b>Total accrued income</b>	<b>189</b>	<b>112</b>
<b>Prepayments</b>	<b>357</b>	<b>155</b>
<b>Total short-term receivables and prepayments</b>	<b>747</b>	<b>470</b>

**Long-term receivables and prepayments**

	31 December 2017	31 December 2016
In thousands of euros		
Prepayments	18	11
<b>Total long-term receivables and prepayments</b>	<b>18</b>	<b>11</b>

**10. Inventories**

	31 December 2017	31 December 2016
In thousands of euros		
Properties purchased and being developed for resale	8,963	14,571
Materials and finished goods	11	6
Prepayments for inventories	0	16
<b>Total inventories</b>	<b>8,974</b>	<b>14,593</b>

**Properties purchased and being developed for resale**

	2017	2016
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>14,571</b>	<b>12,580</b>
Properties purchased for development	12	2,102
Construction costs of apartment buildings	6,658	5,633
Capitalized borrowing costs	296	455
Inventory write-down	13	-124
Other capitalized costs	193	141
Reclassification to/from investment property (note 11)	10	-1,661
Cost of sold properties (note 4)	-12,785	-4,555
<b>Balance at the end of period, 31 December</b>	<b>8,963</b>	<b>14,571</b>

**11. Investment property**

	2017	2016
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>10,835</b>	<b>9,513</b>
Net loss on changes in fair value	68	-584
Capitalised development costs	76	325
Capitalized borrowing costs	30	0
Reclassification to/from inventories (note 10)	-10	1 661
Reclassification to property, plant and equipment	0	-138
Purchase of land plots	300	58
<b>Balance at the end of period, 31 December</b>	<b>11,299</b>	<b>10,835</b>

## 12. Loans and borrowings

	As of 31 December 2017			As of 31 December 2016		
	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	10,625	500	10,125	12,827	9,063	3,764
Bonds	1,127	1,120	7	1,121	0	1,121
Finance lease liabilities	1	1	0	10	9	1
Other loans	250	250	0	300	300	0
<b>Total</b>	<b>12,003</b>	<b>1,871</b>	<b>10,132</b>	<b>14,258</b>	<b>9,372</b>	<b>4,886</b>

In 2017, the group settled loans and borrowings in the amount of 8,974 thousand euros (in 2016: 4,637 thousand euros) and raised new loans in the amount of 6,719 thousand euros (in 2016: 6,135 thousand euros).

In 2017, the following major loan obligations were settled:

- 455 thousand euros of Madrid Blvd project's bank loan principal to Piraeus bank in Bulgaria;
- 7,756 thousand euros of bank loan for financing construction of the first stage apartment building in Kodulahe project.

In 2017, the group raised the following major loans:

- 5,043 thousand euros of bank loan for financing construction of the first stage apartment building in Kodulahe project;
- 1,005 thousand euros of bank loan for financing construction of the apartment buildings in Iztok Parkside project.

## 13. Payables and deferred income

### Short-term payables and deferred income

	31 December 2017	31 December 2016
In thousands of euros		
<b>Trade payables</b>	<b>261</b>	<b>800</b>
<b>Miscellaneous payables</b>	<b>22</b>	<b>21</b>
<b>Taxes payable</b>		
Value added tax	37	66
Corporate income tax	30	53
Social security tax	48	47
Personal income tax	27	27
Other taxes	225	173
<b>Total taxes payable</b>	<b>367</b>	<b>366</b>
<b>Accrued expenses</b>		
Payables to employees	170	117
Interest payable	61	76
Other accrued expenses	900	5
<b>Total accrued expenses</b>	<b>1,131</b>	<b>198</b>
<b>Deferred income</b>		
Prepayments received on sale of real estate	695	2,958
Other deferred income	10	26
<b>Total deferred income</b>	<b>705</b>	<b>2,984</b>
<b>Total short-term payables and deferred income</b>	<b>2,486</b>	<b>4,369</b>

## 14. 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

	12 months 2017	12 months 2016
In thousands of euros		
<b>Companies that have a significant interest in the group's parent company</b>		
Share capital contribution	0	273
Services purchased	56	34
Bonds issued	0	100
Redemption of bonds	0	150
Paid interest	12	9
<b>Other related parties</b>		
Services sold	103	1
Settlement of other liabilities	-1	0
Prepayments received	0	6
Bonds issued	0	1

### Balances with related parties

	31 December 2017	31 December 2016
In thousands of euros		
<b>Companies that have a significant interest in the group's parent company</b>		
Bonds issued	100	100
<b>Other related parties</b>		
Deferred income	0	6
Bonds issued	1	1

In 12 months 2017, 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 120 thousand euros, of which 33 thousand euros in Q4 (in 12 months and Q4 2016: 111 thousand euros and 29 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 amount to up to five months' base remuneration. The members of the supervisory board 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 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 8.

## 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 fourth quarter and 12 months ended on 31 December 2017.

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 15 February 2018