



# Arco Vara AS

INTERIM REPORT FOR THE  
III QUARTER AND NINE MONTHS OF 2017  
(UNAUDITED)



ARCO VARA

## INTERIM REPORT FOR THE SECOND QUARTER AND NINE MONTHS OF 2017 (UNAUDITED)

Company name: Arco Vara AS

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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 – 30 September 2017

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

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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## DIRECTORS' REPORT FOR Q3 AND 9 MONTHS 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.

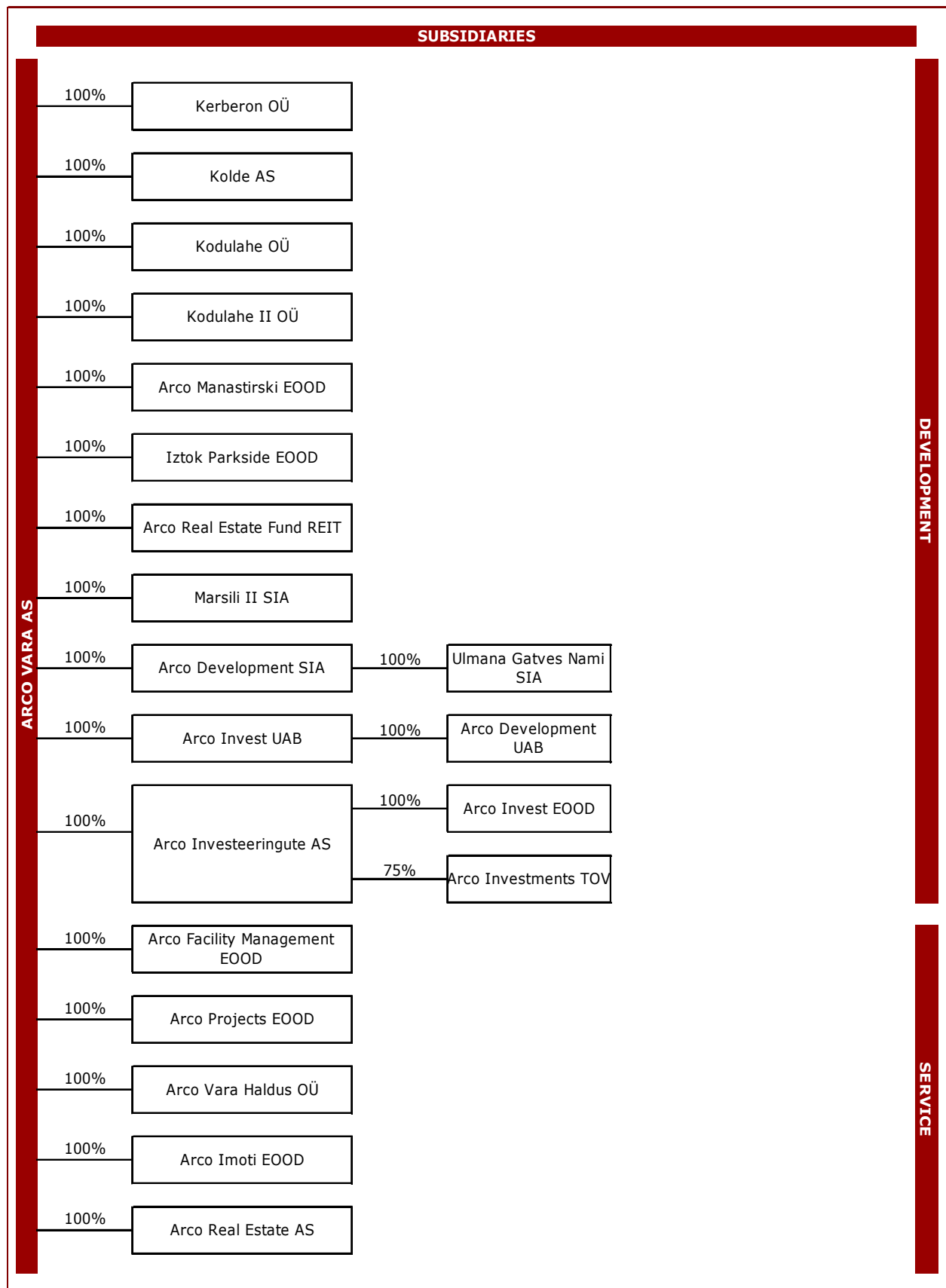
#### Group structure

As of 30 September 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 30 September 2017

Company name	Location	Segment	Share capital (nominal value)	Equity balance on 30 Sept 2017	The group's interest
In thousands of euros					
Arco Invest EOOD	Bulgaria	Development	26,826	309	100%
Iztok Parkside EOOD	Bulgaria	Development	1,433	1,062	100%
Arco Real Estate Fund REIT	Bulgaria	Development	332	320	100%
Kodulahe OÜ	Estonia	Development	3	436	100%
Kerberon OÜ	Estonia	Development	5	1,403	100%
Marsili II SIA	Latvia	Development	1,524	733	100%
Arco Real Estate AS	Estonia	Service	42	-81	100%
Arco Imoti EOOD	Bulgaria	Service	444	225	100%

**Group structure as of 30 September 2017**



## KEY PERFORMANCE INDICATORS

- In Q3 2017, the group's revenue was 7.7 million euros, which is 5.9 times higher compared to the revenue of 1.3 million euros in Q3 2016. In 9 months 2017, the group's revenue was 10.3 million euros, which is 22.6% higher compared to the revenue of 8.4 million euros in 9 months 2016. The revenue of the Development Division amounted to 7.0 million euros in Q3 2017 and 8.5 million euros in 9 months of 2017, and the revenue of the Service Division amounted to 0.8 million euros in Q3 and 2.2 million euros in 9 months of 2017.
- In Q3 2017, the group's operating profit (=EBIT) was 0.8 million euros and net profit 0.7 million euros. In 9 months of 2017, operating profit was 0.4 million euros and net profit 0.1 million euros. The operating profit of the Development Division amounted to 0.9 million euros in Q3 2017 as well as in 9 months 2017. The Service Division earned a small operating loss (less than 0.1 million euros) in Q3 2017.
- In Q3 2017, 59 apartments and 2 commercial spaces were sold in projects developed by the group (in 9 months of 2017: 60 apartments, 2 commercial spaces and 6 land plots). In 9 months of 2016, 75 apartments, 5 commercial spaces and 6 land plots were sold. In the first half of 2016, active sale was made in Manastirski project in Bulgaria; in Q3 2017, Kodulahe I stage apartments got ready for final sale.
- In the first 9 months of 2017, the group's debt burden (net loans) increased by 0.3 million euros up to the level of 13.7 million euros as of 30 September 2017. As of 30 September 2017, the weighted average annual interest rate of interest bearing liabilities was 5.3%, the same as on 31 December 2016.

### Main financial figures

	9 months 2017	9 months 2016	Q3 2017	Q3 2016
In millions of euros				
<b>Revenue</b>				
Development	8.5	6.4	7.0	0.6
Services	2.2	2.4	0.8	0.8
Eliminations	-0.4	-0.4	-0.1	-0.1
<b>Total revenue</b>	<b>10.3</b>	<b>8.4</b>	<b>7.7</b>	<b>1.3</b>
<b>Operating profit (EBIT)</b>				
Development	0.9	1.5	0.9	0.0
Services	-0.1	-0.1	0.0	0.0
Unallocated income and expenses	-0.4	-0.5	-0.1	-0.2
Eliminations	0.0	0.1	0.0	0.0
<b>Total operating profit/loss (EBIT)</b>	<b>0.4</b>	<b>1.0</b>	<b>0.8</b>	<b>-0.2</b>
Financial income and expenses	-0.3	-0.5	-0.1	-0.2
<b>Net profit/loss</b>	<b>0.1</b>	<b>0.5</b>	<b>0.7</b>	<b>-0.4</b>
Cash flows of operating activities	-2.3	2.6	0.7	-1.0
Cash flows of investing activities	-0.4	-2.0	0.0	-1.1
Cash flows of financing activities	3.0	-0.9	-0.3	1.6
<b>Net cash flows</b>	<b>0.3</b>	<b>-0.3</b>	<b>0.4</b>	<b>-0.5</b>
Cash and cash equivalents at beginning of period	0.8	0.7	0.7	0.9
Cash and cash equivalents at end of period	1.1	0.4	1.1	0.4
Total assets, at period end	28.4	26.6		
Invested capital, at period end	23.9	22.7		
Net loans, at period end	13.7	12.3		
Equity, at period end	9.0	10.0		

**Key ratios**

	9 months 2017	9 months 2017	Q3 2017	Q3 2016
EPS (in euros)	0.01	0.08	0.11	-0.06
Diluted EPS (in euros)	0.01	0.07	0.10	-0.05
ROIC (rolling, four quarters)	-5.1%	0.3%		
ROE (rolling, four quarters)	-14.0%	0.6%		
ROA (rolling, four quarters)	-4.3%	0.3%		
Current ratio	0.88	3.22		
Quick ratio	0.10	0.20		
Financial leverage	3.16	2.67		
Average loan term (in years)	0.4	1.2		
Average annual interest rate of loans	5.3%	6.1%		
Number of staff, at period end	132	185		

**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	9M 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	10,3
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	0,1

**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

Right actions bring a result. Arco Vara's mission is to exceed people's expectations in real estate business. We want to be the most people-oriented company. In the 3<sup>rd</sup> quarter, we already did quite well in this. We helped over 2000 people with our brokerage and appraisal services in Estonia and Bulgaria and sold about half of the apartments and commercial spaces of Kodulahe I stage. Feedback from clients has been mainly positive and that gives us a boost for increasing our volumes and developing ourselves.

In Q3, we moved from making a loss (-0,6m EUR in 6M) to becoming profitable. We earned over 20% more money with our services than in the previous year. As a group, we also anticipate a positive 4<sup>th</sup> quarter, by the end of which over 90% of Kodulahe I stage should be sold. Full sell-out is not planned or essential, considering that after such sell-out our stock will be empty again. Other positive developments are that construction is going on in the Iztok project in Sofia, out of which 1/3 has been presold, and that construction of Kodulahe II stage (ca 68 apartments) should commence in Q1 and construction of Oa street development in Tartu (ca 40 apartments) in Q2 of 2018. In Q1 2018, we should be able to acquire two new development land plots, one in Tallinn and another one in Sofia.

In Madrid Blvd building, rental income has increased and cash flows after loan interest payments have become positive. Although finding good tenants into the building has proved to be more time-consuming than we initially expected, we believe that the rental income of the building will increase in the future. We plan to extend the existing bank loan by year-end.

We will continue to develop our skills and processes. In Q3 and Q4, we will harvest the crops of the work already done. The first half of 2018 will be modest again in terms of revenue, although better than H1 of 2017. We will start making substantial revenue and profit again at the end of 2018, when the cranes of today's projects will finish their work and the final sales of apartments will start.

## SERVICE DIVISION

In Q3 2017, revenue of the Service Division amounted to 780 thousand euros (Q3 2016: 806 thousand euros), which included intra-group revenue of 115 thousand euros (Q3 2016: 76 thousand euros). In 9 months 2017, the revenue decreased by 10.9% to 2,142 thousand euros, compared to the revenue of 2,404 thousand euros in 9 months 2016.

In 9 months of 2017, revenue of the Service Division from main services (real estate brokerage and valuation services) decreased by 13% compared to 9 months of 2016. The main reason is that the revenue in the amount of 694 thousand euros from the Latvian agency (which was sold in Q4 2016) was included in the group revenue in 9 months of 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

	9 months 2017	9 months 2016	Change, %	Q3 2017	Q3 2016	Change, %
In thousands of euros						
Estonia	1,325	1,036	28%	484	381	27%
Bulgaria	560	444	26%	206	115	79%
Latvia	-	694	-	-	226	-
<b>Total</b>	<b>1,885</b>	<b>2,174</b>	<b>-13%</b>	<b>690</b>	<b>722</b>	<b>-4%</b>

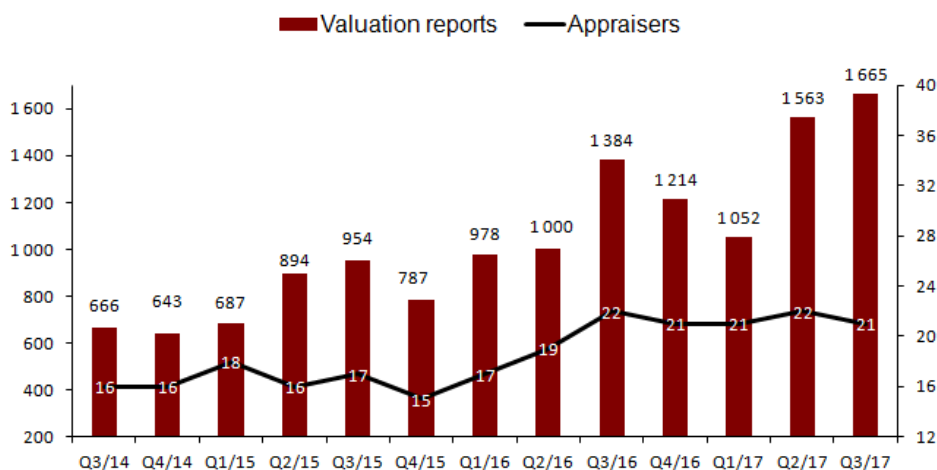
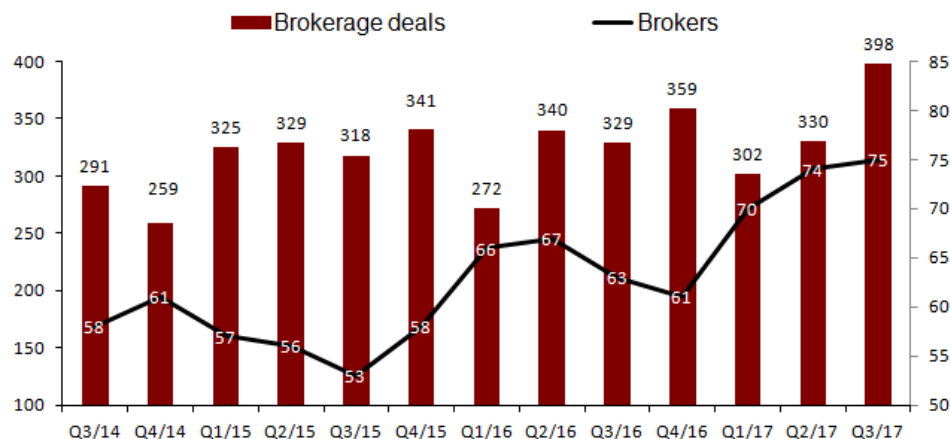
In Q3 and 9 months 2017, Estonian agency had net loss of 4 thousand euros and 112 thousand euros, respectively (in 2016: net loss of 33 thousand euros in Q3 and 152 thousand euros in 9 months). Bulgarian agency earned net profit of 12 thousand euros in Q3 2017 and 53 thousand euros in 9 months 2017. (2016: net profit of 15 thousand euros in Q3 and net loss of 17 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 92 thousand euros in 9 months 2017, 78 thousand euros of which was intra-group revenue (9 months 2016: 87 thousand and 75 thousand euros, respectively). Revenue from accommodation services amounted to 135 thousand euros in 9 months 2017, of which 49 thousand euros was made in Q3 (2016: 104 thousand euros in 9 months and 40 thousand euros in Q3).

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 30 September 2017, the number of staff in the Service Division was 118 (on 31.12.2016: 97).

**DEVELOPMENT DIVISION**

The revenue of the Development Division totalled 7,042 thousand euros in Q3 2017 (in Q3 2016: 586 thousand euros) and 8,511 thousand euros in 9 months 2017 (in 9 months 2016: 6,401 thousand euros), including revenue from the sale of properties in the group’s own development projects in the amount of 6,627 thousand euros in Q3 and 6,875 thousand euros in 9 months (2016: 367 thousand euros in Q3 and 6,043 thousand euros in 9 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 development project Kodulahe came close to an end, and final sales started. By the publishing date of the interim report, sale agreements for 107 apartments and two commercial spaces, plus 4 presale agreements 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 148 thousand euros in Q3 2017 and 360 thousand euros in 9 months 2017 (2016: 89 thousand euros in Q3 and 252 thousand euros in 9 months). By the publishing date of the interim report, last two office spaces remain vacant. The group expects to rent out all vacant spaces during Q4 2017.

In Q3 and 9 months 2017, the Development Division had operating profit of 894 thousand euros and 851 thousand euros, respectively. In 2016, the Development Division earned operating profit of 33 thousand euros in Q3 and 1,524 thousand euros in 9 months. In early 2016, most of sale agreements in the last stage of Manastirski project in Sofia were concluded (the construction of apartment building was finished in December 2015).

In Q3 2017, one apartment was sold and another one presold in Madrid Blvd complex in Sofia. By the end of the quarter, 1 apartment remained unsold. Additional 15 apartments are furnished and are being rented out as accommodation service. Unsold parking places are also being rented out.

In Q3 2017, preparatory works in the second stage of Kodulahe project continued, where a building with ca 70 apartments and commercial spaces is planned. Preparatory works also continued for Oa street properties in Tartu, where 4 smaller apartment buildings are planned. Both of these projects are expected to be finalised by mid-2019.

In Q3 2017, the delay that had emerged in early 2017 in the development of Iztok Parkside project in Sofia ended. Construction permit was received in September and construction started in October. By the publication date of interim report, presale agreements for 23 apartments have been signed. Iztok project consists of three apartment buildings with 68 apartments (7,070 square meters of apartments' sellable area).

As of 30 September 2017, 6 Marsili residential plots remained unsold in Latvia. During 2017, four plots have been sold in the project. Additionally, the sale of Baltezers-3 project (68 undeveloped land plots as a whole) was finished in January.

As of 30 September 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 30 September 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	-	1,759	17
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	S4/S5	6,102	8,732	130
Kodulahe, stage 2	Lahepea 9, Tallinn	Apartments	S3	3,686	<5,200>	<70>
Kodulahe, stages 3-5	Soodi 4, Pagi 3, 5, Tallinn	Apartments	S2	10,578	<8,100>	<120>
Oa street apartments	Oa street 37,39,41, Tartu	Apartments	S3	4,146	<2,300>	<40>
Lehiku residential units	Lehiku 21,23 Tallinn	Apartments	S2	5,915	<1,100>	<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 30 September 2017, 132 people worked for the group (110 as of 31 December 2016). Employee remuneration expenses in 9 months 2017 amounted to 1.8 million euros, out of which 0.7 million euros in Q3 2017 (in 2016: 2.1 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 87 thousand euros in 9 months 2017, out of which 25 thousand euros in Q3 2017 (in 2016: 82 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 2018.

The supervisory board of Arco Vara AS has 5 members. Since 10 February 2015, the supervisory board consists of Hillar-Peeter Luutsalu (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 6,507,012 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 1.59 euros on 30 September 2017 (1.24 euros on 31 December 2016). During the period, the highest traded price per share was 1.62 euros and the lowest price

1.15 euros. As of 30 September 2017, market capitalization of shares amounted to 10,346 thousand euros and P/B ratio was 1.15 (31 December 2016: 8,069 thousand euros and 0.90, respectively). Based on the last four quarters' profit, P/E ratio was negative on both 30 September 2017 and 31 December 2016.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 9 months of 2017 and during the last three years.

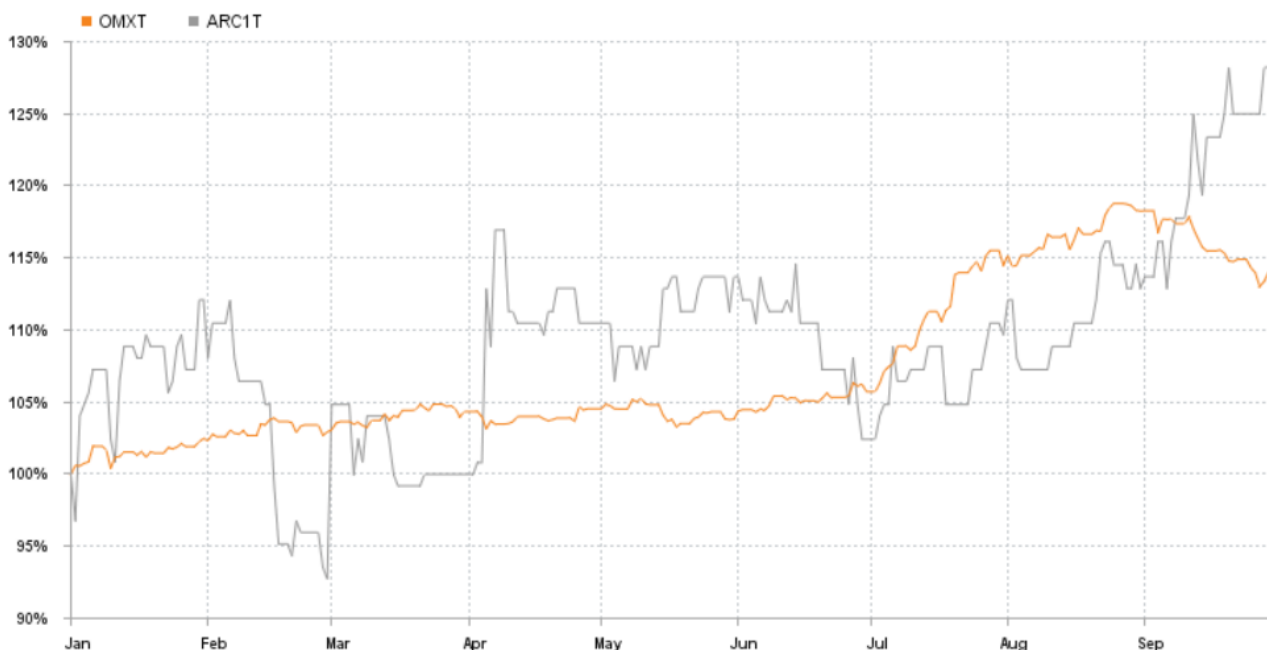
**Performance of Arco Vara's shares in 9 months 2017**



**Performance of Arco Vara's shares from 30 September 2014 until 30 September 2017**



**Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 9 months of 2017**

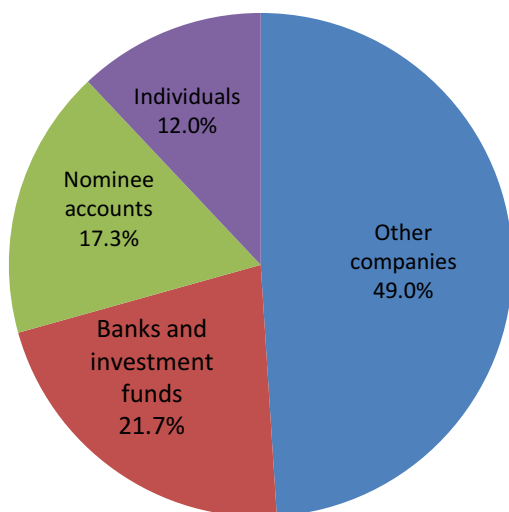


Index/share	31 Dec 2016	30 Sept 2017	+/-%
—OMX Tallinn	1,075.50	1,225.95	+13.99
—ARC1T	1.24 EUR	1.59 EUR	+28.23

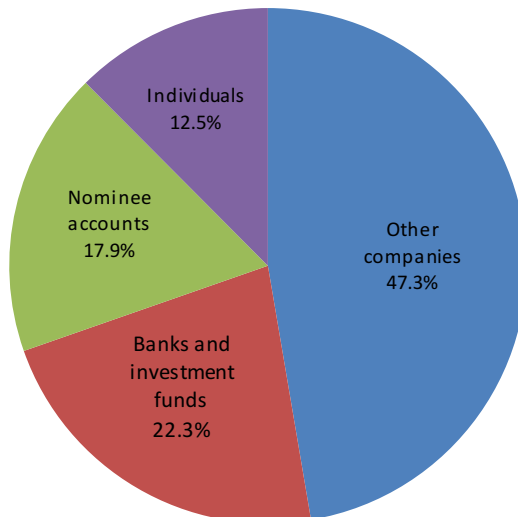
**Shareholder structure**

As of 30 September 2017, Arco Vara AS had 1,402 shareholders (on 31 December 2016: 1,502), including 1,207 individuals as shareholders (on 31 December 2016: 1,297 individuals) who jointly owned 12.0% (on 31 December 2016: 12.5%) of the company. Complete shareholder structures are presented on the following diagrams:

Ownership structure as of 30 September 2017



Ownership structure as of 31 December 2016



**Major shareholders on 30 September 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 30 September 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 Avroora 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 second quarter and 9 months ended on 30 September 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 9 November 2017

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Note	9 months 2017	9 months 2016	Q3 2017	Q3 2016
In thousands of euros				
Revenue from sale of own real estate	8,063	6,043	6,877	461
Revenue from rendering of services	2,228	2,395	806	826
<b>Total revenue</b>	<b>10,291</b>	<b>8,438</b>	<b>7,683</b>	<b>1,287</b>
Cost of sales	-8,273	-5,554	-6,340	-862
<b>Gross profit</b>	<b>2,018</b>	<b>2,884</b>	<b>1,343</b>	<b>425</b>
Other income	54	35	35	7
Marketing and distribution expenses	-347	-418	-131	-138
Administrative expenses	-1,225	-1,519	-401	-498
Other expenses	-43	-29	-19	-11
Gain on sale of subsidiaries	0	1	0	0
<b>Operating profit/loss</b>	<b>457</b>	<b>954</b>	<b>827</b>	<b>-215</b>
Finance income and costs	-384	-459	-112	-163
<b>Net profit/loss</b>	<b>73</b>	<b>495</b>	<b>715</b>	<b>-378</b>
<b>Net profit/loss for the period</b>	<b>73</b>	<b>495</b>	<b>715</b>	<b>-378</b>
<i>attributable to owners of the parent</i>	73	500	715	-373
<i>attributable to non-controlling interests</i>	0	-5	0	-5
<b>Total comprehensive income/expense for the period</b>	<b>73</b>	<b>495</b>	<b>715</b>	<b>-378</b>
<i>attributable to owners of the parent</i>	73	500	715	-378
<i>attributable to non-controlling interests</i>	0	-5	0	0
<b>Earnings per share (in euros)</b>	<b>8</b>			
- basic	<b>0.01</b>	0.08	<b>0.11</b>	-0.06
- diluted	<b>0.01</b>	0.07	<b>0.10</b>	-0.05

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	30 Sept 2017	31 December 2016
In thousands of euros			
Cash and cash equivalents		1,158	845
Receivables and prepayments	9	691	470
Inventories	10	14,349	14,593
<b>Total current assets</b>		<b>16,198</b>	<b>15,908</b>
Receivables and prepayments	9	11	11
Investments		23	0
Investment property	11	11,177	10,835
Property, plant and equipment		701	718
Intangible assets		276	248
<b>Total non-current assets</b>		<b>12,188</b>	<b>11,812</b>
<b>TOTAL ASSETS</b>		<b>28,386</b>	<b>27,720</b>
Loans and borrowings	12	12,993	9,372
Payables and deferred income	13	5,299	4,369
Provisions		44	108
<b>Total current liabilities</b>		<b>18,336</b>	<b>13,849</b>
Loans and borrowings	12	1,057	4,886
<b>Total non-current liabilities</b>		<b>1,057</b>	<b>4,886</b>
<b>TOTAL LIABILITIES</b>		<b>19,393</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	52	52
Retained earnings		2,083	2,075
<b>Total equity attributable to owners of the parent</b>		<b>8,993</b>	<b>8,985</b>
Equity attributable to non-controlling interests		0	0
<b>TOTAL EQUITY</b>		<b>8,993</b>	<b>8,985</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>28,386</b>	<b>27,720</b>



**CONSOLIDATED STATEMENT OF CASH FLOWS**

Note	9 months 2017	9 months 2016	Q3 2017	Q3 2016
In thousands of euros				
Cash receipts from customers	7,436	12,282	3,795	2,647
Cash paid to suppliers	-8,130	-7,133	-1,859	-2,948
Other taxes paid and recovered (net)	-548	-1,627	-650	-478
Cash paid to employees	-703	-894	-243	-258
Other cash payments and receipts related to operating activities (net)	-278	-73	-290	-11
<b>NET CASH FROM/USED IN OPERATING ACTIVITIES</b>	<b>-2,223</b>	<b>2,555</b>	<b>753</b>	<b>-1,048</b>
Payments made on purchase of tangible and intangible assets	-74	-81	-26	-7
Payments made on purchase and development of investment property 11	-346	0	-15	0
Proceeds from sale of a subsidiary	0	1	0	0
Payments made on purchase of a subsidiary	0	-1,890	0	-1,050
Loans provided	-7	0	0	0
Repayment of loans provided	2	0	2	0
Other receipts related to investing activities	23	0	23	0
Other payments related to investing activities	-23	-3	-15	0
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-425</b>	<b>-1,973</b>	<b>-31</b>	<b>-1,057</b>
Proceeds from loans received 12	5,202	3,285	1,026	2,214
Settlement of loans and borrowings 12	-1,456	-3,378	-1,117	-380
Interest paid	-616	-621	-165	-230
Dividends paid	-65	-61	0	0
Other payments related to financing activities	-104	-138	-60	-10
<b>NET CASH FROM/USED IN FINANCING ACTIVITIES</b>	<b>2,961</b>	<b>-913</b>	<b>-316</b>	<b>1,594</b>
<b>NET CASH FLOW</b>	<b>313</b>	<b>-331</b>	<b>406</b>	<b>-511</b>
Cash and cash equivalents at beginning of period	845	745	752	925
<b>Increase in cash and cash equivalents</b>	<b>313</b>	<b>-331</b>	<b>406</b>	<b>-511</b>
Cash and cash equivalents at the end of period	1,158	414	1,158	414

**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>
Dividends paid	0	0	0	0	-61	-61	0	-61
Change in non-controlling interest	0	0	0	0	0	0	-77	-77
Total comprehensive income for the period	0	0	0	0	500	500	-5	495
<b>Balance as at 30 September 2016</b>	<b>4,282</b>	<b>292</b>	<b>2,011</b>	<b>298</b>	<b>3,095</b>	<b>9,978</b>	<b>9</b>	<b>9,987</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>
Dividends paid	0	0	0	0	-65	-65	0	-65
Total comprehensive income for the period	0	0	0	0	73	73	0	73
<b>Balance as of 30 September 2017</b>	<b>4,555</b>	<b>292</b>	<b>2,011</b>	<b>52</b>	<b>2,083</b>	<b>8,993</b>	<b>0</b>	<b>8,993</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 9 months ended on 30 September 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	
	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016	9M 2017	9M 2016
in thousands of euros										
External revenue	8,437	6,316	1,851	2,122	3	0	0	0	10,291	8,438
<i>Annual change</i>	33.6%		-12.8%						22.0%	
Inter-segment revenue	74	85	291	282	0	0	-365	-367	0	0
<b>Total revenue</b>	<b>8,511</b>	<b>6,401</b>	<b>2,142</b>	<b>2,404</b>	<b>3</b>	<b>0</b>	<b>-365</b>	<b>-367</b>	<b>10,291</b>	<b>8,438</b>
<i>Annual change</i>	33.0%		-10.9%							
<b>Operating profit/loss</b>	<b>851</b>	<b>1,524</b>	<b>-23</b>	<b>-161</b>	<b>-377</b>	<b>-487</b>	<b>6</b>	<b>78</b>	<b>457</b>	<b>954</b>

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016
in thousands of euros										
External revenue	7,017	557	665	730	1	0	0	0	7,683	1,287
<i>Annual change</i>	1,159.8%		-8.9%						49.0%	
Inter-segment revenue	25	29	115	76	0	0	-140	-105	0	0
<b>Total revenue</b>	<b>7,042</b>	<b>586</b>	<b>780</b>	<b>806</b>	<b>1</b>	<b>0</b>	<b>-140</b>	<b>-105</b>	<b>7,683</b>	<b>1,287</b>
<i>Annual change</i>	1,101.7%		-3.2%							
<b>Operating profit/loss</b>	<b>894</b>	<b>33</b>	<b>34</b>	<b>-44</b>	<b>-107</b>	<b>-165</b>	<b>6</b>	<b>-39</b>	<b>827</b>	<b>-215</b>

#### Assets and liabilities by operating segment

Segment	Development		Service		Unallocated		Consolidated	
	30 Sept 2017	31 Dec 2016	30 Sept 2017	31 Dec 2016	30 Sept 2017	31 Dec 2016	30 Sept 2017	31 Dec 2016
in thousands of euros								
Assets	27,347	26,892	567	385	472	443	28,386	27,720
Liabilities	17,445	16,816	417	344	1,531	1,575	19,393	18,735

### 3. Revenue

	9 months 2017	9 months 2016	Q3 2017	Q3 2016
In thousands of euros				
Sale of own real estate	8,063	6,043	6,877	461
Real estate brokerage and valuation	1,616	1,953	587	676
Rental of real estate	473	355	174	128
Property management services	51	33	18	12
Other revenue	88	54	27	10
<b>Total revenue</b>	<b>10,291</b>	<b>8,438</b>	<b>7,683</b>	<b>1,287</b>

### 4. Cost of sales

	9 months 2017	9 months 2016	Q3 2017	Q3 2016
In thousands of euros				
Cost of real estate sold (note 10)	-6,924	-4,043	-5,857	-367
Personnel expenses	-1,037	-1,207	-372	-395
Property management costs	-181	-190	-48	-61
Vehicle expenses	-30	-18	-8	-6
Depreciation, amortisation and impairment losses	-7	-9	-2	-3
Other costs	-94	-87	-53	-30
<b>Total cost of sales</b>	<b>-8,273</b>	<b>-5,554</b>	<b>-6,340</b>	<b>-862</b>

### 5. Marketing and distribution expenses

	9 months 2017	9 months 2016	Q3 2017	Q3 2016
In thousands of euros				
Advertising expenses	-151	-220	-61	-69
Personnel expenses	-84	-94	-35	-31
Brokerage fees	-21	-6	-5	-1
Market research	0	-5	0	-2
Other marketing and distribution expenses	-91	-93	-30	-35
<b>Total marketing and distribution expenses</b>	<b>-347</b>	<b>-418</b>	<b>-131</b>	<b>-138</b>

### 6. Administrative expenses

	9 months 2017	9 months 2016	Q3 2017	Q3 2016
In thousands of euros				
Personnel expenses	-677	-779	-245	-232
Office expenses	-189	-292	-62	-103
IT expenses	-117	-177	-27	-68
Services purchased	-114	-117	-31	-37
Depreciation, amortisation and impairment losses	-62	-70	-16	-24
Legal service fees	-17	-25	-1	-9
Vehicle expenses	-20	-26	-7	-11
Other expenses	-29	-33	-12	-14
<b>Total administrative expenses</b>	<b>-1,225</b>	<b>-1,519</b>	<b>-401</b>	<b>-498</b>

## 7. Financial income and expenses

	9 months 2017	9 months 2016	Q3 2017	Q3 2016
In thousands of euros				
Interest expenses	-339	-400	-111	-114
Other financial income and costs	-45	-59	-1	-49
<b>Total financial income and costs</b>	<b>-384</b>	<b>-459</b>	<b>-112</b>	<b>-163</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.

	9 months 2017	9 months 2016	Q3 2017	Q3 2016
Weighted average number of ordinary shares outstanding during the period	6,507,012	6,117,012	6,507,012	6,117,012
Number of ordinary shares potentially to be issued	590,000	780,000	590,000	780,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	73	500	715	-378
<b>Earnings per share (in euros)</b>	<b>0.01</b>	0.08	<b>0.11</b>	-0.06
<b>Diluted earnings per share (in euros)</b>	<b>0.01</b>	0.07	<b>0.10</b>	-0.05

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 52 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

	30 Sept 2017	31 December 2016
In thousands of euros		
<b>Trade receivables</b>		
Receivables from customers	438	193
Allowance for doubtful trade receivables	0	0
<b>Total trade receivables</b>	<b>438</b>	<b>193</b>
<b>Other receivables</b>		
Loans provided	5	0
Miscellaneous receivables	24	10
<b>Total other receivables</b>	<b>29</b>	<b>10</b>
<b>Accrued income</b>		
Prepaid and recoverable taxes	41	107
Other accrued income	5	5
<b>Total accrued income</b>	<b>46</b>	<b>112</b>
<b>Prepayments</b>	<b>178</b>	<b>155</b>
<b>Total short-term receivables and prepayments</b>	<b>691</b>	<b>470</b>

### Long-term receivables and prepayments

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

### 10. Inventories

	30 Sept 2017	31 December 2016
In thousands of euros		
Properties purchased and being developed for resale	14,328	14,571
Materials and finished goods	8	6
Prepayments for inventories	13	16
<b>Total inventories</b>	<b>14,349</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	6,228	2,382
Capitalized borrowing costs	267	234
Inventory write-down	-3	0
Other capitalized costs	167	14
Reclassification to/from investment property (note 11)	10	431
Cost of sold properties (note 4)	-6,924	-3,676
<b>Balance at the end of period, 30 September</b>	<b>14,328</b>	<b>14,067</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>
Capitalised development costs	52	29
Reclassification to/from inventories (note 10)	-10	-431
Purchase of land plots	300	0
<b>Balance at the end of period, 30 September</b>	<b>11,177</b>	<b>9,111</b>

### 12. Loans and borrowings

	As of 30 September 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	12,648	11,598	1,050	12,827	9,063	3,764
Bonds	1,127	1,120	7	1,121	0	1,121
Finance lease liabilities	3	3	0	10	9	1
Other loans	272	272	0	300	300	0
<b>Total</b>	<b>14,050</b>	<b>12,993</b>	<b>1,057</b>	<b>14,258</b>	<b>9,372</b>	<b>4,886</b>

In 9 months 2017, the group settled loans and borrowings in the amount of 1,456 thousand euros (in 9 months of 2016: 3,378 thousand euros) through cash transactions and raised new loans in the amount of 5,202 thousand euros (in 9 months of 2016: 3,285 thousand euros).

In 9 months of 2017, the following major loan obligations were settled:

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

In 9 months of 2017, the group raised the following major loans:

- 5,196 thousand euros of bank loan for financing construction of the first stage apartment building in Kodulahe project.

### 13. Payables and deferred income

#### Short-term payables and deferred income

	30 September 2017	31 December 2016
In thousands of euros		
<b>Trade payables</b>	<b>262</b>	<b>800</b>
<b>Miscellaneous payables</b>	<b>115</b>	<b>21</b>
<b>Taxes payable</b>		
Value added tax	498	66
Corporate income tax	2	53
Social security tax	37	47
Personal income tax	24	27
Other taxes	187	173
<b>Total taxes payable</b>	<b>748</b>	<b>366</b>
<b>Accrued expenses</b>		
Payables to employees	129	117
Interest payable	150	76
Other accrued expenses	1,499	5
<b>Total accrued expenses</b>	<b>1,778</b>	<b>198</b>
<b>Deferred income</b>		
Prepayments received on sale of real estate	2,378	2,958
Other deferred income	18	26
<b>Total deferred income</b>	<b>2,396</b>	<b>2,984</b>
<b>Total short-term payables and deferred income</b>	<b>5,299</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**

	9 months 2017	9 months 2016
In thousands of euros		
<b>Companies that have a significant interest in the group's parent company</b>		
Services purchased	48	20
Bonds issued	0	100
Redemption of bonds	0	150
Paid interest	9	6
<b>Other related parties</b>		
Services sold	3	1
Prepayments received	0	6
Bonds issued	0	1

**Balances with related parties**

	30 September 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	6	6
Bonds issued	1	1

In 9 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 87 thousand euros, of which 25 thousand euros in Q3 (in 9 months and Q3 2016: 82 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 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 52 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 third quarter and 9 months ended on 30 September 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 9 November 2017