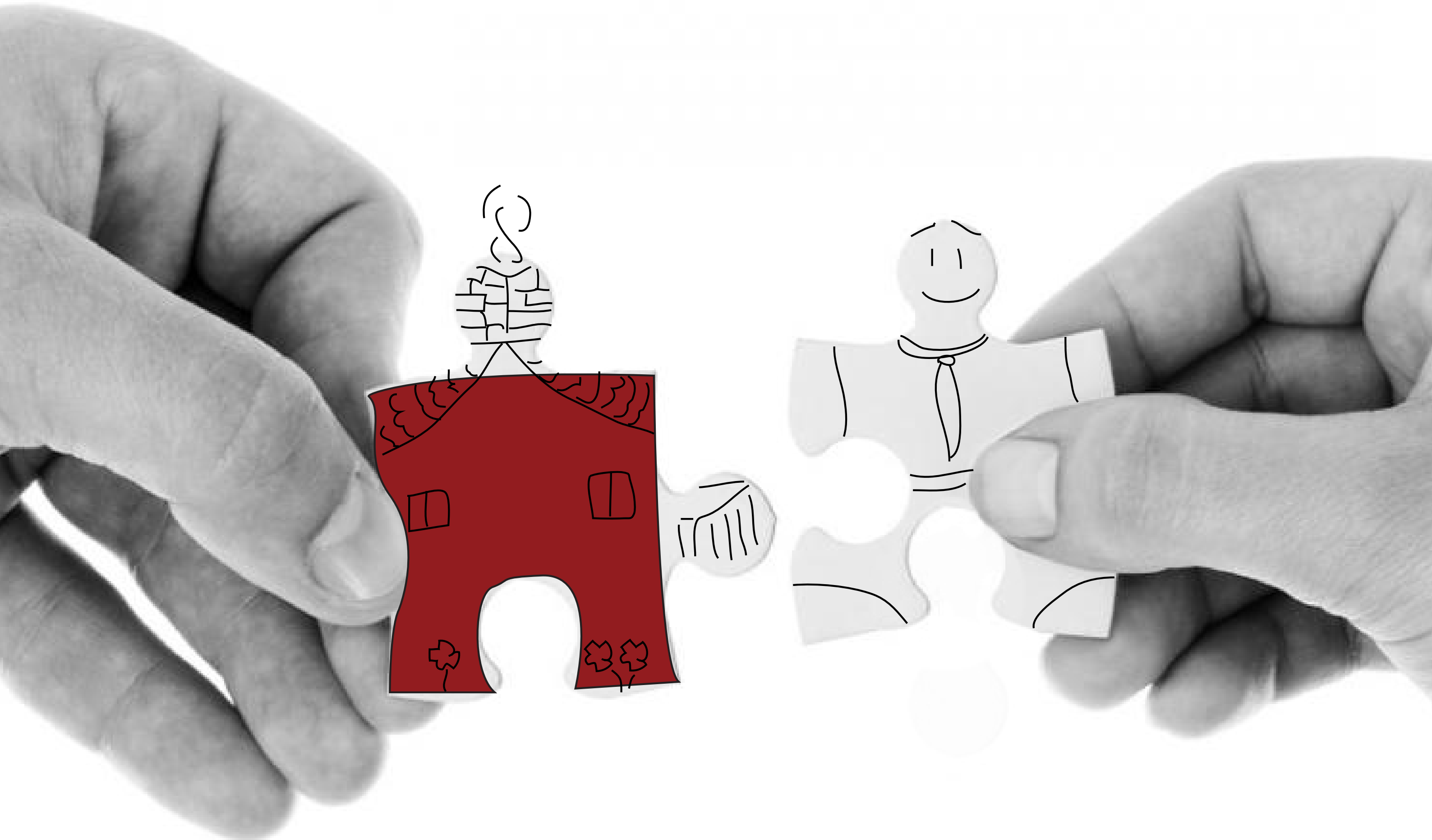
Arco Vara AS

INTERIM REPORT FOR THE I QUARTER
OF 2019 (UNAUDITED)



INTERIM REPORT FOR THE FIRST QUARTER OF 2019

(UNAUDITED)

Company name:	Arco Vara AS
Registry number:	10261718
Address:	Rävala pst 5, 10143 Tallinn, Republic of Estonia
Telephone:	+372 6 144 630
E-mail:	info@arcovara.com
Corporate website:	www.arcovara.com
Core activities:	Real estate development (EMTAK 41201) Renting and operating of real estate (EMTAK 6820) Real estate management (EMTAK 6832)
Financial year:	1 January 2019 – 31 December 2019
Reporting period:	1 January 2019 – 31 March 2019
Supervisory board:	Hillar-Peeter Luitsalu, Rain Lõhmus, Allar Niinepuu, Kert Keskpaik, Steven Yaroslav Gorelik
Chief executive:	Tarmo Sild
Auditor:	AS PricewaterhouseCoopers

CONTENTS

DIRECTORS' REPORT FOR Q1 2019

GROUP CEO'S REVIEW

Q1 neither overperformed nor underperformed the expectations. Arco Vara earned its living from rental and facility management fees of Madrid Blvd building, from license fees of its former service division, and from the sale of some of its apartments in Madrid Blvd building. During the quarter, the group's cost base decreased after the partial repayment of the bank loan related to Madrid Blvd building, and the subsequent decrease of loan interest rate and interest cost.

The main challenge of the group continues to be the realization of Iztok Parkside project, which is fully constructed and largely presold. The group must be the only developer in Bulgaria who needs an approval from Government of Bulgaria to transfer some land plots of few hundred square meters that are owned by two public institutions to a third public institution, which does not change the land's purpose. The use of the land plots has already been established by planning documents and eternalized with an asphalt layer. In order to go through the legal process, more than 50 signatures and stamps are needed, the majority of which have been obtained by today. Unfortunately, forecasting the time needed for completing such process is extremely difficult and the management has previously made mistakes in its time estimates.

Other developments have progressed as planned and three important decisions must be made during Q2:

(a) Starting or not starting Stage III of Kodulahe project, depending on the construction price versus forecasted sales revenue. Recently, Arco Vara has raised the prices of the remaining apartments in Stage 2 of Kodulahe project.
(b) Starting or not starting Kodukalda project on Oa street in Tartu, depending on the same considerations.
(c) Receiving the construction permit and starting or not starting Botanica Lozen project, depending on the same considerations.

Residential markets in both Tallinn and Sofia are characterised by certain overheating, as demonstrated by rapid increases of land prices and construction costs. Although banks continue to lend for real estate purchases, there are signs of slowdown both in terms of the number of transactions and the number of new constructions started. Also the consumers are delaying purchase decisions, expecting the prices to fall. Considering the quality of our land reserves, which do not have to be developed at any cost, and minimised overhead, which allow us to remain patient before commencing any new projects, we are in no hurry to start new development projects.

Thus, as a summary of Q1 and outlook for Q2: Arco Vara needs patience rather than new capital or ideas or workforce.

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 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.

From the beginning of 2019, the group itself no longer offers real estate brokerage and appraisal services, but in both Estonia, Latvia and Bulgaria, these services continue to be provided under Arco Vara trademarks through license agreements, from which the group earns license fees.

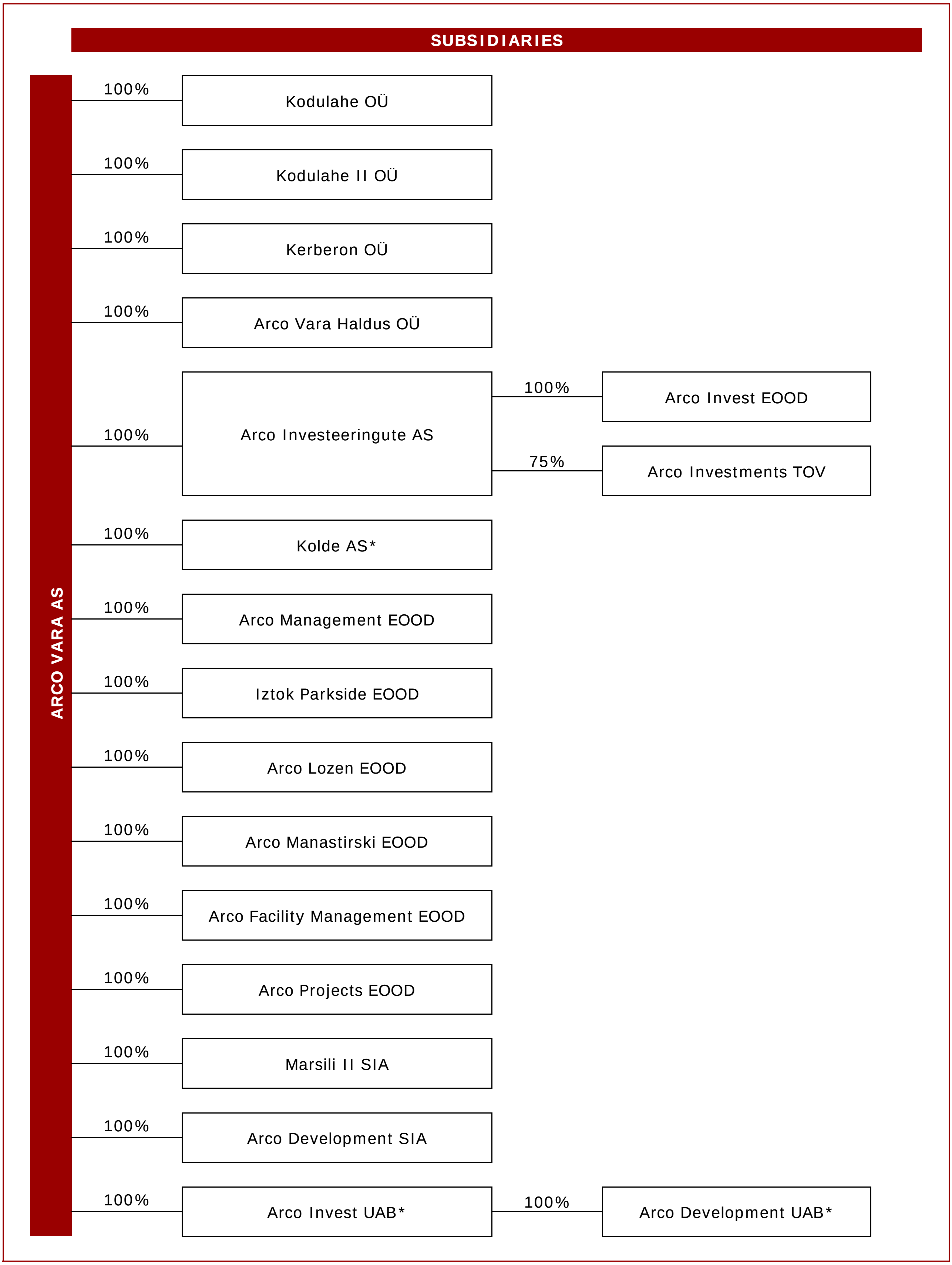
Group structure

As of 31 March 2019, the group consisted of 19 companies, which is the same as of 31 December 2018.

Significant subsidiaries as of 31 March 2019

Company name	Location	Share capital (nominal value)	Equity balance on 31 March 2019	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	28,762	-237	100%
Iztok Parkside EOOD	Bulgaria	1,433	523	100%
Arco Lozen EOOD	Bulgaria	2,931	2,701	100%
Kodulahe OÜ	Estonia	3	1,926	100%

Group structure as of 31 March 2019



* In liquidation

KEY PERFORMANCE INDICATORS

- In Q1 2019, the group's revenue was 1.1 million euros, which is 28% less than the revenue of 1.5 million euros from continuing operations in Q1 2018. In Q1 2018, revenue together with the discontinued service segment was 2.1 million euros.
- In Q1 2019, the group's operating profit (=EBIT) was 5 thousand euros and net loss 112 thousand euros. In Q1 2018, the group had operating profit of 91 thousand euros from continuing operations (63 thousands in overall) and net loss of 51 thousand euros.
- In Q1 2019, 7 apartments were sold in projects developed by the group (in Q1 2018: 7 apartments and 1 land plot).
- In the Q1 of 2019, the group's debt burden (net loans) increased by 1.7 million euros up to the level of 15.9 million euros as of 31 March 2019. As of 31 March 2019, the weighted average annual interest rate of interest-bearing liabilities was 4.8%. This is a decrease of 0.2 percentage points compared to 31 December 2018.

Main financial figures

	Q1 2019	Q1 2018
In thousands of euros		
Revenue		
Development	1,051	1,228
Service	0	691
Parent company	0	228
Total revenue	**1,051**	**2,147**
Operating profit (EBIT)		
Development	122	305
Service	0	-28
Parent company	-117	-214
Total operating profit/loss (EBIT)	**5**	**63**
Finance income and expense	-117	-114
Net profit/loss	**-112**	**-51**
Cash flows from/used in operating activities	-728	34
Cash flows used in investing activities	74	-2,944
Cash flows from/used in financing activities	-29	2,854
Net cash flows	**-683**	**-124**
Cash and cash equivalents at beginning of period	2,327	2,284
Cash and cash equivalents at end of period	1,644	1,869
Total assets, at period end	33,681	26,890
Invested capital, at period end	30,399	25,111
Net loans, at period end	15,866	9,744
Equity, at period end	12,889	13,498

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**	Q1 2019
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**	1,1
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**	-0,1

Key ratios

	Q1 2019	Q1 2018
EPS (in euros)	-0,01	-0,01
Diluted EPS (in euros)	-0,01	-0,01
ROIC (rolling, four quarters)	-2,2%	4,1%
ROE (rolling, four quarters)	-4,6%	10,3%
ROA (rolling, four quarters)	-2,0%	3,6%
Equity ratio	38,3%	50,2%
Current ratio	1,27	4,27
Quick ratio	0,13	0,76
Financial leverage	2,61	1,99
Average loan term (in years)	1,0	1,6
Average annual interest rate of loans	4,8%	5,1%
Number of staff, at period end	16	136

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 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.

In addition, in autumn 2018, Arco Vara decided to start selling the 15 apartments in the Madrid Blvd building in Sofia, which had so far been kept for offering accommodation service. The activities of two group companies – Arco Projects EOOD (which had offered accommodation service with the apartments) and Arco Facility Management EOOD (which had offered facility management services in Madrid Blvd building) – will be discontinued.

In relation to these changes, the Service Division in Arco Vara group ceased to exist from 31.12.2018. The group will continue as a real estate developer.

Consolidated profit and loss statements for continuing and discontinued operations

	Q1 2019			Q1 2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
In thousands of euros						
Revenue from sale of own real estate	823	0	823	1,310	0	1,310
Revenue from rendering of services	228	0	228	146	691	837
Total revenue	**1,051**	**0**	**1,051**	**1,456**	**691**	**2,147**
Cost of sales	-815	0	-815	-1,016	-430	-1,446
Gross profit	**236**	**0**	**236**	**440**	**261**	**701**
Other income	91	0	91	5	8	13
Marketing and distribution expenses	-85	0	-85	-43	-93	-136
Administrative expenses	-233	0	-233	-316	-201	-517
Other expenses	-4	0	-4	-10	-3	-13
Gain on sale of subsidiaries	0	0	0	15	0	15
Operating profit	**5**	**0**	**5**	**91**	**-28**	**63**
Finance income and costs	-117	0	-117	-114	0	-114
Profit before tax	**-112**	**0**	**-112**	**-23**	**-28**	**-51**
Net profit/loss for the period	**-112**	**0**	**-112**	**-23**	**-28**	**-51**

Operating report

The revenue of the group totaled 1,051 thousand euros in Q1 2019 (in Q1 2018: 2,147 thousand euros, of which 1,456 thousand euros from continuing operations), including revenue from the sale of properties in the group's own development projects in the amount of 823 thousand euros in Q1 2019 (in Q1 2018: 1,310 thousand euros).

Most of the other revenue of the group consisted of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 172 thousand euros in Q1 2019 (in Q1 2018: 124 thousand euros). In Q1 2019, all office and commercial spaces together with parking places were rented out.

In Q1 2019, the group had an operating profit of 5 thousand euros. In Q1 2018, the group had an operating profit of 91 thousand euros.

In Q1 2019, 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, 58 apartments have been presold.

Design works for Stages III-V continued in Q2, scheduled to end in the summer of 2019. Under favourable market conditions, the construction of Stage III is scheduled to start in the autumn of 2019 and the joint construction of Stages IV-V in 2000. The apartment buildings will become ready for final sale in about 1,5 after the construction begins.

In Q1, design works of Oa street plots in Tartu were completed. The plan foresees construction of 4 smaller apartment buildings under Kodukalda project name. The construction is scheduled to start in the summer of 2019.

In Iztok Parkside project in Sofia, construction has been completed. By the publishing date of the interim report, presale agreements for 53 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, 10 have been sold as of the date of this report.

By the date of this report, design works of Botanica Lozen project near Sofia in Bulgaria have been essentially completed. The project foresees construction of 179 homes (apartments and houses), commercial spaces and a kindergarten. Under favourable market conditions, construction may start in the second half of 2019, possibly divided into smaller sub-stages. Considering the nature of terrain on a mountain slope, minimum construction period is 2 years.

As of 31 March 2019 and the date of this report, 4 Marsili residential plots remained unsold in Latvia.

Summary table of Arco Vara's active projects as of 31 March 2019

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	-	937	9
Iztok Parkside	Iztok, Sofia	Apartments	S5	2,470	6,930	67
Marsili residential plots	Marsili, near Riga	Residential plots	S5	6,153	-	4
Kodulahe, Stage II	Lahepea 9, Tallinn	Apartments	S4	3,686	5,079	69
Kodulahe, Stages III	Soodi 4, Tallinn	Apartments	S3	3,199	3,406	50
Kodulahe, Stages IV-V	Pagi 3 and 5, Tallinn	Apartments	S3	7,379	4,774	72
Paldiski road 74	Paldiski road 74, Tallinn	Apartments	S2	9,525	<9,300>	<123>
Kodukalda	Oa street, Tartu	Apartments	S3	4,146	1,950	30
Botanica Lozen, Stage I	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 reserves.

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

PEOPLE

Remuneration

As of 31 March 2019, 16 people worked for the group (20 as of 31 December 2018). Employee remuneration expenses in Q1 2019 amounted to 126 thousand euros (in Q1 2018 from continuing operations: 137 thousand 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 24 thousand euros in Q1 2019 (in Q1 2018: 26 thousand euros).

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 Keskpaik.

Additional information on key persons of Arco Vara is presented on company's corporate web page www.arcovara.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 2019, 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 Q1 2019, the group's interest-bearing liabilities increased by 1.7 million euros and amounted to 17.5 million euros on 31 March 2019, out of which 13.6 million euros is due within next 12 months. The group's cash and cash equivalents totalled 1.6 million euros as of 31 March 2019 (31 December 2018 2.3 million). In Q1 2019, interest payments on interest-bearing liabilities totalled 0.2 million euros (in Q1 2018: also 0.2 million euros). The group's weighted average loan interest rate was 4.8% as of 31 March 2019. This is a decrease by 0.2 percentage points compared to the end of year 2018. The reason for the decrease is the new borrowings raised in 2019 which bear a below-average interest rate.

Currency risk

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

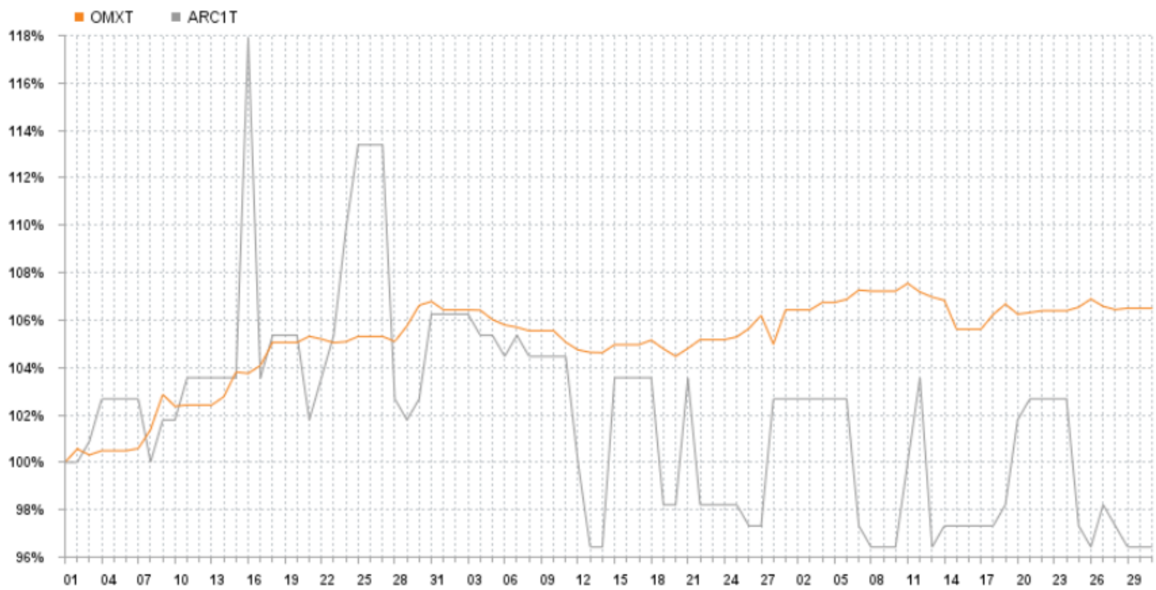
Arco Vara AS has issued a total of 8,998,367 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.08 euros on 31 March 2019; the closing price was 1.12 euros on 31 December 2018. During the period, the highest traded price per share was 1.32 euros and the lowest price 1.06 euros. As of 31 March 2019, market capitalization of shares amounted to 9,718 thousand euros and P/B (price to book value) ratio was 0.75 (31 December 2018: 10,078 thousand euros and 1.01, respectively). P/E (price to earnings) ratio of the share was negative on 31 March 2019 as well as on 31 December 2018.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 3 months 2019 and during the last three years.

Performance of Arco Vara's shares in Q1 2019

Performance of Arco Vara's shares from 1 April 2016 until 31 March 2019

Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in Q1 2019

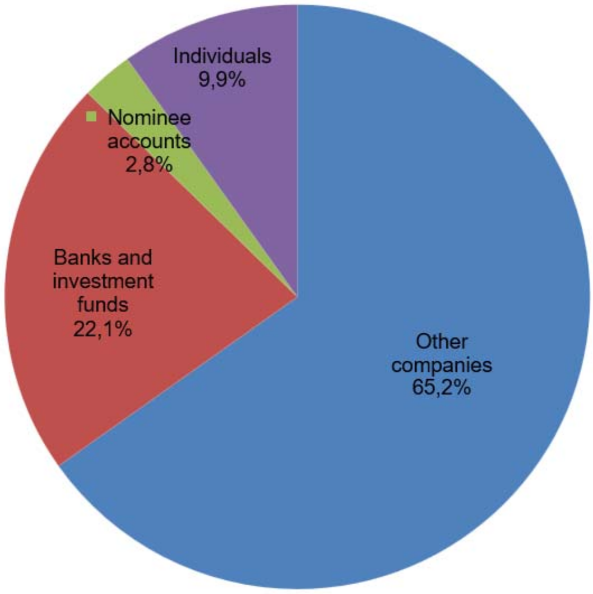


Index/equity	1 Jan 2019	31 March 2019	+/-%
OMX Tallinn	1,162.86	1,238.48	6.50
ARC1T	1.12 EUR	1.08 EUR	-3.57

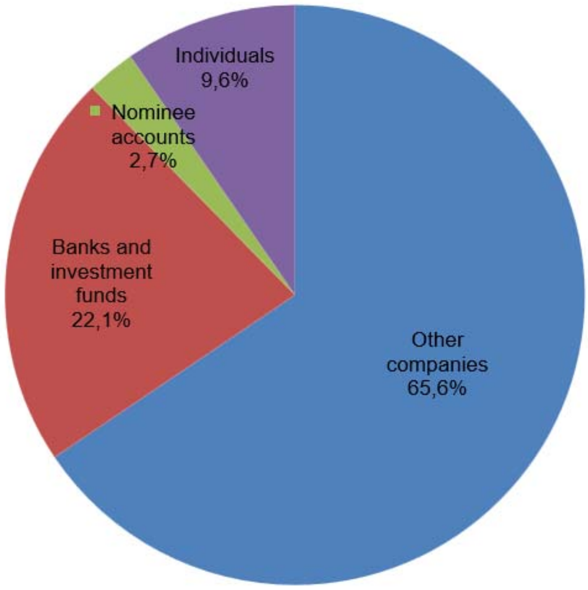
Shareholder structure

As of 31 March 2019, Arco Vara had 1,352 shareholders (on 31 December 2018 also 1,352), including 1,167 individuals as shareholders (on 31 December 2018: 1,164 individuals) who jointly owned 9.9% (on 31 December 2018: 9.6%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams:

Ownership structure as of 31 March 2019



Ownership structure as of 31 December 2018



Major shareholders on 31 March 2019

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 2019

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 Keskpaik (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 2019 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 May 2019

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Q1 2019**	Q1 2018
In thousands of euros			
CONTINUING OPERATIONS			
Revenue from sale of own real estate		823	1,310
Revenue from rendering of services		228	146
Total revenue	3,4	**1,051**	**1,456**
Cost of sales	5	-815	-1,016
Gross profit		**236**	**440**
Other income		91	5
Marketing and distribution expenses	6	-85	-43
Administrative expenses	7	-233	-316
Other expenses		-4	-10
Gain on sale of subsidiaries		0	15
Operating profit/loss		**5**	**91**
Finance income and cost	8	-117	-114
Profit before tax		**-112**	**-23**
Net profit/loss from continuing operations		**-112**	**-23**
Net profit/loss from discontinued operations		0	-28
Net profit/loss for the period		**-112**	**-51**
Total comprehensive income/expense for the period		**-112**	**-51**
Earnings per share from continuing operations (in euros)	**9**		
- basic		**-0.01**	0.00
- diluted		**-0.01**	0.00
Earnings per share (in euros)	9		
- basic		**-0.01**	-0.01
- diluted		**-0.01**	-0.01

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 March 2019**	31 December 2018
In thousands of euros			
Cash and cash equivalents		1,644	2,327
Investments		0	69
Receivables and prepayments	10	608	739
Inventories	11	19,145	17,482
Total current assets		**21,397**	**20,617**
Receivables and prepayments	10	20	25
Investment property	12	11,721	12,344
Property. plant and equipment		287	267
Intangible assets		256	262
Total non-current assets		**12,284**	**12,898**
TOTAL ASSETS		**33,681**	**33,515**
Loans and borrowings	13	12,792	12,547
Payables and deferred income	14	4,092	3,982
Total current liabilities		**16,884**	**16,529**
Loans and borrowings	13	3,908	3,985
Total non-current liabilities		**3,908**	**3,985**
TOTAL LIABILITIES		**20,792**	**20,514**
Share capital		6,299	6,299
Share premium		2,285	2,285
Statutory capital reserve		2,011	2,011
Other reserves	9	245	245
Retained earnings		2,049	2,161
TOTAL EQUITY		**12,889**	**13,001**
TOTAL LIABILITIES AND EQUITY		**33,681**	**33,515**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Q1 2019**	Q1 2018
In thousands of euros			
Cash receipts from customers		957	2,946
Cash paid to suppliers		-1,939	-2,640
Taxes paid and recovered (net)		366	-79
Cash paid to employees		-104	-248
Other cash payments and receipts related to operating activities (net)		-8	-13
NET CASH FROM/USED IN OPERATING ACTIVITIES		**-728**	**-34**
Payments made on purchase of tangible and intangible assets		0	-26
Payments made on purchase and development of investment property		0	-302
Proceeds from sale of subsidiaries		0	332
Payments made on purchase of subsidiaries		0	-2,939
		69	0
Repayment of loans provided		5	0
Other cash payments and receipts related to investing activities		0	-9
NET CASH FROM/USED IN INVESTING ACTIVITIES		**74**	**-2,944**
Proceeds from loans received	13	1,484	663
Settlement of loans and borrowings	13	-1,337	-1,052
Interest paid		-175	-170
Proceeds from share capital increase		0	3,737
Other payments related to financing activities		-1	-324
NET CASH FROM/USED IN FINANCING ACTIVITIES		**-29**	**2,854**
NET CASH FLOW		**-683**	**-124**
Cash and cash equivalents at the beginning of period		2,327	2,284
Change in cash and cash equivalents		**-683**	**-124**
Cash and cash equivalents resulting from the sale of subsidiaries		0	-291
Cash and cash equivalents at the end of period		**1,644**	**1,869**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of euros	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total equity
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**
Balance as of 31 December 2018	**6,299**	**2,285**	**2,011**	**245**	**2,161**	**13,001**
Total comprehensive income for the period	0	0	0	0	-112	-112
Balance as of 31 March 2019	**6,299**	**2,285**	**2,011**	**245**	**2,049**	**12,889**

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 2019 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 2018, 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 former service segment has been classified as discontinued in this report.

Consolidated profit and loss statement for discontinued operations

In thousands of euros	**Q1 2019**	Q1 2018
Revenue from rendering of services	0	691
Total revenue	**0**	**691**
Cost of sales	0	-430
Gross profit	**0**	**261**
Other income	0	8
Marketing and distribution expenses	0	-93
Administrative expenses	0	-201
Other expenses	0	-3
Operating profit/loss	**0**	**-28**
Net profit/loss from discontinued operations	**0**	**-28**

Consolidated cash flows of discontinued operations

In thousands of euros	**Q1 2019**	Q1 2018
Cash from/used in operating activities	0	64
Cash from/used in investing activities	0	-9
Net cashflows of discontinued operations	**0**	**55**

3. Segment information

The group had the following reportable operating segments until the end of 2018:

- 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.

After discontinuing of the Service Division, only geographical segments remain in the group: Estonia, Bulgaria, Latvia.

External revenue by location

	Q1 2019	Q1 2018
In thousands of euros		
Estonia	26	1,270
Bulgaria	1,025	137
Latvia	0	49
Total revenue	**1,051**	**1,456**

External operating profit by location

	Q1 2019	Q1 2018
In thousands of euros		
Estonia	-34	85
Bulgaria	44	14
Latvia	-4	-8
Total revenue	**5**	**91**

External assets and liabilities by location

	31.03.2019	31.12.2018
In thousands of euros		
Assets	**33,681**	**33,515**
Estonia	12,591	11,213
Bulgaria	20,961	22,174
Latvia	129	128
Liabilities	**20,794**	**20,514**
Estonia	7,424	5,940
Bulgaria	13,369	14,574
Latvia	1	0

4. Revenue

External revenue by the type of goods and services and by client location

	Estonia		Bulgaria		Latvia		Consolidated	
	Q1 2019	Q1 2018	Q1 2019	Q1 2018	Q1 2019	Q1 2018	Q1 2019	Q1 2018
In thousands of euros								
Sale of own real estate	0	1,261	823	0	0	49	823	1,310
Rental of real estate	1	1	172	125	0	0	173	126
Property management services	0	0	24	12	0	0	24	12
Other revenue	25	8	6	0	0	0	31	8
Total revenue	**26**	**1,270**	**1,025**	**137**	**0**	**49**	**1,051**	**1,456**

5. Cost of sales

	Q1 2019	Q1 2018
In thousands of euros		
Cost of real estate sold (note 11)	-647	-927
Personnel expenses	-9	0
Property management costs	-81	-73
Other costs	-78	-16
Total cost of sales	**-815**	**-1,016**

6. Marketing and distribution expenses

	Q1 2019	Q1 2018
In thousands of euros		
Advertising expenses	-5	-24
Brokerage fees	-79	-5
Other marketing and distribution expenses	-1	-14
Total marketing and distribution expenses	**-85**	**-43**

7. Administrative expenses

	Q1 2019	Q1 2018
In thousands of euros		
Personnel expenses	-117	-137
Office expenses	-17	-30
IT expenses	-14	-30
Services purchased	-29	-57
Depreciation. amortization and impairment losses	-32	-24
Legal service fees	-14	-29
Vehicle expenses	-3	-4
Other expenses	-7	-5
Total administrative expenses	**-233**	**-316**

8. Financial income and expenses

	Q1 2019	Q1 2018
In thousands of euros		
Interest expenses	-108	-113
Other financial income and costs	-9	-1
Total financial income and costs	**-117**	**-114**

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 3 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.

	Q1 2019	Q1 2018
Weighted average number of ordinary shares outstanding during the period	8,998,367	8,223,279
Number of ordinary shares potentially to be issued (at period end)	590,000	590,000
Net profit/loss (in thousands of euros)	-112	-51
Earnings per share (in euros)	**-0.01**	-0.01
Diluted earnings per share (in euros)	**-0.01**	-0.01

10. Receivables and prepayments

Short-term receivables and prepayments

	31 March 2019	31 December 2018
In thousands of euros		
Trade receivables		
Receivables from customers	66	91
Total trade receivables	**66**	**91**
Other receivables		
Loans provided	1	1
Miscellaneous receivables	12	6
Total other receivables	**13**	**7**
Accrued income		
Prepaid and recoverable taxes	154	335
Other accrued income	18	17
Total accrued income	**172**	**352**
Prepayments	357	289
Total short-term receivables and prepayments	**608**	**739**

Long-term receivables and prepayments

	31 March 2019	31 December 2018
In thousands of euros		
Loans provided	0	5
Prepayments	20	20
Total long-term receivables and prepayments	**20**	**25**

11. Inventories

	31 March 2019	31 December 2018
In thousands of euros		
Properties purchased and being developed for resale	19,125	17,467
Materials and finished goods	20	15
Total inventories	**19,145**	**17,482**

Properties purchased and being developed for resale

In thousands of euros	2019	2018
Balance at the beginning of period, 1 January	**17,467**	**8,963**
Properties purchased for development	0	2,936
Construction costs of apartment buildings	1,478	569
Capitalized borrowing costs	43	20
Other capitalized costs	137	103
Cost of sold properties (note 5)	0	-923
Balance at the end of period, 31 March	**19,125**	**11,668**

12. Investment property

In thousands of euros	2019	2018
Balance at the beginning of period, 1 January	**12,344**	**11,299**
Capitalized development costs	0	9
Capitalized borrowing costs	23	16
Sale of investment property	-646	0
Purchase of land plots	0	304
Balance at the end of period, 31 March	**11,721**	**11,628**

13. Interest bearing liabilities

	As of 31 March, 2019			As of 31 December, 2018		
In thousands of euros	**Total**	*of which current portion*	*of which non-current portion*	**Total**	*of which current portion*	*of which non-current portion*
Bank loans	14,802	12,230	2,572	14,653	11,995	2,658
Bonds	1,327	0	1,327	1,329	2	1,327
Finance lease liabilities	21	12	9	0	0	0
Other loans	550	550	0	550	550	0
Total loans and borrowings	**16,700**	**12,792**	**3,908**	**16,532**	**12,547**	**3,985**
Prepayments	810	810	0	810	810	0
Total	**17,510**	**13,602**	**3,908**	**17,342**	**13,357**	**3,985**

In Q1 2019, the group settled loans in the amount of 1,337 thousand euros (in Q1 2018: 2,118 thousand euros) through cash transactions and raised new loans in the amount of 1,484 thousand euros (in Q1 2018: 1,463 thousand euros). In addition to loan liabilities, there was a non-cash lease capitalization.

In 3 months 2019, the following major loan obligations were settled:

- 1,189 thousand euros of Madrid Blvd project's bank loan principal;
- 146 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 2 thousand euros of Arco Vara convertible bonds.

In 3 months 2019, the group raised the following new liabilities:

- 21 thousand euros of capitalization of premises' lease;
- 61 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 1,423 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stage II.

14. Payables and deferred income

Short-term payables and deferred income

In thousands of euros	31 March 2018	31 December 2018
Trade payables	**687**	**761**
Miscellaneous payables	**21**	**0**
Taxes payable		
Value added tax	34	12
Corporate income tax	2	4
Social security tax	12	19
Personal income tax	8	11
Land tax	6	0
Other taxes	16	2
Total taxes payable	**78**	**48**
Accrued expenses		
Payables to employees	41	54
Interest payable	65	31
Other accrued expenses	98	470
Total accrued expenses	**204**	**555**
Deferred income		
Prepayments received on sale of real estate	2,874	2,618
Guarantee deposits	228	0
Total deferred income	**3,102**	**2,618**
Total short-term payables and deferred income	**4,092**	**3,982**

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

In thousands of euros	Q1 2019	Q1 2018
Companies that have a significant interest in the group's parent company		
Services purchased	15	10
Paid interest	0	-100
Other related parties		
Services sold	0	1

Balances with related parties

In thousands of euros	31 March 2019	31 December 2018
Other related parties		
Bonds issued	0	1

In Q1 2019, the remuneration provided to the CEO / member of the management board was 22 thousand euros, including social security charges, and to the members of the supervisory board of the group’s parent company 2 thousand euros (in Q1 2018: 26 thousand euros to the CEO, no remuneration to the members of the supervisory board).

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 first quarter ended on 31 March 2019.

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 May 2019