



**INTERIM REPORT FOR THE
II QUARTER AND SIX MONTHS
OF 2018 (UNAUDITED)**

INTERIM REPORT FOR THE SECOND QUARTER AND SIX MONTHS OF 2018
(UNAUDITED)

Company name: Arco Vara AS

Registry number: 10261718

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Regional websites: www.arcovara.ee

www.arcoreal.bg

Core activities: Real estate development (EMTAK 41201)

Renting and operating of real estate (EMTAK 6820)

Activities of real estate agencies (EMTAK 6831)

Real estate management (EMTAK 6832)

Financial year: 1 January 2018 – 31 December 2018

Reporting period: 1 January 2018 – 30 June 2018

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

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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DIRECTORS' REPORT FOR Q2 AND 6 MONTHS 2018

GENERAL INFORMATION

Activities of the group

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

The Service Division is engaged in real estate brokerage, valuation, management and consulting. The Service Division offers to the group additional value by generating analytical data on market demand and supply, and 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.

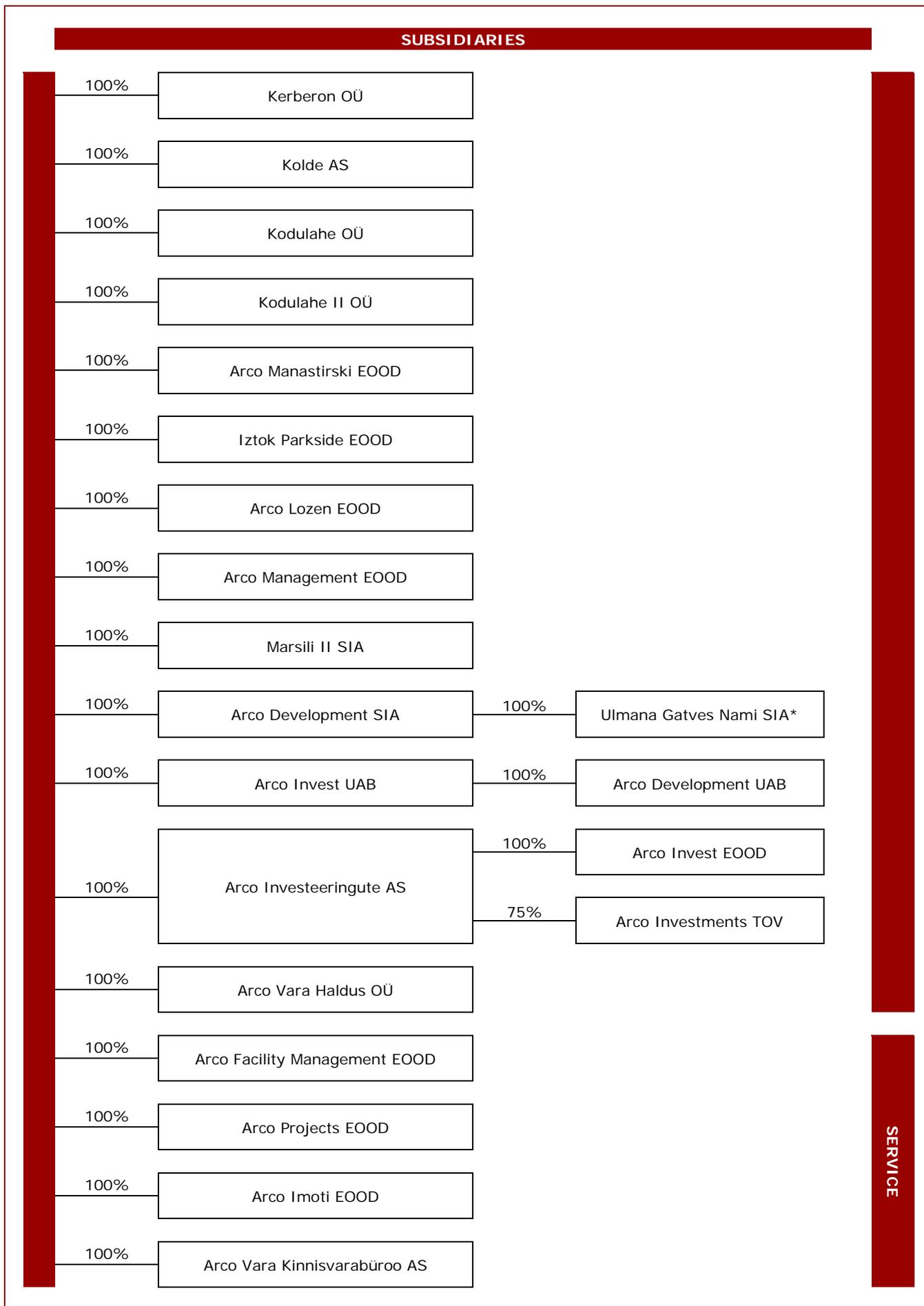
Group structure

As of 30 June 2018, the group consisted of 22 companies, which is one more than 31 December 2017. During the first six months of the year, one company was sold, one purchased and one established.

Significant subsidiaries as of 30 June 2018

| Company name | Location | Segment | Share capital (nominal value) | Equity balance on 30 June 2017 | The group's interest |
|------------------------------|----------|-------------|----------------------------------|-----------------------------------|-------------------------|
| In thousands of euros | | | | | |
| Arco Invest EOOD | Bulgaria | Development | 28,762 | -70 | 100% |
| Iztok Parkside EOOD | Bulgaria | Development | 1,433 | 712 | 100% |
| Kodulahe OÜ | Estonia | Development | 2,931 | 2,834 | 100% |
| Kerberon OÜ | Estonia | Development | 3 | 1,916 | 100% |
| Arco Vara Kinnisvarabüroo AS | Estonia | Service | 42 | -31 | 100% |
| Arco Imoti EOOD | Bulgaria | Service | 444 | 242 | 100% |

Group structure as of 30 June 2018



* Ulmana Gatves Nami SIA has been liquidated by the 6 July 2018

KEY PERFORMANCE INDICATORS

- In Q2 2018, the group's revenue was 1.1 million euros, which is 10% more than the revenue of 1.0 million euros in Q2 2017. In 6 months 2018, the group's revenue was 3.2 million euros, which is 23% more than the revenue of 2.6 million euros in 6 months 2017. The revenue of the Development Division amounted to 0.4 million euros in Q2 2018 and 1.8 million euros in 6 months 2018 (2017: 0.4 million euros in Q2 and 1.5 million euros in 6 months) and revenue of the Service Division amounted to 0.9 million euros in Q2 and 1.7 million euros in 6 months (in 2017: 0.7 million euros in Q2 and 1.4 million euros in 6 months).
- In Q2 2018, the group's operating loss (=EBIT) was 0.3 million euros and net loss 0.4 million euros (in 6 months 2018: operating loss of 0.2 million euros and net loss of 0.4 million euros). In Q2 2017, the group had operating loss of 0.2 million euros and net loss of 0.4 million euros. In 6 months 2017, the group made operating loss of 0.4 million euros and net loss of 0.6 million euros. The Development Division made an operating loss of 0.2 million euros in Q2 2018, 6 months ended with zero result. The Development Division made zero result also in Q2 2017 and 6 months 2017. The Service Division made zero result in Q2 2018, but had an operating loss of 0.1 million euros in 6 months 2018, as well as in 6 months 2017.
- In Q2 2018, 1 apartment was sold in projects developed by the group (in 6 months 2018: 8 apartments and 1 land plot). In Q2 2017, 1 apartment and 4 land plots were sold (2 apartments and 6 land plots in 6 months).
- In the first 6 months of 2018, the group's debt burden (net loans) increased by 0.9 million euros up to the level of 10.6 million euros as of 30 June 2018. As of 30 June 2018, the weighted average annual interest rate of interest bearing liabilities was 4.9%. This is a decrease of 0.5 percentage points compared to 31 December 2017.

Main financial figures

| | 6 months 2018 | 6 months 2017 | Q2 2018 | Q2 2017 |
|--|---------------|---------------|-------------|-------------|
| In millions of euros | | | | |
| Revenue | | | | |
| Development | 1.8 | 1.5 | 0.4 | 0.4 |
| Service | 1.7 | 1.4 | 0.9 | 0.7 |
| Eliminations | -0.3 | -0.3 | -0.2 | -0.1 |
| Total revenue | 3.2 | 2.6 | 1.1 | 1.0 |
| Operating profit (EBIT) | | | | |
| Development | 0.0 | 0.0 | -0.2 | 0.0 |
| Service | -0.1 | -0.1 | 0.0 | 0.0 |
| Parent company | -0.1 | -0.3 | -0.1 | -0.2 |
| Total operating profit/loss (EBIT) | -0.2 | -0.4 | -0.3 | -0.2 |
| Finance income and expense | -0.2 | -0.2 | -0.1 | -0.2 |
| Net profit/loss | -0.4 | -0.6 | -0.4 | -0.4 |
| Cash flows from/used in operating activities | -0.4 | -3.0 | -0.4 | -2.3 |
| Cash flows used in investing activities | -3.3 | -0.4 | -0.1 | -0.1 |
| Cash flows from/used in financing activities | 3.2 | 3.3 | 0.4 | 2.0 |
| Net cash flows | -0.5 | -0.1 | -0.1 | -0.4 |
| Cash and cash equivalents at beginning of period | 2.3 | 0.8 | 1.9 | 1.1 |
| Cash and cash equivalents at end of period | 1.8 | 0.7 | 1.8 | 0.7 |
| Total assets, at period end | 28.1 | 31.7 | | |
| Invested capital, at period end | 25.5 | 27.5 | | |
| Net loans, at period end | 10.6 | 18.5 | | |
| Equity, at period end | 13.1 | 8.3 | | |

Key ratios

| | 6 months 2018 | 6 months 2017 | Q2 2018 | Q2 2017 |
|---------------------------------------|---------------|---------------|---------|---------|
| EPS (in euros) | -0.05 | -0.10 | -0.04 | -0.05 |
| Diluted EPS (in euros) | -0.04 | -0.09 | -0.04 | -0.05 |
| ROIC (rolling, four quarters) | 3.9% | -9.9% | | |
| ROE (rolling, four quarters) | 9.1% | -25.3% | | |
| ROA (rolling, four quarters) | 3.5% | -8.3% | | |
| Current ratio | 4.19 | 0.87 | | |
| Quick ratio | 0.67 | 0.06 | | |
| Financial leverage | 2.15 | 3.83 | | |
| Average loan term (in years) | 1.4 | 0.7 | | |
| Average annual interest rate of loans | 4.9% | 5.0% | | |
| Number of staff, at period end | 141 | 131 | | |

Revenue and net profit/loss from continuing operations

| | Q1 2015 | Q2 2015 | Q3 2015 | Q4 2015 | Total 2015 | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 | Total 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | Total 2017 | Q1 2018 | Q2 2018 | 6M 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 | 18.3 | 2.1 | 1.1 | 3.2 | |
| 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 | -0.3 | -0.4 | |

Formulas used:

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

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

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

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

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

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

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

Current ratio = current assets / current liabilities

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

Financial leverage = total assets / equity

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

GROUP CEO'S REVIEW

We remain on the chosen path. In Q4 2018, Iztok Parkside development in Sofia will be ready, to be sold in full by the end of Q2 2019. In Q4 2019, Stage II of Kodulahe project in Tallinn will be finished, to be sold by the end of the same quarter. Presales of both projects have been good with 60% presold in Iztok despite multiple increases in sales prices, and 40% presold in Kodulahe, although the construction there has only started. Construction of Lozen project will commence in Q1 2019. If demand remains strong, construction of Kodulahe Stages III-V will also begin in H1 2019, before construction of Stage II will be completed.

In Q2 2018, we achieved 100% occupancy in the rental areas of Madrid Blvd building in Sofia, which has a positive effect on both cash flows and income statement and will become visible in Q3. The next goal is to refinance the existing loan obligation with less expensive one in 2019, which would further improve cash flows and profitability.

In 2018, income from brokerage and valuation services has also increased. We make over 250,000 euros of revenue per month. We help around 700 clients per month in signing a transaction or evaluating their property. Still, despite increased revenues we have not succeeded in achieving in real estate services such results, which would fully justify the time and money invested into providing these services, and which would fully cover the overhead of the group in periods where new cranes are up, but stock is empty and the sale of new apartments is quarters ahead. Arco Vara should be profitable in every quarter, including the ones where development projects are on their way. There is still work to be done to achieve this.

SERVICE DIVISION

In Q2 2018, revenue of the Service Division amounted to 884 thousand euros (Q2 2017: 682 thousand euros), which included intra-group revenue of 145 thousand euros (Q2 2017: 56 thousand euros). In 6 months 2018, the revenue of 1.660 thousand euros had increased by 21.9% compared to the revenue of 1.362 thousand euros in 6 months 2017.

The main services of the Service Division are real estate brokerage and evaluation services through real estate agencies. In 6 months 2018, revenue of the real estate agencies increased by 26% compared to 6 months 2017. Sales figures for real estate agencies in the table below show an increase of 54% in revenue from the Bulgarian office compared to the first 6 months of 2017 and increase of 108% if one compares Q2 2018 to Q2 2017.

Revenue of real estate agencies from brokerage and valuation

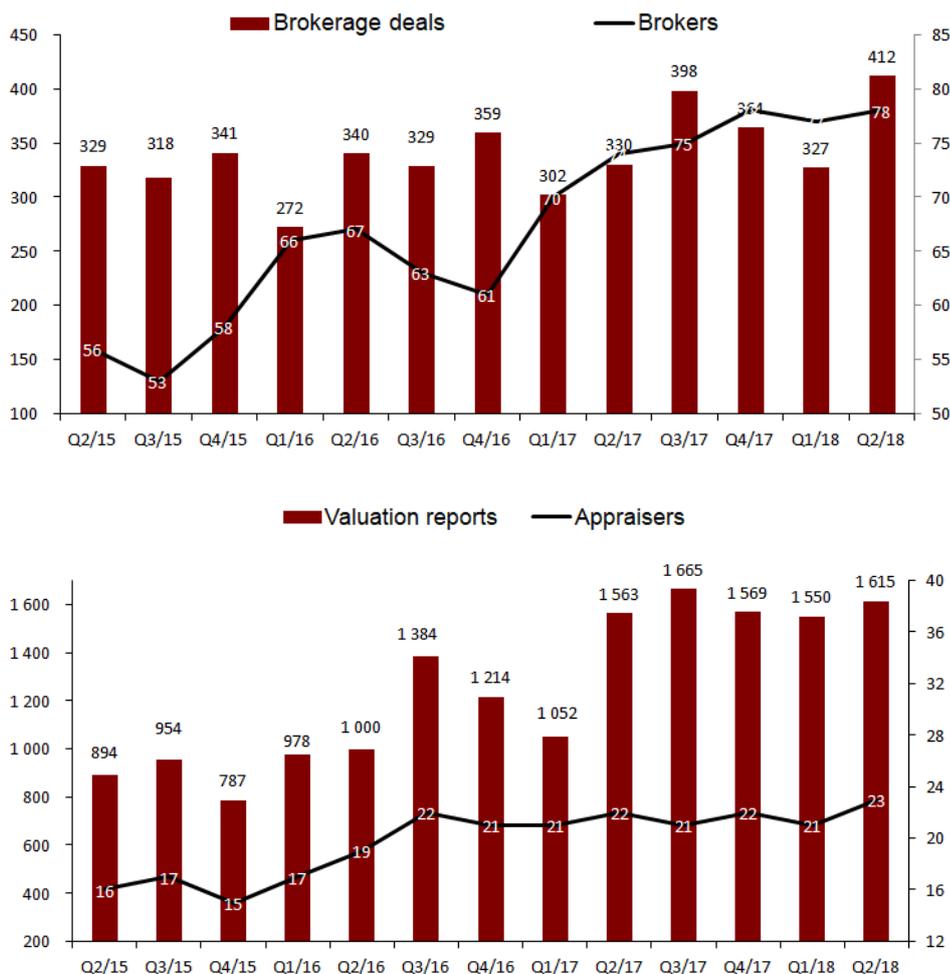
| | 6 months 2018 | 6 months 2017 | Change. % | Q2 2018 | Q2 2017 | Change. % |
|-----------------------|---------------|---------------|------------|------------|------------|------------|
| In thousands of euros | | | | | | |
| Estonia | 960 | 841 | 14% | 488 | 435 | 12% |
| Bulgaria | 545 | 354 | 54% | 326 | 157 | 108% |
| Total | 1,505 | 1,195 | 26% | 814 | 592 | 38% |

In Q2 and 6 months 2018, Estonian agency had net loss of 57 thousand euros and 76 thousand euros, respectively (in 2017: net loss of 46 thousand euros in Q2 and 108 thousand euros in 6 months). Bulgarian agency earned net profit of 31 thousand euros in Q2 2018 and 21 thousand euros in 6 months 2018 (2017: net profit of 6 thousand euros in Q2 and 41 thousand euros in 6 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 6 months 2018, 40 thousand euros of which was intra-group revenue (6 months 2017: 63 thousand and 52 thousand euros, respectively). Revenue from accommodation services amounted to 86 thousand euros in 6 months 2018, of which 44 thousand euros was made in Q2 (2017: 86 thousand euros in 6 months and 47 thousand euros in Q2).

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

Transaction volumes of the Service Division during the last 3 years



On 30 June 2018, the number of staff in the Service Division was 126 (on 31.12.2017: 118).

DEVELOPMENT DIVISION

The revenue of the Development Division totaled 368 thousand euros in Q2 2018 (in Q2 2017: 406 thousand euros) and 1,841 thousand euros in 6 months 2018 (in 6 months 2017: 1,469 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 182 thousand euros in Q2 and 1,492 thousand euros in 6 months (2017: 248 thousand euros in Q2 and 1,186 thousand euros in 6 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 128 thousand euros in Q2 2018 and 252 thousand euros in 6 months 2018 (2017: 120 thousand euros in Q2 and 212 thousand euros in 6 months). In Q2 2018, we managed to rent out all office and commercial spaces together with parking places.

In Q2 and 6 months 2018, the Development Division had operating loss of 181 thousand euros and 1 thousand euros, respectively. In 2017, the Development Division bore an operating loss of 29 thousand euros in Q2 and 43 thousand euros in 6 months.

Revenue and profitability figures were higher in Q1 2018 due to the completion of several sale agreements for the apartments in Stage I of Kodulahe project. The construction of the apartment building with 125 apartments and 5 commercial areas was finished in Q3 2017. By the publishing date of the interim report, 3 apartments (one of which is a demo apartment and 2 have been presold) and 3 commercial spaces (two of which are rented out) remain unsold.

In Q2 2018, construction works started for Stage II of Kodulahe project, a building with 68 apartments and 1 commercial space. The project is expected to be finalised by the end of 2019. By the publishing date of the interim report, 36 apartments have been presold.

In Iztok Parkside project in Sofia, construction continued during Q2 2018. By the publishing date of the interim report, presale agreements for 42 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, and also signed an agreement for the design of Stage I. Design works continued in Q2 and are scheduled to end in Q4. Stage I will include ca 170 residential units (apartments and houses), commercial spaces and a kindergarten.

As of 30 June 2018, 5 Marsili residential plots remained unsold in Latvia, out of which one is presold. In 6 months 2018, one plot was sold in the project.

As of 30 June 2018, 6 people were employed in the Development Division, the same number as at the end of 2017.

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

| Project name | Address | Product main type | Stage | Area of plot(s) (m ²) | GSA / GLA (above grade) available or <future target> | No of units (above grade) available or <future target> |
|---------------------------|-----------------------------|----------------------|-------|-----------------------------------|--|--|
| Madrid Blvd | Madrid Blvd, Sofia | Lease: Retail/Office | S5/S6 | - | 7,350 | 23 |
| Madrid Blvd | Madrid Blvd, Sofia | Apartments | S5/S6 | - | 1,501 | 16 |
| Iztok Parkside | Iztok, Sofia | Apartments | S4 | 2,470 | 7,070 | 67 |
| Marsili residential plots | Marsili, near Riga | Residential plots | S5 | - | 8,156 | 5 |
| Kodulahe, stage 1 | Lahepea 7, Tallinn | Apartments | S5/S6 | 6,102 | 572 | 6 |
| Kodulahe, stage 2 | Lahepea 9, Tallinn | Apartments | S4 | 3,686 | 5,079 | 69 |
| Kodulahe, stages 3-5 | Soodi 4, Pagi 3, 5, Tallinn | Apartments | S3 | 10,578 | <8,100> | <120> |
| Oa street apartments | Oa street 37,39,41, Tartu | Apartments | S3 | 4,146 | 1,950 | 30 |
| Lehiku carpet building | Lehiku 21,23 Tallinn | Apartments | S3 | 5,915 | <700> | <5> |
| Lozen, stage 1 | Lozen, near Sofia | Apartments, houses | S3 | 47,450 | <26,000> | <170> |
| Lozen, stage 2 | Lozen, near Sofia | Apartments, houses | S1 | 63,350 | <55,000> | <330> |

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

Description of stages

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

PEOPLE

Remuneration

As of 30 June 2018, 141 people worked for the group (140 as of 31 December 2017). Employee remuneration expenses in 6 months 2018 amounted to 1.4 million euros, out of which 0.7 million euros in Q2 2018 (2017 same periods: 1.1 million euros and 0.6 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 54 thousand euros in 6 months 2018, out of which 28 thousand euros in Q2 2018 (in 6 months and Q2 2017: 62 thousand euros and 31 thousand euros, respectively).

Management board and supervisory board

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

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

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

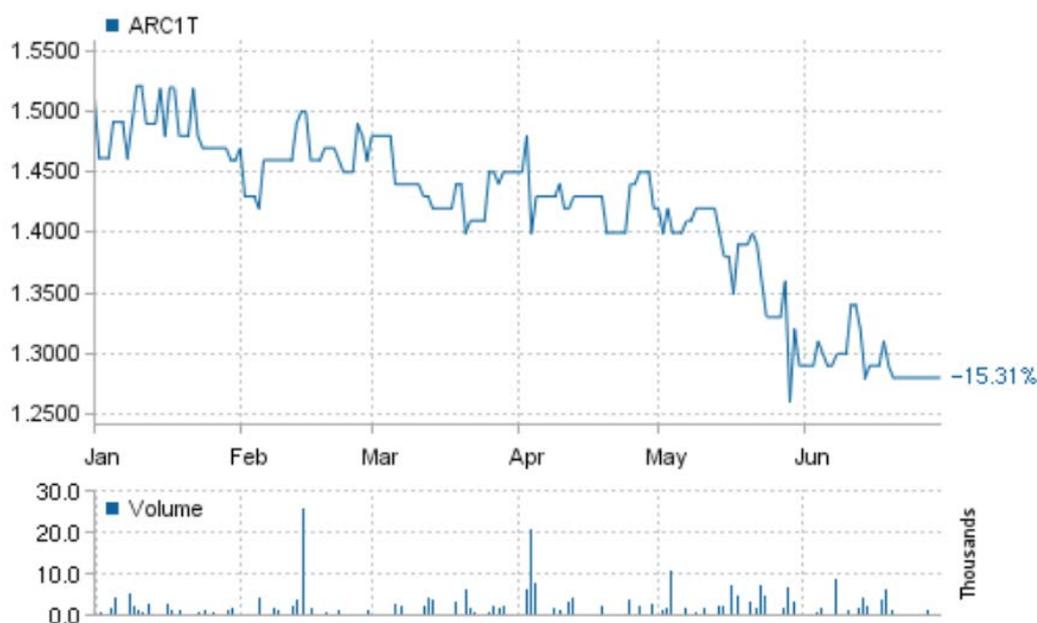
SHARES AND SHAREHOLDERS

Share price

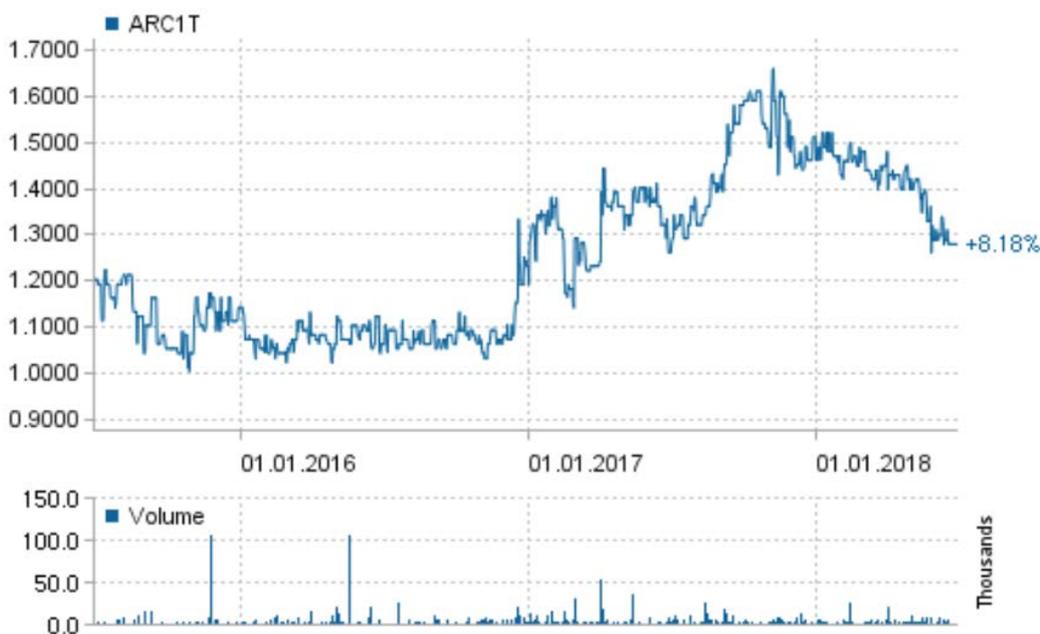
Arco Vara AS has issued a total of 8,998,367 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.27 euros on 30 June 2018, the closing price was 1.52 euros on 31 December 2017. During the period, the highest traded price per share was 1.52 euros and the lowest price 1.26 euros. As of 30 June 2018, market capitalization of shares amounted to 11,429 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 11.73 on 30 June 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 6 months 2018 and during the last three years.

Performance of Arco Vara’s shares in 6 months 2018



Performance of Arco Vara’s shares from 30 June 2015 until 30 June 2018



Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 6 months 2018

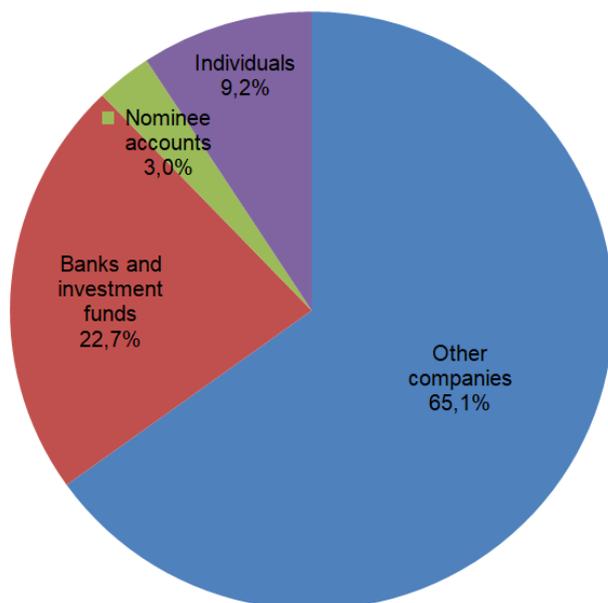


| Index/equity | 1 Jan 2018 | 30 June 2018 | +/-% |
|--------------|------------|--------------|--------|
| OMX Tallinn | 1,242.12 | 1,261.60 | +1.57 |
| ARC1T | 1.51 EUR | 1.28 EUR | -15.31 |

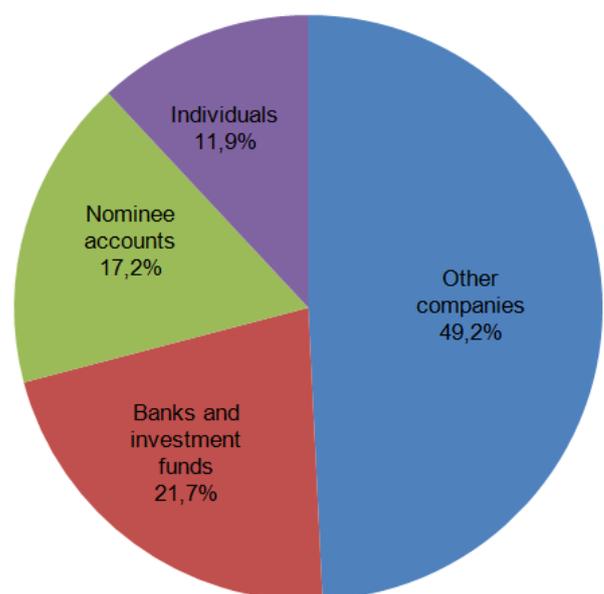
Shareholder structure

As of 30 June 2018, Arco Vara had 1,383 shareholders (on 31 December 2017: 1,403), including 1,193 individuals as shareholders (on 31 December 2017: 1,211 individuals) who jointly owned 9.2% (on 31 December 2017: 11.9%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams:

Ownership structure as of 30 June 2018



Ownership structure as of 31 December 2017



Major shareholders on 30 June 2018

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

Holdings of management and supervisory board members on 30 June 2018

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

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

CEO'S CONFIRMATION ON DIRECTORS' REPORT

The CEO and member of the management board of Arco Vara AS confirms that the directors' report of Arco Vara for the second quarter and 6 months ended on 30 June 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 9 August 2018

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | 6 months 2018 | 6 months 2017 | Q2 2018 | Q2 2017 |
|--|------|---------------|---------------|--------------|--------------|
| In thousands of euros | | | | | |
| Revenue from sale of own real estate | | 1,492 | 1,186 | 182 | 248 |
| Revenue from rendering of services | | 1,731 | 1,422 | 894 | 760 |
| Total revenue | 2, 3 | 3,223 | 2,608 | 1,076 | 1,008 |
| Cost of sales | 4 | -2,152 | -1,933 | -706 | -682 |
| Gross profit | | 1,071 | 675 | 370 | 326 |
| Other income | | 57 | 19 | 44 | 9 |
| Marketing and distribution expenses | 5 | -263 | -214 | -127 | -105 |
| Administrative expenses | 6 | -996 | -824 | -479 | -412 |
| Other expenses | | -60 | -26 | -47 | -18 |
| Gain on sale of subsidiaries | | 15 | 0 | 0 | 0 |
| Operating profit/loss | | -176 | -370 | -239 | -200 |
| Finance income and costs | 7 | -226 | -272 | -112 | -157 |
| Net profit/loss | | -402 | -642 | -351 | -357 |
| Total comprehensive income/expense for the period | | -402 | -642 | -351 | -357 |
| Earnings per share (in euros) | 8 | | | | |
| - basic | | -0.05 | -0.10 | -0.04 | -0.05 |
| - diluted | | -0.04 | -0.09 | -0.04 | -0.05 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | 30 June 2018 | 31 December 2017 |
|--------------------------------------|------|---------------|------------------|
| In thousands of euros | | | |
| Cash and cash equivalents | | 1,785 | 2,284 |
| Receivables and prepayments | 9 | 683 | 747 |
| Inventories | 10 | 12,870 | 8,974 |
| Total current assets | | 15,338 | 12,005 |
| Investments | | 50 | 34 |
| Receivables and prepayments | 9 | 18 | 18 |
| Investment property | 11 | 11,685 | 11,299 |
| Property, plant and equipment | | 695 | 704 |
| Intangible assets | | 310 | 275 |
| Total non-current assets | | 12,758 | 12,330 |
| TOTAL ASSETS | | 28,096 | 24,335 |
| Loans and borrowings | 12 | 1,550 | 1,871 |
| Payables and deferred income | 13 | 2,074 | 2,507 |
| Provisions | | 39 | 38 |
| Total current liabilities | | 3,663 | 4,416 |
| Loans and borrowings | 12 | 10,739 | 10,132 |
| Payables and deferred income | | 635 | 0 |
| Total non-current liabilities | | 11,374 | 10,132 |
| TOTAL LIABILITIES | | 15,037 | 14,548 |
| Share capital | | 6,299 | 4,555 |
| Share premium | | 2,285 | 292 |
| Statutory capital reserve | | 2,011 | 2,011 |
| Other reserves | 8 | 134 | 134 |
| Retained earnings | | 2,330 | 2,795 |
| TOTAL EQUITY | | 13,059 | 9,787 |
| TOTAL LIABILITIES AND EQUITY | | 28,096 | 24,335 |

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | 6 months 2018 | 6 months 2017 | Q2 2018 | Q2 2017 |
|--|------|---------------|---------------|-------------|---------------|
| In thousands of euros | | | | | |
| Cash receipts from customers | | 5,407 | 3,641 | 2,461 | 1,602 |
| Cash paid to suppliers | | -4,895 | -6,271 | -2,255 | -3,909 |
| Other taxes paid and recovered (net) | | -355 | 102 | -276 | 181 |
| Cash paid to employees | | -574 | -460 | -326 | -248 |
| Other cash payments and receipts related to operating activities (net) | | -23 | 12 | -10 | 22 |
| NET CASH FROM/USED IN OPERATING ACTIVITIES | | -440 | -2,976 | -406 | -2,352 |
| Payments made on purchase of tangible and intangible assets | | -72 | -48 | -46 | -33 |
| Payments made on purchase and development of investment property | 11 | -340 | -331 | -38 | -13 |
| Proceeds from sale of a subsidiary | | 41 | 0 | 0 | 0 |
| Payments made on purchase of a subsidiary | | -2,939 | 0 | 0 | 0 |
| Loans provided | | 0 | -7 | 0 | -2 |
| Other payments related to investing activities | | -2 | -8 | 7 | -8 |
| NET CASH USED IN INVESTING ACTIVITIES | | -3,312 | -394 | -77 | -56 |
| Proceeds from loans received | 12 | 1,454 | 4,176 | 791 | 2,522 |
| Settlement of loans and borrowings | 12 | -1,227 | -339 | -175 | -168 |
| Interest paid | | -290 | -451 | -120 | -218 |
| Dividends paid | | -90 | -65 | -90 | -65 |
| Proceeds from share capital increase | | 3,737 | 0 | 0 | 0 |
| Other payments related to financing activities | | -331 | -44 | -7 | -44 |
| NET CASH FROM/USED IN FINANCING ACTIVITIES | | 3,253 | 3,277 | 399 | 2,027 |
| NET CASH FLOW | | -499 | -93 | -84 | -381 |
| Cash and cash equivalents at beginning of period | | 2,284 | 845 | 1,869 | 1,133 |
| Increase in cash and cash equivalents | | -499 | -93 | -84 | -381 |
| Cash and cash equivalents at the end of period | | 1,785 | 752 | 1,758 | 752 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Statutory capital reserve | Other reserves | Retained earnings | Total equity |
|---|---------------|---------------|---------------------------|----------------|-------------------|---------------|
| In thousands of euros | | | | | | |
| Balance as of 31 December 2016 | 4,555 | 292 | 2,011 | 52 | 2,075 | 8,985 |
| Increase of share capital | 0 | 0 | 0 | 0 | -65 | -65 |
| Total comprehensive income for the period | 0 | 0 | 0 | 0 | -642 | -642 |
| Balance as of 30 June 2017 | 4,555 | 292 | 2,011 | 52 | 1,368 | 8,278 |
| Balance as of 31 December 2017 | 4,555 | 292 | 2,011 | 134 | 2,795 | 9,787 |
| Increase of share capital | 1,744 | 1,993 | 0 | 0 | 0 | 3,737 |
| Dividends paid | 0 | 0 | 0 | 0 | -90 | -90 |
| Sale of a subsidiary | 0 | 0 | 0 | 0 | 27 | 27 |
| Total comprehensive income for the period | 0 | 0 | 0 | 0 | -402 | -402 |
| Balance as of 30 June 2018 | 6,299 | 2,285 | 2,011 | 134 | 2,330 | 13,059 |

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the second quarter and 6 months ended on 30 June 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.

Revenue and operating profit by operating segment

| Segment | Development | | Service | | Parent company | | Eliminations | | Consolidated | |
|------------------------------|--------------|--------------|--------------|--------------|----------------|-------------|--------------|-------------|--------------|--------------|
| | 6M 2018 | 6M 2017 | 6M 2018 | 6M 2017 | 6M 2018 | 6M 2017 | 6M 2018 | 6M 2017 | 6M 2018 | 6M 2017 |
| in thousands of euros | | | | | | | | | | |
| External revenue | 1,784 | 1,420 | 1,430 | 1,186 | 9 | 2 | | | 3,223 | 2,608 |
| Annual change | 25.6% | | 20.6% | | | | | | 23.6% | |
| Inter-segment revenue | 57 | 49 | 230 | 176 | | | -287 | -225 | 0 | 0 |
| Total revenue | 1,841 | 1,469 | 1,660 | 1,362 | 9 | 2 | -287 | -225 | 3,223 | 2,608 |
| Annual change | 25.3% | | 21.9% | | | | | | | |
| Operating profit/loss | -1 | -43 | -46 | -57 | -107 | -270 | -22 | 0 | -176 | -370 |

| Segment | Development | | Service | | Parent company | | Eliminations | | Consolidated | |
|------------------------------|-------------|------------|------------|------------|----------------|-------------|--------------|------------|--------------|--------------|
| | Q2 2018 | Q2 2017 | Q2 2018 | Q2 2017 | Q2 2018 | Q2 2017 | Q2 2018 | Q2 2017 | Q2 2018 | Q2 2017 |
| in thousands of euros | | | | | | | | | | |
| External revenue | 336 | 381 | 739 | 626 | 1 | 1 | | | 1,076 | 1,008 |
| Annual change | -11.8% | | 18.1% | | | | | | 6.7% | |
| Inter-segment revenue | 32 | 25 | 145 | 56 | | | -177 | -81 | 0 | 0 |
| Total revenue | 368 | 406 | 884 | 682 | 1 | 1 | -177 | -81 | 1,076 | 1,008 |
| Annual change | -9.4% | | 29.6% | | | | | | | |
| Operating profit/loss | -181 | -29 | -21 | -45 | -35 | -124 | -2 | -2 | -239 | -200 |

Assets and liabilities by operating segment

| Segment | Development | | Service | | Parent company | | Consolidated | |
|-----------------------|--------------|-------------|--------------|-------------|----------------|-------------|--------------|-------------|
| | 30 June 2018 | 31 Dec 2017 | 30 June 2018 | 31 Dec 2017 | 30 June 2018 | 31 Dec 2017 | 30 June 2018 | 31 Dec 2017 |
| in thousands of euros | | | | | | | | |
| Assets | 27,036 | 23,104 | 525 | 527 | 535 | 705 | 28,096 | 24,335 |
| Liabilities | 13,432 | 12,569 | 452 | 457 | 1,153 | 1,522 | 15,037 | 14,548 |

3. Revenue

| | 6 months 2018 | 6 months 2017 | Q2 2018 | Q2 2017 |
|-------------------------------------|---------------|---------------|--------------|--------------|
| In thousands of euros | | | | |
| Sale of own real estate | 1,492 | 1,186 | 182 | 248 |
| Real estate brokerage and valuation | 1,282 | 1,029 | 662 | 543 |
| Rental of real estate | 258 | 299 | 132 | 167 |
| Accommodation services | 85 | 86 | 44 | 47 |
| Property management services | 41 | 33 | 27 | 19 |
| Other revenue | 65 | 61 | 29 | 31 |
| Total revenue | 3,223 | 2,608 | 1,076 | 1,008 |

4. Cost of sales

| | 6 months 2018 | 6 months 2017 | Q2 2018 | Q2 2017 |
|--|---------------|---------------|-------------|-------------|
| In thousands of euros | | | | |
| Cost of real estate sold (note 10) | -1,029 | -1,067 | -102 | -240 |
| Personnel expenses | -834 | -665 | -452 | -341 |
| Property management costs | -196 | -133 | -99 | -73 |
| Vehicle expenses | -24 | -22 | -13 | -10 |
| Depreciation, amortisation and impairment losses | -6 | -5 | -4 | -3 |
| Other costs | -63 | -41 | -36 | -15 |
| Total cost of sales | -2,152 | -1,933 | -706 | -682 |

5. Marketing and distribution expenses

| | 6 months 2018 | 6 months 2017 | Q2 2018 | Q2 2017 |
|--|---------------|---------------|-------------|-------------|
| In thousands of euros | | | | |
| Advertising expenses | -112 | -88 | -49 | -44 |
| Personnel expenses | -54 | -49 | -26 | -25 |
| Brokerage fees | -19 | -16 | -7 | -11 |
| Market research | -21 | 0 | -15 | 0 |
| Other marketing and distribution expenses | -57 | -61 | -30 | -25 |
| Total marketing and distribution expenses | -263 | -214 | -127 | -105 |

6. Administrative expenses

| | 6 months 2018 | 6 months 2017 | Q2 2018 | Q2 2017 |
|--|---------------|---------------|-------------|-------------|
| In thousands of euros | | | | |
| Personnel expenses | -517 | -432 | -270 | -222 |
| Office expenses | -173 | -127 | -82 | -61 |
| IT expenses | -79 | -90 | -42 | -47 |
| Services purchased | -94 | -83 | -28 | -36 |
| Depreciation, amortisation and impairment losses | -56 | -46 | -28 | -23 |
| Legal service fees | -45 | -16 | -13 | -10 |
| Vehicle expenses | -15 | -13 | -9 | -6 |
| Other expenses | -17 | -17 | -7 | -7 |
| Total administrative expenses | -996 | -824 | -479 | -412 |

7. Financial income and expenses

| | 6 months 2018 | 6 months 2017 | Q2 2018 | Q2 2017 |
|---|---------------|---------------|-------------|-------------|
| In thousands of euros | | | | |
| Interest expenses | -220 | -228 | -107 | -113 |
| Other financial income and costs | -6 | -44 | -5 | -44 |
| Total financial income and costs | -226 | -272 | -112 | -157 |

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 6 months 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 all potentially issued shares.

According to the decision of the annual general meeting of Arco Vara AS, held on 30 May 2017, twelve convertible bonds were issued with the nominal value of 500 euros each. The convertible bonds allow key employees of the group to subscribe to the total of up to 200 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2020 if the employees still work at the company at the time and if the net profit for years 2017-2019 combined is at least 5.5 million euros.

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

| | 6 months 2018 | 6 months 2017 | Q2 2018 | Q2 2017 |
|--|---------------|---------------|--------------|--------------|
| Weighted average number of ordinary shares outstanding during the period | 8,612,964 | 6,507,012 | 8,998,367 | 6,507,012 |
| Number of ordinary shares potentially to be issued (at period end) | 590,000 | 390,000 | 590,000 | 390,000 |
| Net profit/loss attributable to owners of the parent (in thousands of euros) | -402 | -642 | -351 | -357 |
| Earnings per share (in euros) | -0.05 | -0.10 | -0.04 | -0.05 |
| Diluted earnings per share (in euros) | -0.04 | -0.09 | -0.04 | -0.05 |

9. Receivables and prepayments

Short-term receivables and prepayments

| | 30 June 2018 | 31 December 2017 |
|---|--------------|------------------|
| In thousands of euros | | |
| Trade receivables | | |
| Receivables from customers | 91 | 192 |
| Total trade receivables | 91 | 192 |
| Other receivables | | |
| Loans provided | 2 | 3 |
| Miscellaneous receivables | 6 | 6 |
| Total other receivables | 8 | 9 |
| Accrued income | | |
| Prepaid and recoverable taxes | 185 | 163 |
| Other accrued income | 23 | 26 |
| Total accrued income | 208 | 189 |
| Prepayments | 376 | 357 |
| Total short-term receivables and prepayments | 683 | 747 |

Long-term receivables and prepayments

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

10. Inventories

| | 30 June 2018 | 31 December 2017 |
|---|---------------|------------------|
| In thousands of euros | | |
| Properties purchased and being developed for resale | 12,863 | 8,963 |
| Materials and finished goods | 7 | 11 |
| Total inventories | 12,870 | 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 | 1,622 | 4,351 |
| Capitalized borrowing costs | 75 | 229 |
| Other capitalized costs | 296 | 166 |
| Reclassification to/from investment property (note 11) | 0 | 10 |
| Cost of sold properties (note 4) | -1,029 | -1,067 |
| Balance at the end of period, 30 June | 12,863 | 18,272 |

11. Investment property

| | 2018 | 2017 |
|--|---------------|---------------|
| In thousands of euros | | |
| Balance at the beginning of period, 1 January | 11,299 | 10,835 |
| Capitalised development costs | 49 | 30 |
| Capitalized borrowing costs | 33 | 0 |
| Reclassification to/from inventories (note 10) | 0 | -10 |
| Purchase of land plots | 304 | 300 |
| Balance at the end of period, 30 June | 11,685 | 11,155 |

12. Interest bearing liabilities

| | As of 30 June 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 | 11,233 | 500 | 10,733 | 10,625 | 500 | 10,125 |
| Bonds | 806 | 800 | 6 | 1,127 | 1,120 | 7 |
| Finance lease liabilities | 0 | 0 | 0 | 1 | 1 | 0 |
| Other loans | 250 | 250 | 0 | 250 | 250 | 0 |
| Prepayments | 110 | 0 | 110 | 265 | 265 | 0 |
| Total | 12,399 | 1,550 | 10,849 | 12,268 | 2,136 | 10,132 |

In 6 months 2018, the group settled loans in the amount of 1,227 thousand euros (in 6 months 2017: 339 thousand euros) through cash transactions and raised new loans in the amount of 1,454 thousand euros (in 6 months 2017: 4,176 thousand euros). In addition to loan liabilities, there are non-cash settlements and changes in interest bearing prepayments.

In 6 months 2018, the following major loan obligations were settled:

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

In 6 months 2018, the group raised the following new liabilities:

- 1,454 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 800 thousand euros of Arco Vara bonds (settled with previous bonds);
- 110 thousand euros of interest bearing prepayments.

13. Payables and deferred income

Short-term payables and deferred income

| | 30 June 2018 | 31 December 2017 |
|--|--------------|------------------|
| In thousands of euros | | |
| Trade payables | 632 | 261 |
| Miscellaneous payables | 21 | 22 |
| Taxes payable | | |
| Value added tax | 45 | 37 |
| Corporate income tax | 14 | 30 |
| Social security tax | 40 | 48 |
| Personal income tax | 29 | 27 |
| Land tax | 73 | 70 |
| Garbage tax | 133 | 140 |
| Other taxes | 3 | 15 |
| Total taxes payable | 337 | 367 |
| Accrued expenses | | |
| Payables to employees | 183 | 170 |
| Interest payable | 31 | 61 |
| Other accrued expenses | 76 | 900 |
| Total accrued expenses | 290 | 1,131 |
| Deferred income | | |
| Prepayments received on sale of real estate | 782 | 695 |
| Guarantee deposits | 4 | 21 |
| Other deferred income | 8 | 10 |
| Total deferred income | 794 | 726 |
| Total short-term payables and deferred income | 2,074 | 2,507 |

Long-term payables and deferred income

| | 30 June 2018 | 31 December 2017 |
|---|--------------|------------------|
| In thousands of euros | | |
| Retentions and deposits received | 2 | 0 |
| Prepayments received on sale of real estate | 633 | 0 |
| Total long-term payables | 635 | 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

| | 6 months 2018 | 6 months 2017 |
|---|---------------|---------------|
| In thousands of euros | | |
| Companies that have a significant interest in the group's parent company | | |
| Services purchased | 18 | 41 |
| Paid interest | 0 | 9 |
| Other related parties | | |
| Services sold | 1 | 2 |

Balances with related parties

| | 30 June 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 6 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 54 thousand euros, of which 28 thousand euros in Q2 (in 6 months and Q2 2017: 62 thousand euros and 31 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 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 meeting of Arco Vara AS, held on 30 May 2017, twelve convertible bonds were issued with the nominal value of 500 euros each. The convertible bonds will give to the key employees of the group the right to subscribe to the total of up to 200 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2020 if the employees still work at the company at the time and if the net profit for years 2017-2019 combined is at least 5.5 million euros. The Black-Scholes model was used to calculate the fair value of the key employee option, according to which no equity reserve has been formed.

According to the decision of the annual general shareholders' meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the CEO of the group's parent company the right to subscribe for additional 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. An equity reserve in the amount of 134 thousand euros has been formed for the option associated with the bond. See also note 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 second quarter and 6 months ended on 30 June 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 9 August 2018