



Arco Vara AS

INTERIM REPORT FOR THE FIRST QUARTER OF 2018

INTERIM REPORT FOR THE FIRST QUARTER OF 2018

(UNAUDITED)

Company name: Arco Vara AS

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Corporate website: www.arcorealestate.com

Regional websites: www.arcovara.ee

www.arcoreal.bg

Core activities: Real estate development (EMTAK 41201)

Renting and operating of real estate (EMTAK 6820)

Activities of real estate agencies (EMTAK 6831)

Real estate management (EMTAK 6832)

Financial year: 1 January 2018 – 31 December 2018

Reporting period: 1 January 2018 – 31 March 2018

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 Q1 2018

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. 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.

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.

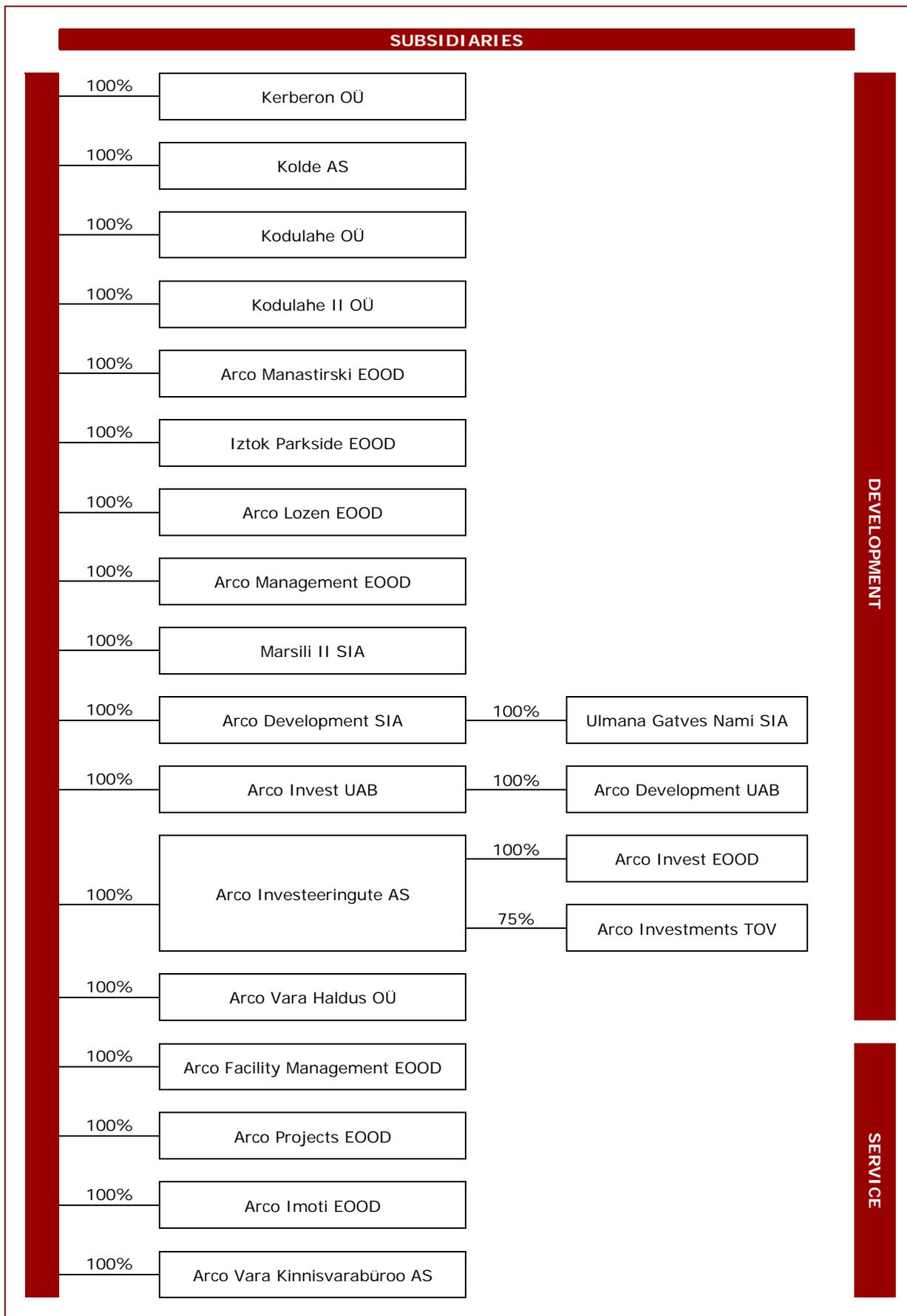
Group structure

As of 31 March 2018, the group consisted of 22 companies, which is one more than 31 December 2017. During the first three months of the year, one company was sold, one purchased and one established.

Significant subsidiaries as of 31 March 2018

Company name	Location	Segment	Share capital (nominal value)	Equity balance on 31 March 2018	The group's interest
In thousands of euros					
Arco Invest EOOD	Bulgaria	Development	28,762	86	100%
Iztok Parkside EOOD	Bulgaria	Development	1,433	861	100%
Arco Lozen EOOD	Bulgaria	Development	2,931	2,906	100%
Arco Manastirski EOOD	Bulgaria	Development	4	122	100%
Kodulahe OÜ	Estonia	Development	3	1,938	100%
Arco Vara Kinnisvarabüroo AS	Estonia	Service	42	-224	100%
Arco Imoti EOOD	Bulgaria	Service	444	211	100%

Group structure as of 31 March 2018



KEY PERFORMANCE INDICATORS

- In Q1 2018, the group's revenue was 2.1 million euros, which is 34.2% higher than the revenue of 1.6 million euros in Q1 2017. In Q1 2018, revenue of the Development Division amounted to 1.5 million euros (Q1 2017: 1.1 million euros) and revenue of the Service Division amounted to 0.8 million euros (Q1 2017: 0.7 million euros).
- In Q1 2018, the group's operating profit (=EBIT) was 0.1 million euros and the quarter ended with a small net loss. In Q1 2018, the Development Division made operating profit of 0.2 million euros and the Service Division made a small operating loss.
- In Q1 2018, 7 apartments and 1 land plot were sold in projects developed by the group. In Q1 2017, 1 apartment and 3 plots were sold.
- In the first 3 months of 2018, the group's debt burden (net loans) did not change, remaining at the level of 9.7 million euros, while a year ago, the debt burden was 50,5% or 4.9 million euros higher on 31 March 2017. As of 31 March 2018, the weighted average annual interest rate of interest bearing liabilities was 5.1%. This is a decrease of 0.3 percentage points compared to 31 December 2017.

Main financial figures

In millions of euros	Q1 2018	Q1 2017
Revenue		
Development	1.5	1.1
Service	0.8	0.7
Eliminations	-0.2	-0.2
Total revenue	2.1	1.6
Operating profit (EBIT)		
Development	0.2	0.0
Service	0.0	0.0
Unallocated income and expenses	-0.1	-0.2
Total operating profit/loss (EBIT)	0.1	-0.2
Finance income and expense	-0.1	-0.1
Net profit/loss	-0.1	-0.3
Total assets at the end of period	26.9	30.0
Invested capital at the end of period	25.1	24.4
Net loans at the end of period	9.7	14.6
Equity at the end of period	13.5	8.7
Cash flows from/used in operating activities	0.0	-0.6
Cash flows used in investing activities	-3.2	-0.3
Cash flows from/used in financing activities	2.8	1.2
Net cash flows	-0.4	0.3
Cash and cash equivalents at the beginning of period	2.3	0.8
Cash and cash equivalents at the end of period	1.9	1.1

Key ratios

	Q1 2018	Q1 2017
EPS (in euros)	-0.01	-0.04
Diluted EPS (in euros)	-0.01	-0.04
ROIC (rolling, four quarters)	4.1%	-9.6%
ROE (rolling, four quarters)	10.3%	-22.4%
ROA (rolling, four quarters)	3.6%	-8.1%
Current ratio	4.27	0.88
Quick ratio	0.76	0.09
Financial leverage	1.99	3.45
Average loan term (in years)	1.6	0.9
Average annual interest rate of loans	5.1%	5.1%
Number of staff, at period end	136	120

Revenue and net profit/loss from over last years

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Total 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Total 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Total 2017	Q1 2018
In millions of euros																
Revenue	4.4	2.1	2.1	2.1	10.7	5.1	2.1	1.2	1.3	9.7	1.6	1.0	7.7	8.0	9.7	2.1
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	0.6	0.8	-0.8	-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 + non-current interest-bearing loans and borrowings + equity (at the end of period)

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

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

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

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

Current ratio = current assets / current liabilities

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

Financial leverage = total assets / equity

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

GROUP CEO'S REVIEW

In Q1 2018, the two most important events for Arco Vara group were the completion of 3.74 mln share issue in January and the acquisition of Lozen project in Bulgaria, which consumed most of the proceeds from the share issue.

Speaking about the current year in broader terms, we can say that the first, the second and the third quarter prepare for the fourth quarter, when Iztok Parkside project will be completed and the sale of apartments and profit-making will begin. From the financial viewpoint, the beginning of the year is like setting up a stage for a rock-concert. The task of the management is to ensure that the stage will be up on time, but the most important thing is the concert itself.

During this preparatory period, we earn about 2 mln euros per quarter, out of which roughly half comes from services or rental agreements and another half from the sale of the small remaining stock. These are modest numbers.

That being said, even "quiet" quarters demonstrate a noticeable progress. We have had quite quarters earlier, when cranes have been up, but clients have been served only with brokerage, evaluations and rental agreements. Compared to Q1 of 2017 for instance, revenue from services has increased by 27% in Estonia and Bulgaria combined. Rental income from office and commercial premises in the Madrid building has increased by 35%. The Group makes an operating profit even with these small volumes, and the small net loss of Q1 was a result of interest expenses. We have borrowed money and are paying interests in order to develop real estate in both Iztok, Kodulahe and Lozen, and from May on, two developments are in process simultaneously with 140 new apartments and commercial areas on the way. The results of these developments will begin to show in Q4. Thus, Arco Vara group is quite well balanced this year. We are not burning cash even while preparing for larger results, and we are preparing for several concerts at a time.

The next financial goal is to increase the size and frequency of developments in order to decrease the number of "quiet" quarters, and increase the number of periods with some new real estate developments becoming ready for sale. While Q4 2018 and Q1 2019 will be covered by the sales revenue and profit from Iztok Parkside, the next substantial results are expected from stage 2 of Kodulahe, which should materialize in Q4 2019 and Q1 2020. An addition to our timeline is the Lozen project in Sofia, where we plan to start construction by the end of this year and commence sales in early 2020. Additionally, Oa street development project in Tartu will be undertaken if we can reach an acceptable construction price – with sale of 30 apartments most likely to start in the first half of 2020. The expected sales revenue from stage 1 of Lozen is over 25 mln euros and the sales revenue from Oa street should definitely exceed 3 mln euros. As for profit margins, expectations are higher in Bulgaria. Bulgaria seems to be far away, but the cash generated there brings it closer to Estonia and the parent company. Above all, the question is about managing people, and Arco Vara is increasingly working as one team.

SERVICE DIVISION

Revenue of the Service Division amounted to 776 thousand euros in Q1 2018 (Q1 2017: 680 thousand euros), which included intra-group revenue of 85 thousand euros (Q1 2017: 120 thousand euros).

The main services of the Service Division are real estate brokerage and evaluation services through real estate agencies. In Q1 2018, revenue from real estate agencies increased by 15% compared to Q1 2017. It is encouraging to see from the table below that the revenue from main services increased both in Estonian and Bulgarian agencies (16% and 11%, respectively).

Revenue of real estate agencies from brokerage and valuation

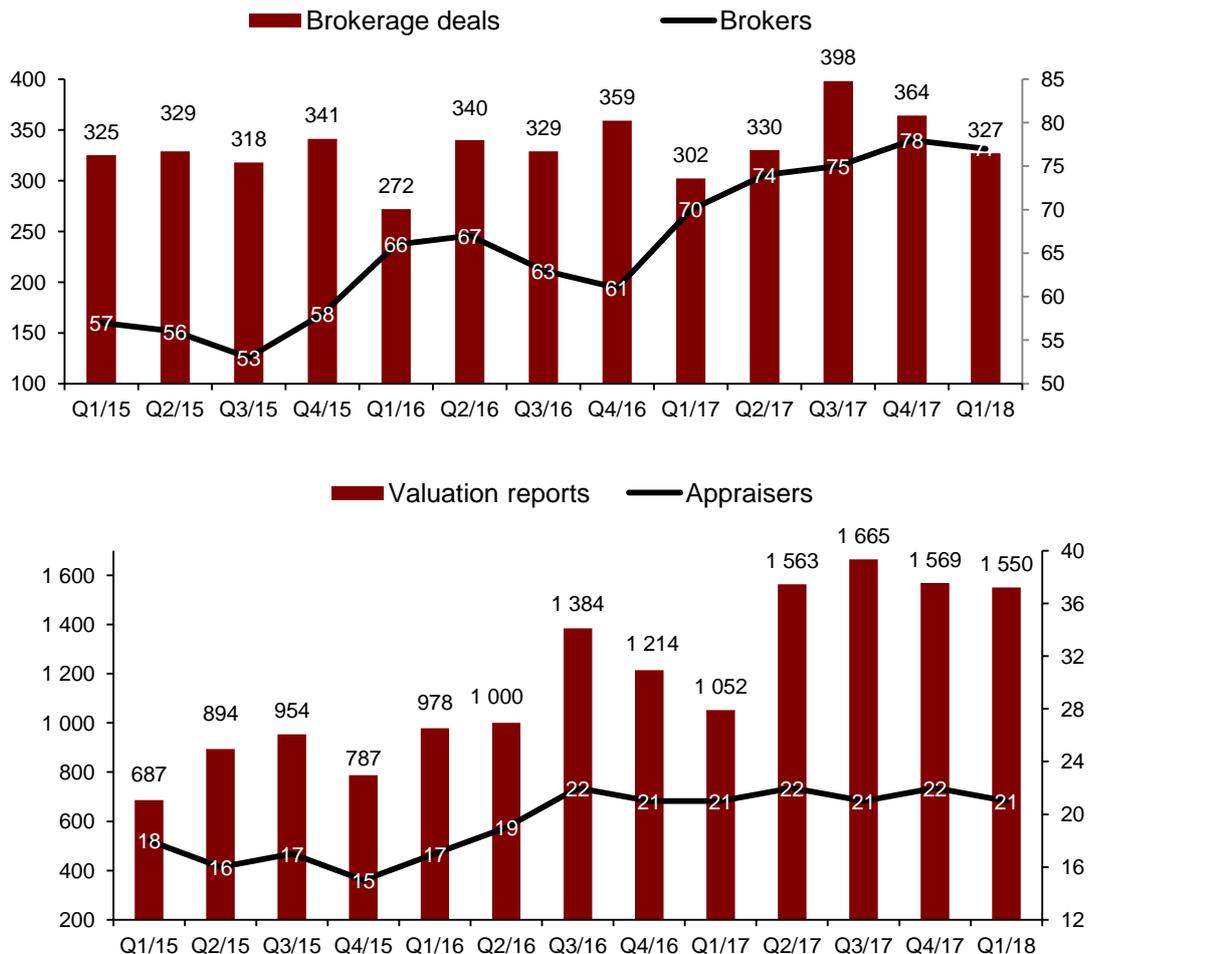
	Q1 2018	Q1 2017	Change, %
In thousands of euros			
Estonia	472	406	16%
Bulgaria	219	197	11%
Total	691	603	15%

In Q1 2018, Estonian agency had net loss of 20 thousand euros (Q1 2017: net loss of 62 thousand euros), Bulgarian agency had net loss of 10 thousand euros (Q1 2017: net profit of 35 thousand euros).

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 26 thousand euros in Q1 2018, 25 thousand euros of which was intra-group revenue (Q1 2017: 29 thousand and 24 thousand euros, respectively). Revenue from accommodation services amounted to 42 thousand euros in Q1 2018 (Q1 2017: 39 thousand euros).

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

Transaction volumes of the Service Division during the last 3 years



On 31 March 2018, the number of staff in the Service Division was 120 (on 31.12.2017: 126).

DEVELOPMENT DIVISION

In Q1 2018, revenue of the Development Division totalled 1,473 thousand euros (in Q1 2017: 1,063 thousand euros) including revenue of 1,310 thousand euros (Q1 2017: 938 thousand euros) from the sale of properties in the group's own development projects.

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 124 thousand euros in Q1 2018 (Q1 2017: 92 thousand euros). By the publishing date of the interim report, two office spaces and two commercial areas remain vacant, and one apartment unsold in Madrid Blvd building. 15 more apartments are furnished and are being rented out as accommodation service. Unsold parking places are also being rented out.

In Q1 2018, operating profit of the Development Division was 180 thousand euros. In Q1 2017, operating loss was 14 thousand euros. Revenue and profitability figures were higher in Q1 2018 due to the completion of several sale agreements for the apartments in the first stage of Kodulahe project. The construction of the apartment building with 125 apartments and 5 commercial areas was finished in Q3 2017. By the publishing date of the interim report, 4 apartments (one of which will be kept as a demo apartment) and 3 commercial spaces (one of which is rented out since Q1 2018) remain unsold.

In Q1 2018, preparatory works started for the second stage of Kodulahe project, where a building with 68 apartments and 1 commercial space is planned. The project is expected to be finalised in the second half of 2019. By the publishing date of the interim report, both construction and financing agreements have been signed, and 22 apartments have been presold.

In Iztok Parkside project in Sofia, construction continued during Q1 2018. By the publication date of interim report, presale agreements for 33 apartments have been concluded. Iztok project consists of three apartment buildings with 67 apartments (7,070 square meters of apartments' sellable area).

During Q1 2018, Arco Vara acquired land plots in the Lozen project in Bulgaria with total area of 5.3 ha. The land is located on the outskirts of Sofia, outside Sofia ring road but with quick access to all main transport arteries of the city. In 2021, the ring road extension will be completed which will make the access even better. Lozen project has 2 stages. The

project will include apartment buildings, row houses, private houses, supermarket, several small shops, restaurant, kindergarten, sports and spa facilities, playgrounds, apartment-hotel and possibly office spaces. Parking will be underground, while visitors' parking places will be organized on the ground.

As of 31 March 2018, 5 Marsili residential plots remained unsold in Latvia, out of which one was presold in 2017. In Q1 2018, one plot was sold in the project.

As of 31 March 2018, 6 people were employed in the Development Division, which is one more than at the end of 2017.

Summary table of Arco Vara's active projects as of 31 March 2018

Project name	Address	Product main type	Stage	Area of plot(s) (m ²)	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	23
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	1,501	16
Iztok Parkside	Iztok, Sofia	Apartments	S3	2,470	7,070	67
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	8,156	5
Kodulahe, stage 1	Lahepea 7, Tallinn	Apartments	S5	6,102	747	7
Kodulahe, stage 2	Lahepea 9, Tallinn	Apartments	S3	3,686	5,079	69
Kodulahe, stages 3-5	Soodi 4, Pagi 3, 5, Tallinn	Apartments	S3	10,578	<8,100>	<120>
Oa street apartments	Oa street 37,39,41, Tartu	Apartments	S3	4,146	1,950	30
Lehiku carpet building	Lehiku 21,23 Tallinn	Apartments	S3	5,915	<700>	<5>
Lozen, stage 1	Lozen, near Sofia	Apartments, houses	S3	47,450	<24,000>	<170>
Lozen, stage 2	Lozen, near Sofia	Apartments, houses	S1	63,350	<55,000>	<330>

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

Description of stages

- S1: Land plot acquired
- S2: Building rights procedure
- S3: Design and preparation works
- S4: Construction
- S5: Marketing and sale
- S6: Facility management and/or lease

PEOPLE

Remuneration

As of 31 March 2018, 136 people worked for the group (140 as of 31 December 2017). Employee remuneration expenses in Q1 2018 amounted to 0.7 million euros (Q1 2017: 0.6 million euros).

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 26 thousand euros in Q1 2018 (31 thousand euros in Q1 2017).

Management board and supervisory board

The management board of Arco Vara AS has one member. Since 22 October 2012, the member of the management board and chief executive officer of Arco Vara AS has been Tarmo Sild who has a mandate until October 2018.

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

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

SHARES AND SHAREHOLDERS

Share price

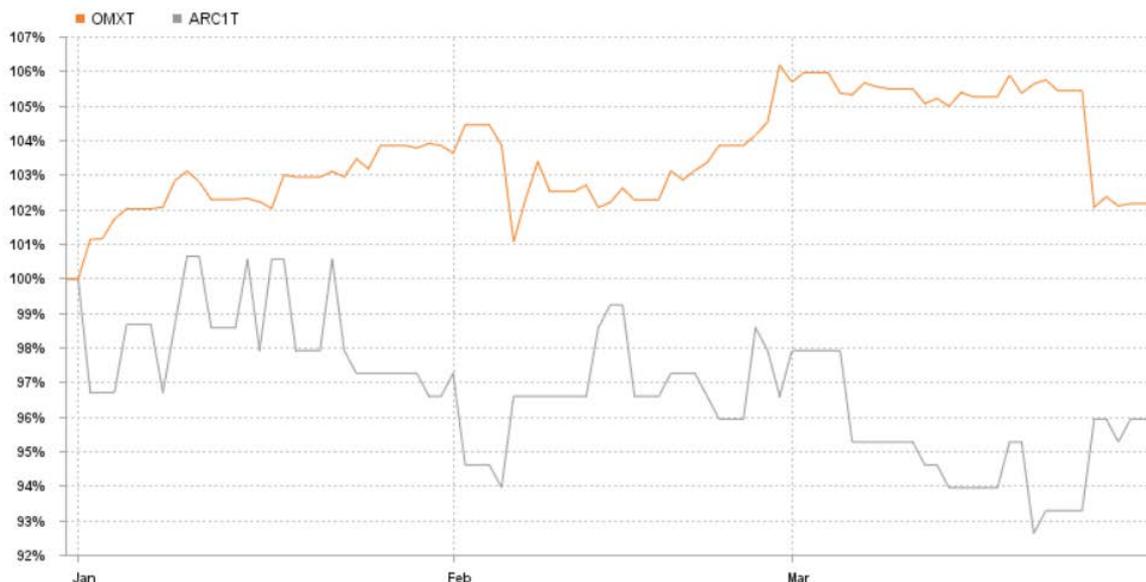
Arco Vara AS has issued a total of 8,998,367 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.45 euros on 31 March 2018, which is 4.06% lower than price on 31 December 2017. During the period, the highest traded price per share was 1.53 euros and the lowest price 1.40 euros. As of 31 March 2018, market capitalization of shares amounted to 13,048 thousand euros and P/B (price to book value) ratio was 0.97 (31 December 2017: 9,891 thousand euros and 1.01, respectively). P/E (price to earnings) ratio of the share was 12.80 on 31 March 2018 and 12.60 on 31 December 2017.

The following charts reflect the movements in the price and daily turnover of Arco Vara’s share in Q1 2018 and during the last three years.

Performance of Arco Vara’s shares in Q1 2018



Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in Q1 2018

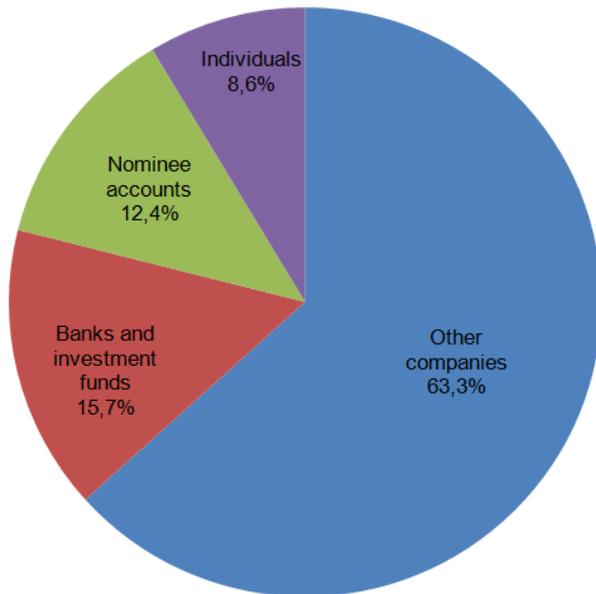


Index/equity	1 January 2018	31 March 2018	+/-%
—OMX Tallinn	1,242.12	1,269.2	+2.18
—ARC1T	1.5113 EUR	1.45 EUR	-4.06

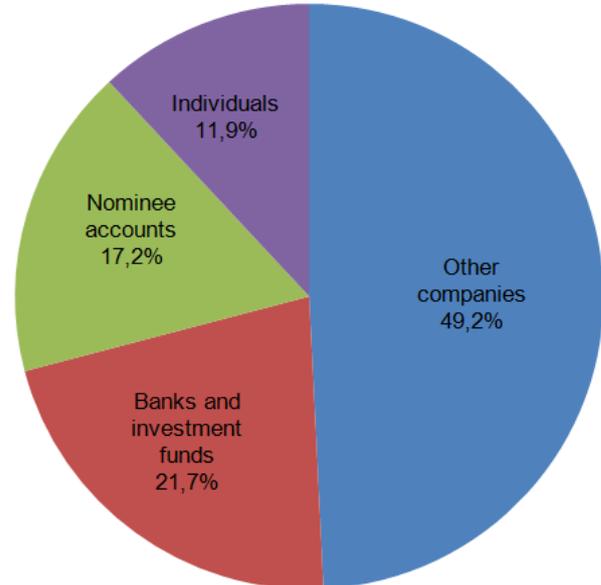
Shareholder structure

As of 31 March 2018, Arco Vara had 1,402 shareholders (on 31 December 2017: 1,403) including 1,209 individuals as shareholders (on 31 December 2017: 1,211 individuals) who jointly owned 8.6% (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 March 2018



Ownership structure as of 31 December 2017



Major shareholders on 31 March 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 March 2018

Name	Position	No of shares	Share, %
Tarmo Sild ja 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 Keskskaik (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 first quarter ended on 31 March 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 10 May 2018

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Q1 2018	Q1 2017
In thousands of euros			
Revenue from sale of own real estate	3	1,310	938
Revenue from rendering of services		837	662
Total revenue	2, 3	2,147	1,600
Cost of sales	4	-1,446	-1,251
Gross profit		701	349
Other income		13	10
Marketing and distribution expenses	5	-136	-109
Administrative expenses	6	-517	-412
Other expenses		-13	-8
Gain on sale of subsidiaries		15	0
Operating profit/loss		63	-170
Finance income and costs	7	-114	-115
Net profit/loss		-51	-285
Total comprehensive income/expense for the period		-51	-285
Earnings per share (in euros)	8		
- basic		-0.01	-0.04
- diluted		-0.01	-0.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Note	31 March 2018	31 December 2017
In thousands of euros		
Cash and cash equivalents	1,869	2,284
Receivables and prepayments	9	747
Inventories	10	8,974
Total current assets	14,211	12,005
Financial investments	43	34
Receivables and prepayments	9	18
Investment property	11	11,299
Property, plant and equipment	697	704
Intangible assets	293	275
Total non-current assets	12,679	12,330
TOTAL ASSETS	26,890	24,335
Loans and borrowings	12	1,871
Payables and deferred income	13	2,507
Provisions	38	38
Total current liabilities	3,326	4,416
Loans and borrowings	12	10,132
Payables and deferred income	13	0
Total non-current liabilities	10,066	10,132
TOTAL LIABILITIES	13,392	14,548
Share capital	6,299	4,555
Share premium	2,285	292
Statutory capital reserve	2,011	2,011
Other reserves	8	134
Retained earnings	2,769	2,795
TOTAL EQUITY	13,498	9,787
TOTAL LIABILITIES AND EQUITY	26,890	24,335

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	Q1 2018	Q1 2017
In thousands of euros		
Cash received from customers	2,946	2,039
Cash paid to suppliers	-2,640	-2,362
Taxes paid and recovered (net)	-79	-79
Cash paid to employees	-248	-212
Other cash paid and received in relation to operating activities (net)	-13	-10
NET CASH FROM/USED IN OPERATING ACTIVITIES	-34	-624
Payments made on purchase of tangible and intangible assets	-26	-15
Payments made on purchase and development of investment property 11	-302	-318
Proceeds from sale of a subsidiary (net)	41	0
Payments made on purchase of a subsidiary	-2,939	0
Loans provided	0	-5
Other payments related to investing activities	-9	0
NET CASH USED IN INVESTING ACTIVITIES	-3,235	-338
Proceeds from loans received 12	663	1,654
Settlement of loans and borrowings 12	-1,052	-171
Interest paid	-170	-233
Proceeds from share capital increase	3,737	0
Other payments related to financing activities	-324	0
NET CASH FROM/USED IN FINANCING ACTIVITIES	2,854	1,250
NET CASH FLOW	-415	288
Cash and cash equivalents at the beginning of period	2,284	845
Increase in cash and cash equivalents	-415	288
Cash and cash equivalents at the end of period	1,869	1,133

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	0	0
Total comprehensive income for the period	0	0	0	0	-285	-285
Balance as of 31 March 2017	4,555	292	2,011	52	1,790	8,700
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
Total comprehensive income for the period	0	0	0	0	-26	-26
Balance as of 31 March 2018	6,299	2,285	2,011	134	2,769	13,498

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the first quarter ended on 31 March 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. 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. 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		Parent company		Eliminations		Consolidated	
	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017
in thousands of euros										
External revenue	1,448	1,039	691	560	8	1			2,147	1,600
Annual change	39.4%		23.4%		700%				34.2%	
Inter-segment revenue	25	24	85	120			-110	-144	0	0
Total revenue	1,473	1,063	776	680	8	1	-110	-144	2,147	1,600
Annual change	38.6%		14.1%		700%					
Operating profit/loss	180	-14	-25	-12	-72	-146	-20	2	63	-170

Assets and liabilities by operating segment

Segment	Development		Service		Parent company		Consolidated	
	31 March 2018	31 Dec 2017	31 March 2018	31 Dec 2017	31 March 2018	31 Dec 2017	31 March 2018	31 Dec 2017
in thousands of euros								
Assets	25,697	23,104	561	527	632	705	26,890	24,335
Liabilities	11,694	12,569	496	457	1,202	1,522	13,392	14,548

3. Revenue

	Q1 2018	Q1 2017
In thousands of euros		
Sale of own real estate	1,310	938
Real estate brokerage and valuation	620	487
Rental of real estate	126	92
Accommodation services	42	39
Property management services	14	14
Other revenue	35	30
Total revenue	2,147	1,600

4. Cost of sales

	Q1 2018	Q1 2017
In thousands of euros		
Cost of real estate sold (note 10)	-927	-827
Personnel expenses	-382	-324
Property management costs	-97	-60
Vehicle expenses	-11	-12
Depreciation, amortisation and impairment losses	-2	-2
Other costs	-27	-26
Total cost of sales	-1,446	-1,251

5. Marketing and distribution expenses

	Q1 2018	Q1 2017
In thousands of euros		
Advertising expenses	-63	-44
Personnel expenses	-28	-24
Brokerage fees	-12	-5
Market research	-6	0
Other marketing and distribution expenses	-27	-36
Total marketing and distribution expenses	-136	-109

6. Administrative expenses

	Q1 2018	Q1 2017
In thousands of euros		
Personnel expenses	-247	-210
Office expenses	-91	-66
Services purchased	-66	-47
IT expenses	-37	-44
Depreciation, amortisation and impairment losses	-28	-22
Legal service fees	-32	-7
Vehicle expenses	-6	-6
Other expenses	-10	-10
Total administrative expenses	-517	-412

7. Financial income and expenses

	Q1 2018	Q1 2017
In thousands of euros		
Interest expenses	-113	-115
Other finance income and costs	-1	0
Total finance income and costs	-114	-115

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. Calculations for the number of shares for Q1 2018 take into account that 2,491,355 new shares issued during the share offering were registered in the Commercial register on 29 January 2018.

Diluted earnings per share are calculated by taking into account the effects of all potentially issued shares. According to the decision of the annual general meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the CEO of the group's parent company the right to subscribe additionally up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. An equity reserve in the amount of 134 thousand euros has been formed for the option associated with the bond. See also note 14.

	Q1 2018	Q1 2017
Weighted average number of ordinary shares outstanding during the period	8,223,279	6,507,012
Number of ordinary shares potentially to be issued (at period end)	390,000	390,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	-51	-285
Earnings per share (in euros)	-0.01	-0.04
Diluted earnings per share (in euros)	-0.01	-0.04

9. Receivables and prepayments

Short-term receivables and prepayments

	31 March 2018	31 December 2017
In thousands of euros		
Trade receivables		
Receivables from customers	138	192
Total trade receivables	138	192
Other receivables		
Loans provided	2	3
Miscellaneous receivables	8	6
Total other receivables	10	9
Accrued income		
Prepaid and recoverable taxes	133	163
Other accrued income	55	26
Total accrued income	188	189
Prepayments	332	357
Total short-term receivables and prepayments	668	747

Long-term receivables

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

10. Inventories

	31 March 2018	31 December 2017
In thousands of euros		
Properties purchased and being developed for resale	11,668	8,963
Materials and finished goods	6	11
Total inventories	11,674	8,974

Properties purchased and being developed for resale

	2018	2017
In thousands of euros		
Balance at the beginning of period, 1 January	8,963	14,571
Properties purchased for development	2,936	12
Construction costs of apartment buildings	569	2,124
Capitalized borrowing costs	20	103
Other capitalized costs	107	88
Cost of sold properties (note 4)	-927	-827
Balance at the end of period, 31 March	11,668	16,071

11. Investment property

	2018	2017
In thousands of euros		
Balance at the beginning of period, 1 January	11,299	10,835
Capitalised development costs	9	18
Capitalised borrowing costs	16	0
Purchase of land plots	304	300
Balance at the end of period, 31 March	11,628	11,153

12. Interest bearing liabilities

	As of 31 March 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	10,556	500	10,056	10,625	500	10,125
Bonds	807	800	7	1,127	1,120	7
Other loans	0	0	0	1	1	0
Finance lease liabilities	250	250	0	250	250	0
Prepayments	0	0	0	265	265	0
Total	11,613	1,550	10,063	12,268	2,136	10,132

In Q1 2018, the group settled interest bearing liabilities in the amount of 2,118 thousand euros (in Q1 2017: 171 thousand euros) through cash transactions and raised new loans in the amount of 1,463 thousand euros (in Q1 2017: 1,654 thousand euros).

In Q1 2018, the following major loan obligations were settled:

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

In Q1 2018, the group raised the following new loans:

- 663 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;

- 800 thousand euros of Arco Vara bonds (settled with previous bonds).

13. Payables and deferred income

Short-term payables and deferred income

	31 March 2018	31 December 2017
In thousands of euros		
Trade payables	365	261
Miscellaneous payables	21	22
Taxes payable		
Value added tax	124	37
Corporate income tax	28	30
Social security tax	39	48
Personal income tax	28	27
Land tax	57	70
Garbage tax	108	140
Other taxes	1	15
Total taxes payable	385	367
Accrued expenses		
Payables to employees	184	170
Interest payable	35	61
Other accrued expenses	109	900
Total accrued expenses	328	1 131
Deferred income		
Prepayments received on sale of real estate	622	695
Guarantee deposits	8	21
Other deferred income	9	10
Total deferred income	639	726
Total short-term payables and deferred income	1,738	2,507

Long-term payables and deferred income

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

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

	Q1 2018	Q1 2017
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Services purchased	10	16
Redemption of bonds	-100	0
Paid interest	0	6
Other related parties		
Services sold	1	2

Balances with related parties

	31 March 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 Q1 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 26 thousand euros (in Q1 2017: 31 thousand euros). 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 2018) on the supervisory board meeting held in September 2015. 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 shareholders' meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the CEO of the group's parent company the right to subscribe for additional 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. An equity reserve in the amount of 134 thousand euros has been formed for the option associated with the bond. See also note 8.

STATEMENT BY THE CEO / MEMBER OF THE MANAGEMENT BOARD

The CEO / member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the first quarter ended on 31 March 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 10 May 2018