



Arco Vara AS
INTERIM REPORT FOR THE
IV QUARTER AND TWELVE MONTHS
OF 2018 (UNAUDITED)

INTERIM REPORT FOR THE FOURTH QUARTER AND TWELVE MONTHS OF 2018
(UNAUDITED)

Company name: Arco Vara AS

Registry number: 10261718

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Corporate website: www.arcorealestate.com

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 – 31 December 2018

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

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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DIRECTORS' REPORT FOR Q4 AND 12 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 had two business lines until 31 December 2018: 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.

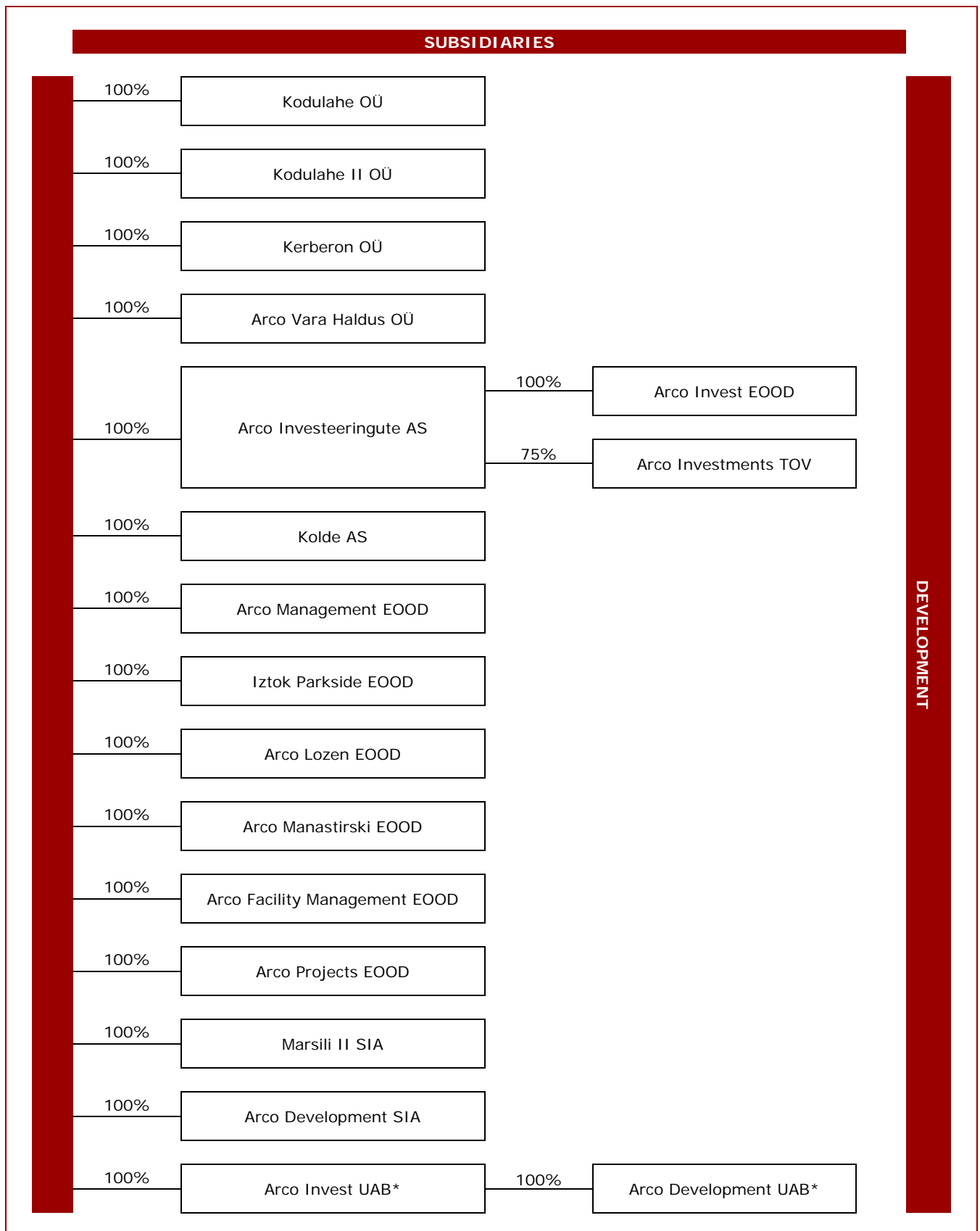
Group structure

As of 31 December 2018, the group consisted of 19 companies, which is two less than on 31 December 2017. In 2018, three companies were sold, one was liquidated, one purchased and one established.

Significant subsidiaries as of 31 December 2018

| Company name | Location | Segment | Share capital (nominal value) | Equity balance on 31 December 2018 | The group's interest |
|-----------------------|----------|-------------|-------------------------------|------------------------------------|----------------------|
| In thousands of euros | | | | | |
| Arco Invest EOOD | Bulgaria | Development | 28,762 | -212 | 100% |
| Iztok Parkside EOOD | Bulgaria | Development | 1,433 | 500 | 100% |
| Arco Lozen EOOD | Bulgaria | Development | 2,931 | 2,734 | 100% |
| Kodulahe OÜ | Estonia | Development | 3 | 1,957 | 100% |

Group structure as of 31 December 2018



* In liquidation

KEY PERFORMANCE INDICATORS

- In Q4 2018, the group's revenue was 1.3 million euros, which is 6.2 times less than the revenue of 8.0 million euros in Q4 2017. In 12 months 2018, the group's revenue was 6.6 million euros, which is 2.8 times less than the revenue of 18.3 million euros in 12 months 2017. The revenue of the Development Division amounted to 0.5 million euros in Q4 2018 and 3.6 million euros in 12 months 2018 (2017: 7.4 million euros in Q4 and 15.9 million euros in 12 months); revenue of the Service Division amounted to 0.7 million euros in Q4 and 3.3 million euros in 12 months (in 2017: 0.8 million euros in Q4 and 2.9 million euros in 12 months).
- In Q4 2018, the group's operating loss (=EBIT) was 0.1 million euros and net loss 0.2 million euros (in 12 months 2018: no operating profit and net loss of 0.5 million euros). In Q4 2017, the group had operating profit of 0.8 million euros and net profit of 0.7 million euros. In 12 months 2017, the group made operating profit of 1.3 million euros and net profit of 0.8 million euros. The Development Division made an operating loss of 0.1 million euros in Q4 2018, 12 months ended with 0.1 million operating profit. The Development Division made 1.1 million operating profit in Q4 2017 and 2.0 million in 12 months 2017. The Service Division finished with 0.1 million operating loss in Q4 2018 as well as in 12 months 2018; in 2017, the respective results were operating losses of 0.1 and 0.2 million euros.
- In Q4 2018, 1 commercial space and 1 land plot were sold in projects developed by the group (in 12 months 2018: 12 apartments, 3 commercial spaces and 2 land plots). In Q4 2017, 57 apartments were sold (117 apartments, 2 commercial spaces and 6 land plots in 12 months).
- In the 12 months of 2018, the group's debt burden (net loans) increased by 4.5 million euros up to the level of 14.2 million euros as of 31 December 2018. As of 31 December 2018, the weighted average annual interest rate of interest-bearing liabilities was 5.0%. This is a decrease of 0.4 percentage points compared to 31 December 2017.

Main financial figures

| | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 2017 |
|---------------------------------------------------|----------------|----------------|-------------|------------|
| In millions of euros | | | | |
| Revenue | | | | |
| Development | 3.6 | 15.9 | 0.5 | 7.4 |
| Service | 3.3 | 2.9 | 0.7 | 0.8 |
| Parent company | 0.1 | 0.0 | 0.1 | 0.0 |
| Eliminations | -0.4 | -0.5 | 0.0 | -0.2 |
| Total revenue | 6.6 | 18.3 | 1.3 | 8.0 |
| Operating profit (EBIT) | | | | |
| Development | 0.1 | 2.0 | -0.1 | 1.1 |
| Service | -0.1 | -0.2 | -0.1 | -0.1 |
| Parent company | -0.2 | -0.5 | -0.1 | -0.2 |
| Eliminations | 0.2 | 0.0 | 0.2 | 0.0 |
| Total operating profit/loss (EBIT) | 0.0 | 1.3 | -0.1 | 0.8 |
| Finance income and expense | -0.5 | -0.5 | -0.1 | -0.1 |
| Net profit/loss | -0.5 | 0.8 | -0.2 | 0.7 |
| Cash flows from/used in operating activities | -3.6 | -2.0 | -3.0 | 0.3 |
| Cash flows used in investing activities | -3.2 | -0.5 | 0.0 | -0.1 |
| Cash flows from/used in financing activities | 7.1 | 3.9 | 2.8 | 0.9 |
| Net cash flows | 0.3 | 1.4 | -0.2 | 1.1 |
| Cash and cash equivalents at beginning of period | 2.3 | 0.8 | 2.5 | 1.1 |
| Cash and cash equivalents at end of period | 2.3 | 2.2 | 2.3 | 2.2 |
| Total assets, at period end | 33.6 | 24.3 | | |
| Invested capital, at period end | 30.4 | 21.8 | | |
| Net loans, at period end | 14.2 | 9.7 | | |
| Equity, at period end | 13.0 | 9.8 | | |

Key ratios

| | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 2017 |
|---------------------------------------|----------------|----------------|---------|---------|
| EPS (in euros) | -0.06 | 0.12 | -0.02 | 0.11 |
| Diluted EPS (in euros) | -0.06 | 0.11 | -0.02 | 0.10 |
| ROIC (rolling, four quarters) | -2.1% | 3.2% | | |
| ROE (rolling, four quarters) | -4.4% | 8.8% | | |
| ROA (rolling, four quarters) | -1.9% | 2.8% | | |
| Equity ratio | 38.8% | 40.2% | | |
| Current ratio | 1.25 | 2.72 | | |
| Quick ratio | 0.19 | 0.69 | | |
| Financial leverage | 2.58 | 2.49 | | |
| Average loan term (in years) | 1.2 | 1.7 | | |
| Average annual interest rate of loans | 5.0% | 5.4% | | |
| Number of staff, at period end | 20 | 140 | | |

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 | Q4 2018 | Total 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 | 1.3 | 6.6 |
| 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 | -0.2 | -0.5 |

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

Equity ratio = equity / 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

Arco Vara AS sold 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 31.12.2018. 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 do not belong to Arco Vara consolidation group from 31.12.2018, but the license fees paid 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 Blvd 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 the loan balance associated with the Madrid Blvd building to a level which is necessary for refinancing the existing loan at a lower interest rate during 2019. The activities of two group companies – Arco Projects 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. Until liquidation, Arco Projects EOOD and Arco Facility Management EOOD will operate as part of the Development Division.

In relation to these changes, the Service Division in Arco Vara group ceased to exist from 31.12.2018 and the group will continue with the Development Division only.

From the consolidated group turnover, the Service Division contributed 3.0 million euros (45 per cent) in 2018 and 2.5 million euros (14 per cent) in 2017. As the Service Division has been operating with a small loss in recent periods, its discontinuation will have a slight positive effect on the bottom line of the group.

Consolidated profit and loss statements for continuing and discontinued operations

| | 12 months 2018 | | | 12 months 2017 | | |
|--------------------------------------------|-----------------------|-------------------------|--------------|-----------------------|-------------------------|---------------|
| | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| In thousands of euros | | | | | | |
| Revenue from sale of own real estate | 2,778 | 0 | 2,778 | 15,245 | 0 | 15,245 |
| Revenue from rendering of services | 857 | 2,997 | 3,854 | 519 | 2,489 | 3,008 |
| Total revenue | 3,635 | 2,997 | 6,632 | 15,764 | 2,489 | 18,253 |
| Cost of sales | -2,446 | -1,884 | -4,330 | -13,073 | -1,614 | -14,687 |
| Gross profit | 1,189 | 1,113 | 2,302 | 2,691 | 875 | 3,566 |
| Other income | 135 | 108 | 243 | 63 | 27 | 90 |
| Marketing and distribution expenses | -133 | -412 | -545 | -154 | -333 | -487 |
| Administrative expenses | -1,224 | -875 | -2,099 | -1,048 | -827 | -1,875 |
| Other expenses | -87 | -95 | -182 | -60 | -14 | -74 |
| Gain on revaluation of investment property | 14 | 0 | 14 | 68 | 0 | 68 |
| Loss on inventory write-down | -21 | 0 | -21 | 0 | 0 | 0 |
| Gain on sale of subsidiaries | 228 | 0 | 228 | 0 | 0 | 0 |
| Operating profit | 101 | -161 | -60 | 1,560 | -272 | 1,288 |
| Finance income and costs | -482 | 0 | -482 | -489 | 0 | -489 |
| Profit before tax | -381 | -161 | -542 | 1,071 | -272 | 799 |
| Income tax | -1 | -1 | -2 | -4 | -10 | -14 |
| Net profit/loss | -382 | -162 | -544 | 1,067 | -282 | 785 |
| Net profit/loss for the period | -382 | -162 | -544 | 1,067 | -282 | 785 |

GROUP CEO'S REVIEW

The unsuccessful Q4 of Arco Vara ended the unsuccessful year 2018. During the year, we were not able to make any development projects sellable and thus increased the amount of assets to 34m euros.

We are not happy with the loss, which is caused mainly by not selling out Iztok Parkside project in Sofia. Iztok Parkside remained unsold within the expected timeframe (Q4 2018) because we got stuck in the barbwire of Bulgarian bureaucracy. The construction works are all but finished. We should have a permit of use and sell-out of apartments by the end of Q2 2019. By the end of 2019, we also expect to sell out the 2. stage of Kodulahe project, 2/3 of which has already been presold. Adding to this the 100% rent occupancy of the Madrid Blvd building, we expect to reach sale revenue of over 20m and net profit of over 2m in 2019.

In the P/L statement of 2018, both revenue and cost sides are very thin. I would point out just two things. First, despite the obvious financial anorexia, the group still made an operating profit with its continuing operations (real estate development); the loss was caused by interest expenses, which mainly arose from the bank loan related to the Madrid Blvd building. Second, our land plot reserve and cash position of over 2m euros remain strong and are sufficient for both finishing existing developments and starting new ones in 2019, if market conditions and the barbwire of bureaucracy allow so. As an alternative scenario, Arco Vara has an ability to transfer its assets into cash during 2019-2020 or to sit on its reserve of land plots with building rights. After the sale of real estate agencies and signing trademark licensing agreements in Q4 2018, we continue to own a database of clients and transactions, which is constantly being updated. Based on its data, the real estate market in both Tallinn and Sofia is shifting from seller's market to buyer's market and Arco Vara must be prepared for both starting new developments and following alternative scenarios.

SERVICE DIVISION

In Q4 2018, revenue of the Service Division amounted to 746 thousand euros (Q4 2017: 793 thousand euros), which included intra-group revenue of 47 thousand euros (Q4 2017: 155 thousand euros). In 12 months 2018, the revenue of 2,997 thousand euros increased by 20.4% compared to the revenue of 2,489 thousand euros in 12 months 2017.

The main services of the Service Division are real estate brokerage and evaluation services through real estate agencies. In 12 months 2018, revenue of the real estate agencies increased by 20% compared to 12 months 2017.

Revenue of real estate agencies from brokerage and valuation

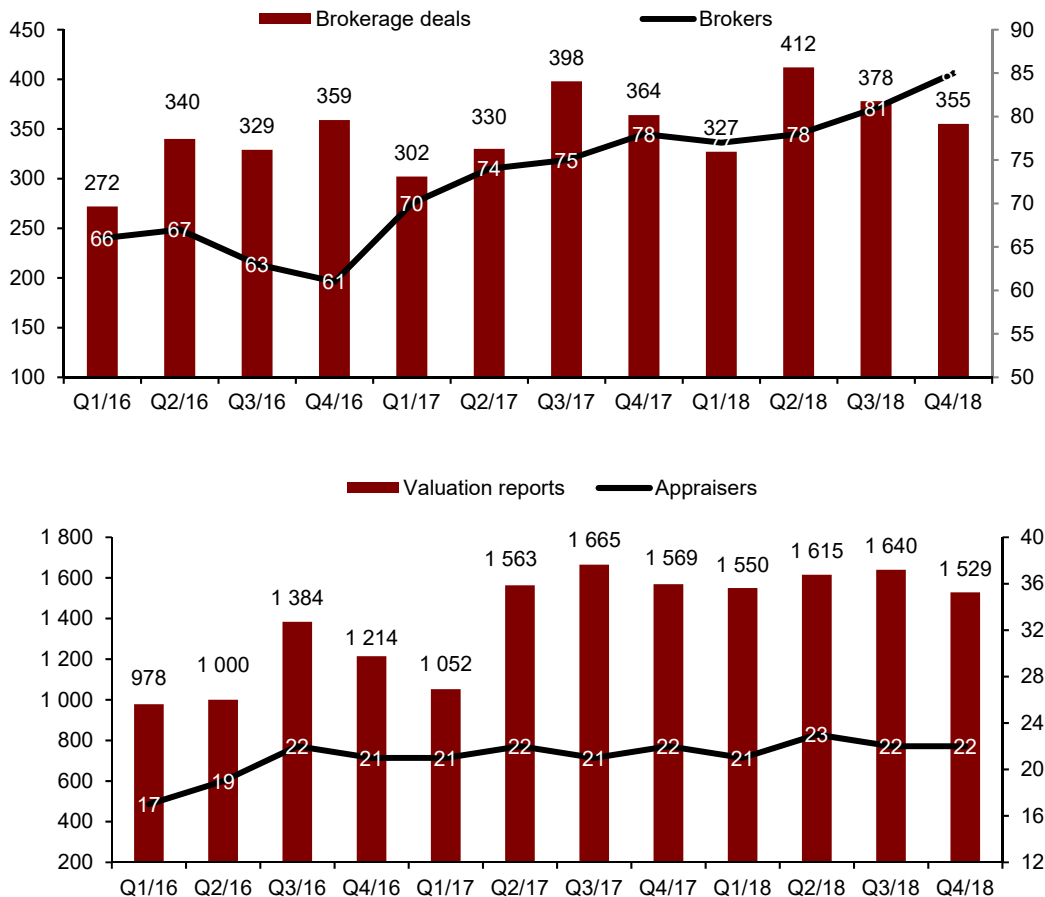
| | 12 months 2018 | 12 months 2017 | Change % | Q4 2018 | Q4 2017 | Change % |
|-----------------------|----------------|----------------|------------|------------|------------|-----------|
| In thousands of euros | | | | | | |
| Estonia | 2,089 | 1,793 | 17% | 510 | 468 | 9% |
| Bulgaria | 1,030 | 798 | 29% | 212 | 238 | -11% |
| Total | 3,119 | 2,591 | 20% | 722 | 706 | 2% |

In Q4 2018, Estonian agency had net loss of 46 thousand euros and in 12 months 2018 net loss of 109 thousand euros (in 2017: net loss of 123 thousand euros in Q4 and 235 thousand euros in 12 months). Bulgarian agency bore net loss of 18 thousand euros in Q4 2018 and net profit of 1 thousand euros in 12 months 2018 (2017: net loss of 4 thousand euros in Q4 and net profit of 50 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 47 thousand euros in 12 months 2018, 40 thousand euros of which was intra-group revenue (12 months 2017: 124 thousand and 102 thousand euros, respectively). Revenue from accommodation services amounted to 160 thousand euros in 12 months 2018, of which 25 thousand euros was made in Q4 (2017: 182 thousand euros in 12 months and 47 thousand euros in Q4).

The numbers of brokerage transactions 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 December 2018, the number of staff in the Service Division was 119, on 31 December 2018 the Service Division was discontinued (on 31.12.2017: 126).

DEVELOPMENT DIVISION

The revenue of the Development Division totaled 463 thousand euros in Q4 2018 (in Q4 2017: 7,349 thousand euros) and 3,577 thousand euros in 12 months 2018 (in 12 months 2017: 15,860 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 241 thousand euros in Q4 and 2,778 thousand euros in 12 months (2017: 7,182 thousand euros in Q4 and 15,245 thousand euros in 12 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 Q4 2018 and 586 thousand euros in 12 months 2018 (2017: 133 thousand euros in Q4 and 493 thousand euros in 12 months). In Q4 2018, all office and commercial spaces together with parking places were rented out.

In Q4 and 12 months 2018, the Development Division had an operating profit of 89 thousand euros and 114 thousand euros, respectively. In 2017, the Development Division had an operating profit of 1,149 thousand euros in Q4 and 2,000 thousand euros in 12 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. As of 31 December 2018, Kodulahe project Stage I was completely sold.

In Q4 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, 46 apartments have been presold.

In Iztok Parkside project in Sofia, construction was nearly finished during Q4 2018. By the publishing date of the interim report, presale agreements for 46 apartments have been concluded. Iztok project consists of three apartment buildings with 67 apartments (7,070 square meters of apartments' sellable area).

In Madrid Blvd building, out of the 15 apartments previously used for offering accommodation service, 2 have been sold and 3 presold as of the date of this report.

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 Q4 and are scheduled to end in early 2019. Stage I will include 179 residential units (apartments and houses), commercial spaces and a kindergarten.

As of 31 December 2018, 4 Marsili residential plots remained unsold in Latvia. In 12 months 2018, two plots were sold in the project.

As of 31 December 2018, 7 people were employed in the Development Division, which is two more than at the end of 2017.

Summary table of Arco Vara's active projects as of 31 December 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 | S6 | - | 7,350 | 23 |
| Madrid Blvd | Madrid Blvd, Sofia | Apartments | S5 | - | 1,501 | 16 |
| Iztok Parkside | Iztok, Sofia | Apartments | S4 | 2,470 | 7,070 | 67 |
| Marsili residential plots | Marsili, near Riga | Residential plots | S5 | - | 5,079 | 4 |
| 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> |
| Paldiski road 74 | Paldiski road 74, Tallinn | Apartments | S2 | 9,525 | <9,300> | <123> |
| 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 | <25,200> | <179> |

Note: Values presented between < > sign represent future target values for projects which do not have a construction permit 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 2018, 20 people worked for the group (140 as of 31 December 2017). Employee remuneration expenses in 12 months 2018 amounted to 3.0 million euros, out of which 0.8 million euros in Q4 2018 (2017 same periods: 2.6 million euros and 0.8 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 106 thousand euros in 12 months 2018, out of which 26 thousand euros in Q4 2018 (in 12 months and Q4 2017: 120 thousand euros and 33 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.

DESCRIPTION OF MAIN RISKS

Strategic risk

Most of the group's equity is invested into real estate development. The group is focused mainly on residential real estate development where development cycle lasts for years, starting from the acquisition of a land plot, moving on to detail planning, design and construction, and ending with the sale of end products to customers. The equity is invested mainly in the early phase of the cycle (purchase of land) on the assumption that there will be a demand for certain products in

the future. Considering that the demand for development product is largely based on forecasts, the main risk for the group is investing equity into a development product for which there is no or too little demand in the future.

For mitigating the risk, the group: (i) invests equity into different development projects in different markets (in 2018, in Sofia and Tallinn), (ii) monitors current demand and supply in its home markets and (iii) makes efforts to narrow the time gap between making initial investment and selling the final product – by signing pre-agreements with clients, acquiring land with no or little upfront equity investment etc.

Credit risk

The group considers credit risks to be substantially mitigated. The final sale of real estate development product takes place simultaneously with customer payment, therefore customer debts do not arise. Also, cash and cash equivalents are not held in the same banking group.

Liquidity and interest rate risks

The base currency of all of the group's loan agreements is euro and the base interest rate is 1, 3 or 6 months' EURIBOR. As a result, the group is exposed to developments on international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In 12 months 2018, the group's interest-bearing liabilities increased by 5.1 million euros and amounted to 17.3 million euros on 31 December 2018, out of which 13.4 million euros is due within next 12 months. The group's cash and cash equivalents totalled 2.3 million euros as of 31 December 2018 (same balance on 31 December 2017). In Q4 2018, interest payments on interest-bearing liabilities totalled 0.1 million euros (in Q4 2017: also 0.1 million euros). The group's weighted average loan interest rate was 5.0% as of 31 December 2018. This is a decrease by 0.4 percentage points compared to the end of year 2017. The reason for the decrease is the new borrowings raised in 2018, which bear a below-average interest rate.

Currency risk

Purchase and sale contracts of provided services are mostly signed in local currencies: euros (EUR) or Bulgarian lev (BGN). Real estate sales are mostly nominated in euros, as a result of which the group's assets and liabilities structure does not involve a significant currency risk. The group is not protected against currency devaluations. Liquid assets are mostly held on demand or short-term deposits denominated in euros.

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 1.12 euros on 31 December 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 1.04 euros. As of 31 December 2018, market capitalization of shares amounted to 10,078 thousand euros and P/B (price to book value) ratio was 0.78 (31 December 2017: 9,891 thousand euros and 1.01, respectively). P/E (price to earnings) ratio of the share was negative on 31 December 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 12 months 2018 and during the last three years.

Performance of Arco Vara’s shares in 12 months 2018



Performance of Arco Vara’s shares from 31 December 2015 until 31 December 2018



Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 12 months 2018

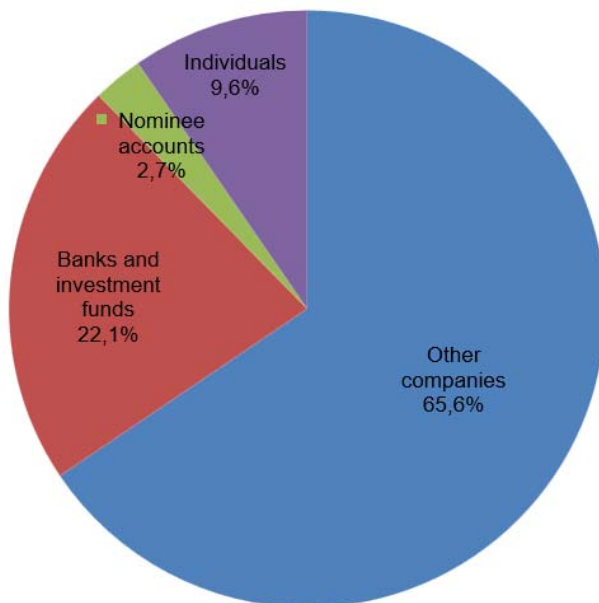


| Index/equity | 1 Jan 2018 | 31 Dec 2018 | +/-% |
|--------------|------------|-------------|--------|
| —OMX Tallinn | 1,242.12 | 1,162.86 | -6.38 |
| —ARC1T | 1.51 EUR | 1.12 EUR | -25.89 |

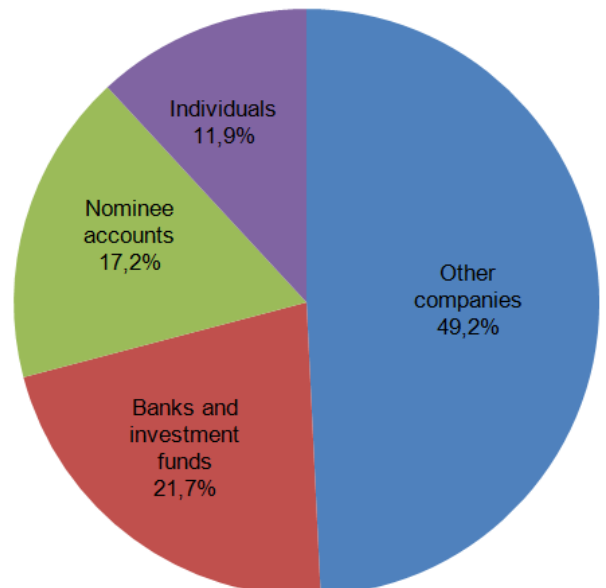
Shareholder structure

As of 31 December 2018, Arco Vara had 1,352 shareholders (on 31 December 2017: 1,403), including 1,164 individuals as shareholders (on 31 December 2017: 1,211 individuals) who jointly owned 9.6% (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 31 December 2018



Ownership structure as of 31 December 2017



Major shareholders on 31 December 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 31 December 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 Luitsalu (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 fourth quarter and 12 months ended on 31 December 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 14 February 2019

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 2017 |
|-----------------------------------------------------------------|------|----------------|----------------|-------------|--------------|
| In thousands of euros | | | | | |
| CONTINUING OPERATIONS | | | | | |
| Revenue from sale of own real estate | | 2,778 | 15 245 | 241 | 7,182 |
| Revenue from rendering of services | | 857 | 519 | 345 | 142 |
| Total revenue | 3,4 | 3,635 | 15,764 | 586 | 7,324 |
| Cost of sales | 5 | -2,446 | -13,073 | -344 | -5,975 |
| Gross profit | | 1,189 | 2,691 | 242 | 1,349 |
| Other income | | 135 | 63 | 2 | 44 |
| Marketing and distribution expenses | 6 | -133 | -154 | -37 | -47 |
| Administrative expenses | 7 | -1,224 | -1,048 | -387 | -376 |
| Other expenses | | -87 | -60 | -25 | -27 |
| Gain on revaluation of investment property | | 14 | 68 | 14 | 68 |
| Loss on inventory write-down | 11 | -21 | 0 | -21 | 0 |
| Gain on sale of subsidiaries | | 228 | 0 | 213 | 0 |
| Operating profit/loss | | 101 | 1,560 | 1 | 1,011 |
| Finance income and cost | 8 | -482 | -489 | -107 | -105 |
| Profit before tax | | -381 | 1,071 | -106 | 906 |
| Income tax | | -1 | -4 | -1 | -4 |
| Net profit/loss from continuing operations | | -382 | 1,067 | -107 | 902 |
| Net profit/loss from discontinued operations | | -162 | -282 | -77 | -190 |
| Net profit/loss for the period | | -544 | 785 | -184 | 712 |
| Total comprehensive income/expense for the period | | -544 | 785 | -184 | 712 |
| Earnings per share from continuing operations (in euros) | | | | | |
| - basic | | -0.04 | 0.16 | -0.01 | 0.14 |
| - diluted | | -0.04 | 0.15 | -0.01 | 0.13 |
| Earnings per share (in euros) | | | | | |
| - basic | 9 | -0.06 | 0.12 | -0.02 | 0.11 |
| - diluted | | -0.06 | 0.11 | -0.02 | 0.10 |

Because the Service Division was discontinued within the group from 31.12.2018, the continuing and discontinuing operations are separated in the statement of comprehensive income, as foreseen by IFRS.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | 31 December 2018 | 31 December 2017 |
|--------------------------------------|------|------------------|------------------|
| In thousands of euros | | | |
| Cash and cash equivalents | | 2,327 | 2,284 |
| Investments | | 69 | 0 |
| Receivables and prepayments | 10 | 739 | 747 |
| Inventories | 11 | 17,482 | 8,974 |
| Total current assets | | 20,617 | 12,005 |
| Investments | | 0 | 34 |
| Receivables and prepayments | 10 | 25 | 18 |
| Investment property | 12 | 12,344 | 11,299 |
| Property, plant and equipment | | 267 | 704 |
| Intangible assets | | 262 | 275 |
| Total non-current assets | | 12,898 | 12,330 |
| TOTAL ASSETS | | 33,515 | 24,335 |
| Loans and borrowings | 13 | 12,547 | 1,871 |
| Payables and deferred income | 14 | 3,982 | 2,507 |
| Provisions | | 0 | 38 |
| Total current liabilities | | 16,529 | 4,416 |
| Loans and borrowings | 13 | 3,985 | 10,132 |
| Total non-current liabilities | | 3,985 | 10,132 |
| TOTAL LIABILITIES | | 20,514 | 14,548 |
| Share capital | | 6,299 | 4,555 |
| Share premium | | 2,285 | 292 |
| Statutory capital reserve | | 2,011 | 2,011 |
| Other reserves | 9 | 245 | 134 |
| Retained earnings | | 2,161 | 2,795 |
| TOTAL EQUITY | | 13,001 | 9,787 |
| TOTAL LIABILITIES AND EQUITY | | 33,515 | 24,335 |

CONSOLIDATED STATEMENT OF CASH FLOWS

| Note | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 2017 |
|------------------------------------------------------------------------|----------------|----------------|---------------|--------------|
| In thousands of euros | | | | |
| Cash receipts from customers | 10,993 | 12,613 | 1,838 | 5,177 |
| Returned prepayments | 0 | -1,194 | 0 | -1,194 |
| Cash paid to suppliers | -13,036 | -10,469 | -4,693 | -2,339 |
| Taxes paid and recovered (net) | -333 | -2,165 | 206 | -1,617 |
| Cash paid to employees | -1,177 | -964 | -277 | -261 |
| Other cash payments and receipts related to operating activities (net) | -35 | 217 | -6 | 495 |
| NET CASH FROM/USED IN OPERATING ACTIVITIES | -3,588 | -1,962 | -2,932 | 261 |
| Payments made on purchase of tangible and intangible assets | -114 | -101 | -15 | -27 |
| Payments made on purchase and development of investment property | -584 | -370 | -240 | -24 |
| Proceeds from sale of subsidiaries | 341 | 0 | 300 | 0 |
| Payments made on purchase of subsidiaries | -2,939 | 0 | 0 | 0 |
| Loans provided | -12 | -7 | -12 | 0 |
| Repayment of loans provided | 0 | 4 | 0 | 2 |
| Other cash payments and receipts related to investing activities | -10 | -34 | 0 | -34 |
| NET CASH FROM/USED IN INVESTING ACTIVITIES | -3,318 | -508 | 33 | -83 |
| Proceeds from loans received | 13 | 6,604 | 3,808 | 1,517 |
| Settlement of loans and borrowings | 13 | -2,292 | -858 | -353 |
| Interest paid | -509 | -879 | -119 | -263 |
| Dividends paid | -90 | -65 | 0 | 0 |
| Proceeds from share capital increase | 3,737 | 0 | 0 | 0 |
| Other payments related to financing activities | -375 | -57 | -2 | 47 |
| NET CASH FROM/USED IN FINANCING ACTIVITIES | 7,075 | 3,909 | 2,829 | 948 |
| NET CASH FLOW | 169 | 1,439 | -70 | 1,126 |
| Cash and cash equivalents at the beginning of period | 2,284 | 845 | 2,523 | 1,158 |
| Change in cash and cash equivalents | 169 | 1,439 | -70 | 1,126 |
| Cash and cash equivalents resulting from the sale of subsidiaries | -126 | 0 | -126 | 0 |
| Cash and cash equivalents at the end of period | 2,327 | 2,284 | 2,327 | 2,284 |

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 |
| Formation of equity reserve | 0 | 0 | 0 | 82 | 0 | 82 |
| Total comprehensive income for the period | 0 | 0 | 0 | 0 | 785 | 785 |
| Balance as of 31 December 2017 | 4,555 | 292 | 2,011 | 134 | 2,083 | 9,787 |
| 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 |
| Formation of equity reserve | 0 | 0 | 0 | 111 | 0 | 111 |
| Total comprehensive income for the period | 0 | 0 | 0 | 0 | -544 | -544 |
| Balance as of 31 December 2018 | 6,299 | 2,285 | 2,011 | 245 | 2,161 | 13,001 |

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the fourth quarter and 12 months ended on 31 December 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

On 31 of December 2018, Arco Vara AS sold its two real estate agencies to the managements of these companies. In addition, 15 apartments have been put on sale in the Madrid Blvd Building in Sofia, which so far 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

| | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 2017 |
|-----------------------------------------------------|----------------|----------------|------------|-------------|
| In thousands of euros | | | | |
| Revenue from rendering of services | 2,997 | 2,489 | 699 | 638 |
| Total revenue | 2,997 | 2,489 | 699 | 638 |
| Cost of sales | -1,884 | -1,614 | -440 | -437 |
| Gross profit | 1,113 | 875 | 259 | 201 |
| Other income | 108 | 27 | 88 | 4 |
| Marketing and distribution expenses | -412 | -333 | -114 | -94 |
| Administrative expenses | -875 | -827 | -229 | -274 |
| Other expenses | -95 | -14 | -80 | -18 |
| Operating profit/loss | -161 | -272 | -76 | -181 |
| Income tax | -1 | -10 | -1 | -9 |
| Net profit/loss from discontinued operations | -162 | -282 | 77 | -190 |

Consolidated cashflows of discontinued operations

| | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 2017 |
|-------------------------------------------------|----------------|----------------|------------|------------|
| In thousands of euros | | | | |
| Cash from/used in operating activities | 64 | 92 | -84 | -40 |
| Cash from/used in investing activities | -24 | 26 | -7 | -9 |
| Cash from/used in financing activities | 0 | -70 | 0 | -30 |
| Net cashflows of discontinued operations | 40 | 48 | -91 | -79 |

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 | |
|------------------------------|--------------|---------------|--------------|--------------|----------------|-------------|--------------|-------------|--------------|---------------|
| | 12M 2018 | 12M 2017 | 12M 2018 | 12M 2017 | 12M 2018 | 12M 2017 | 12M 2018 | 12M 2017 | 12M 2018 | 12M 2017 |
| In thousands of euros | | | | | | | | | | |
| External revenue | 3,481 | 15,760 | 2,997 | 2,489 | 154 | 4 | | | 6,632 | 18,253 |
| Annual change | -77.9% | | 20.4% | | | | | | -63.7% | |
| Inter-segment revenue | 96 | 100 | 351 | 446 | | | -447 | -546 | 0 | 0 |
| Total revenue | 3,577 | 15,860 | 3,348 | 2,935 | 154 | 4 | -447 | -546 | 6,632 | 18,253 |
| Annual change | -77.4% | | 14.1% | | | | | | -63.7% | |
| Operating profit/loss | 114 | 2,000 | -109 | -143 | -229 | -533 | 164 | -36 | -60 | 1,288 |

| Segment | Development | | Service | | Parent company | | Eliminations | | Consolidated | |
|------------------------------|-------------|--------------|------------|-------------|----------------|-------------|--------------|-------------|--------------|--------------|
| | Q4 2018 | Q4 2017 | Q4 2018 | Q4 2017 | Q4 2018 | Q4 2017 | Q4 2018 | Q4 2017 | Q4 2018 | Q4 2017 |
| In thousands of euros | | | | | | | | | | |
| External revenue | 443 | 7,323 | 699 | 638 | 143 | 1 | 0 | 0 | 1,285 | 7,962 |
| Annual change | -94.0% | | 9.6% | | | | | | -83.9% | |
| Inter-segment revenue | 20 | 26 | 47 | 155 | 0 | 0 | -67 | -181 | 0 | 0 |
| Total revenue | 463 | 7,349 | 746 | 793 | 143 | 1 | -67 | -181 | 1,285 | 7,962 |
| Annual change | -93.7% | | -5.9% | | | | | | -83.9% | |
| Operating profit/loss | -89 | 1,149 | -82 | -120 | -93 | -156 | 189 | -42 | -75 | 831 |

Assets and liabilities by operating segment

| Segment | Development | | Service | | Parent company | | Consolidated | |
|-----------------------|-------------|-------------|-------------|-------------|----------------|-------------|--------------|-------------|
| | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2018 | 31 Dec 2017 |
| In thousands of euros | | | | | | | | |
| Assets | 31,563 | 23,104 | 0 | 527 | 1,952 | 705 | 33,515 | 24,335 |
| Liabilities | 18,571 | 12,569 | 0 | 457 | 1,943 | 1,522 | 20,514 | 14,548 |

4. Revenue

| | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 2017 |
|------------------------------|----------------|----------------|------------|--------------|
| In thousands of euros | | | | |
| Sale of own real estate | 2,778 | 15,245 | 241 | 7,182 |
| Rental of real estate | 598 | 464 | 170 | 126 |
| Property management services | 85 | 50 | 22 | 14 |
| Other revenue | 174 | 5 | 153 | 2 |
| Total revenue | 3,635 | 15,764 | 586 | 7,324 |

5. Cost of sales

| | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 2017 |
|------------------------------------|----------------|----------------|-------------|---------------|
| In thousands of euros | | | | |
| Cost of real estate sold (note 11) | -2,071 | -12,785 | -230 | -5,861 |
| Personnel expenses | -28 | 0 | -12 | 0 |
| Property management costs | -292 | -199 | -93 | -92 |
| Other costs | -55 | -89 | -9 | -22 |
| Total cost of sales | -2,446 | -13,073 | -344 | -5,975 |

6. Marketing and distribution expenses

| | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 2017 |
|--------------------------------------------------|----------------|----------------|------------|------------|
| In thousands of euros | | | | |
| Advertising expenses | -67 | -84 | -21 | -29 |
| Brokerage fees | -10 | -11 | -4 | -2 |
| Other marketing and distribution expenses | -56 | -59 | -12 | -16 |
| Total marketing and distribution expenses | -133 | -154 | -37 | -47 |

7. Administrative expenses

| | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 2017 |
|--------------------------------------------------|----------------|----------------|-------------|-------------|
| In thousands of euros | | | | |
| Personnel expenses | -640 | -585 | -203 | -239 |
| Office expenses | -96 | -89 | -27 | -37 |
| IT expenses | -110 | -108 | -21 | -16 |
| Services purchased | -182 | -126 | -79 | -32 |
| Depreciation, amortization and impairment losses | -115 | -82 | -40 | -34 |
| Legal service fees | -48 | -20 | -8 | -8 |
| Vehicle expenses | -16 | -15 | -3 | -3 |
| Other expenses | -17 | -23 | -6 | -7 |
| Total administrative expenses | -1,224 | -1,048 | -387 | -376 |

8. Financial income and expenses

| | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 2017 |
|-----------------------------------------|----------------|----------------|-------------|-------------|
| In thousands of euros | | | | |
| Interest expenses | -433 | -443 | -106 | -104 |
| Other financial income and costs | -49 | -46 | -1 | -1 |
| Total financial income and costs | -482 | -489 | -107 | -105 |

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 12 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 245 thousand euros has been formed for the option associated with the bond. See also note 15.

| | 12 months 2018 | 12 months 2017 | Q4 2018 | Q4 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 (in thousands of euros) | -544 | 785 | -184 | 712 |
| Earnings per share (in euros) | -0.06 | 0.12 | 0.02 | 0.11 |
| Diluted earnings per share (in euros) | -0.06 | 0.11 | 0.02 | 0.10 |

10. Receivables and prepayments

Short-term receivables and prepayments

| | 31 December 2018 | 31 December 2017 |
|-----------------------------------------------------|------------------|------------------|
| In thousands of euros | | |
| Trade receivables | | |
| Receivables from customers | 91 | 192 |
| Total trade receivables | 91 | 192 |
| Other receivables | | |
| Loans provided | 1 | 3 |
| Miscellaneous receivables | 6 | 6 |
| Total other receivables | 7 | 9 |
| Accrued income | | |
| Prepaid and recoverable taxes | 335 | 163 |
| Other accrued income | 17 | 26 |
| Total accrued income | 352 | 189 |
| Prepayments | 289 | 357 |
| Total short-term receivables and prepayments | 739 | 747 |

Long-term receivables and prepayments

| | 31 December 2018 | 31 December 2017 |
|----------------------------------------------------|------------------|------------------|
| In thousands of euros | | |
| Loans provided | 5 | 0 |
| Prepayments | 20 | 18 |
| Total long-term receivables and prepayments | 25 | 18 |

11. Inventories

| | 31 December 2018 | 31 December 2017 |
|-----------------------------------------------------|------------------|------------------|
| In thousands of euros | | |
| Properties purchased and being developed for resale | 17,467 | 8,963 |
| Materials and finished goods | 15 | 11 |
| Total inventories | 17,482 | 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 | 2,943 | 12 |
| Construction costs of apartment buildings | 6,665 | 6,598 |
| Capitalized borrowing costs | 211 | 351 |
| Inventory write-down | -21 | 0 |
| Other capitalized costs | 777 | 206 |
| Reclassification to/from investment property (note 12) | 0 | 10 |
| Cost of sold properties (note 5) | -2,071 | -12,785 |
| Balance at the end of period, 31 December | 17,467 | 8,963 |

12. Investment property

| | 2018 | 2017 |
|--------------------------------------------------------|---------------|---------------|
| In thousands of euros | | |
| Balance at the beginning of period, 1 January | 11,299 | 10,835 |
| Net gain/loss on changes in fair value | 5 | 68 |
| Capitalized development costs | 71 | 76 |
| Capitalized borrowing costs | 66 | 30 |
| Reclassification to/from inventories (note 11) | 0 | -10 |
| Reclassification to/from property, plant and equipment | 399 | 0 |
| Purchase of land plots | 504 | 300 |
| Balance at the end of period, 31 December | 12,344 | 11,299 |

13. Interest bearing liabilities

| | As of 31 December, 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 | 14,653 | 11,995 | 2,658 | 10,625 | 500 | 10,125 |
| Bonds | 1,329 | 2 | 1,327 | 1,127 | 1,120 | 7 |
| Finance lease liabilities | 0 | 0 | 0 | 1 | 1 | 0 |
| Other loans | 550 | 550 | 0 | 250 | 250 | 0 |
| Total loans and borrowings | 16,532 | 12,547 | 3,985 | 12,003 | 1,871 | 10,132 |
| Prepayments | 810 | 810 | 0 | 265 | 265 | 0 |
| Total | 17,342 | 13,357 | 3,985 | 12,268 | 2,136 | 10,132 |

In 12 months 2018, the group settled loans in the amount of 2,201 thousand euros (in 12 months 2017: 1,809 thousand euros) through cash transactions and raised new loans in the amount of 6,604 thousand euros (in 12 months 2017: 1,517 thousand euros). In addition to loan liabilities, there are non-cash settlements and changes in interest bearing prepayments.

In 12 months 2018, the following major loan obligations were settled:

- 731 thousand euros of Madrid Blvd project's bank loan principal;
- 650 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 820 thousand euros of Arco Vara bonds;
- 265 thousand euros of interest bearing prepayments.

In 12 months 2018, the group raised the following new liabilities:

- 3,710 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 1,569 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stage II;
- 1,325 thousand euros of Arco Vara bonds;
- 810 thousand euros of interest bearing prepayments.

14. Payables and deferred income

Short-term payables and deferred income

| | 31 December 2018 | 31 December 2017 |
|------------------------------------------------------|------------------|------------------|
| In thousands of euros | | |
| Trade payables | 761 | 261 |
| Miscellaneous payables | 0 | 22 |
| Taxes payable | | |
| Value added tax | 12 | 37 |
| Corporate income tax | 4 | 30 |
| Social security tax | 19 | 48 |
| Personal income tax | 11 | 27 |
| Land tax | 0 | 70 |
| Garbage tax | 0 | 140 |
| Other taxes | 2 | 15 |
| Total taxes payable | 48 | 367 |
| Accrued expenses | | |
| Payables to employees | 54 | 170 |
| Interest payable | 31 | 61 |
| Other accrued expenses | 470 | 900 |
| Total accrued expenses | 555 | 1,131 |
| Deferred income | | |
| Prepayments received on sale of real estate | 2,618 | 695 |
| Guarantee deposits | 0 | 21 |
| Other deferred income | 0 | 10 |
| Total deferred income | 2,618 | 726 |
| Total short-term payables and deferred income | 3,982 | 2,507 |

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

| | 12 months 2018 | 12 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

| | 31 December 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 12 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 106 thousand euros, out of which 26 thousand euros in Q4 (in 12 months and Q4 2017: 120 thousand euros and 33 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 245 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 fourth quarter and 12 months ended on 31 December 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 14 February 2019