



Arco Vara AS is publicly offering up to 2,670,000 shares to existing shareholders

Offer Price EUR 1.50 per share

Offering period 29.12.2017 – 15.01.2018

PUBLIC OFFERING, LISTING AND ADMISSION TO TRADING PROSPECTUS

This prospectus (the **Prospectus**) is issued by Arco Vara AS (an Estonian public limited liability company, register code 10261718, address Rävala pst 5, Tallinn 10143, Estonia; the **Company**) in connection with the public offering directed solely to existing shareholders, listing and admission to trading of the shares issued by the Company on the Baltic Main List of the Nasdaq Tallinn Stock Exchange.

Currently, the share capital of the Company is 4,554,908.40 euros, which is divided into 6,507,012 shares (the **Shares**). The Shares are listed and traded on the Baltic Main List of the Nasdaq Tallinn Stock Exchange.

The Company is publicly offering up to 2,670,000 additional Shares with the nominal value of 0.70 euros each (the **Offer Shares**) to its existing shareholders. A public offering will be carried out only in Estonia and there will not be any public offering in any other jurisdiction.

The Offer Shares are offered for the price of 1.50 euros per one Offer Share (the **Offer Price**), of which 0.70 euros is the nominal value of one Offer Share and 0.80 euros is the issue premium. The Offer Shares may be subscribed for during the period commencing on 29 December 2017 and ending on 15 January 2018 (the **Offering Period**) in accordance with the terms and conditions described in this Prospectus.

The Company will, simultaneously with the Offering, apply for the listing and admission to trading of the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange on the basis of this Prospectus. It is estimated that trading with the Offer Shares will commence on or about 25 January 2018.

The Company reserves the right to cancel the Offering or change the terms and conditions thereof as described in this Prospectus.

Investing into the Shares involves risks. While every care has been taken to ensure that this Prospectus presents a fair and complete overview of the risks related to the Company, the operations of the Company and its subsidiaries (the Group) and to the Shares, the value of any investment in the Shares may be adversely affected by circumstances that are either not known at the date hereof or not reflected in this Prospectus.

18 December 2017

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1. INTRODUCTORY INFORMATION

1.1. Applicable Law

The Prospectus has been drawn up in accordance with and is governed by Estonian laws implementing the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, and in accordance with the Commission Regulation No 809/2004 of 29 April 2004 implementing the Directive 2003/71/EC (the **Prospectus Regulation**), in particular Annexes XXII (Disclosure requirements in summaries), XXIII (Proportionate Schedule for Minimum Disclosure Requirements for the Share Registration Document for Rights Issues) and XXIV (Proportionate Schedule for Minimum Disclosure Requirements for the Share Securities Note for Rights Issues) thereof. The Offering under this Prospectus is addressed to the existing shareholders of the Company and the level of disclosure in the Prospectus is proportionate to that type of issue.

1.2. Registration of Prospectus

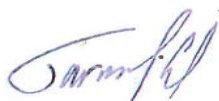
This Prospectus has been registered by the Estonian Financial Supervision Authority (*Finantsinspektsioon*) on 18 December 2017 under registration number 4.3-4.9/5265. The registration of this Prospectus with the Estonian Financial Supervision Authority does not mean that the Estonian Financial Supervision Authority is responsible for the correctness of the information contained in the Prospectus.

1.3. Persons Responsible and Limitations of Liability

The person responsible for the information in this Prospectus is Arco Vara AS (the Company). The Company accepts responsibility for the fullness and correctness of the information contained in this Prospectus as of the date hereof. Having taken all reasonable care to ensure that such is the case, the Company believes that the information contained in this Prospectus is, to the best of the Company's knowledge, in accordance with the facts, and contains no omission likely to affect its import.

Management Board of Arco Vara AS

Tarmo Sild



Without prejudice to the above, no responsibility is accepted by the persons responsible for the information given in this Prospectus solely based on the summary of this Prospectus, unless such summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

The Company will not accept any responsibility for the information pertaining to the Offering, the Company or its operations, where such information is disseminated or otherwise made public by third parties either in connection with the Offering or otherwise.

In the case of a dispute related to this Prospectus or the Offering, the plaintiff may have to resort to the jurisdiction of the Estonian courts and consequently a need may arise for the plaintiff to bear translation costs in respect of this Prospectus or other relevant documents.

1.4. Presentation of Information

Rounding of Numbers. Numbers in this Prospectus (e.g. financial data, percentages, etc.) are presented with such precision as is deemed to be sufficient to convey adequate and appropriate information on the relevant matter. Some numbers have been rounded to avoid excessive level of detail. As a result,

some percentages would not necessarily add up to 100%. Exact numbers may be derived from the Financial Statements and the Interim Financial Statements, to the extent that the relevant information is reflected therein.

Currencies. In this Prospectus, financial information is presented in euro (EUR), the official currency of the European Union Member States in the Eurozone.

Date of Information. This Prospectus is drawn up based on information which was valid as of 30 September 2017. Where not expressly indicated otherwise, all information in this Prospectus (including the consolidated financial information of the Group, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs as of the aforementioned date. Where information is presented as of a date other than 30 September 2017, this is identified by either specifying the relevant date or by the use of expressions “the date of this Prospectus”, “to date”, “until the date hereof” and other similar expressions, which must all be construed to mean the date of this Prospectus (18 December 2017).

Third Party Information and Market Information. For portions of this Prospectus, certain information has been sourced from third parties. Such information is accurately reproduced, and, as far as the Company is aware and is able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading. Certain information with respect to the markets in which the Company and its subsidiaries operate is based on the best assessment made by the Management. With respect to the industry in which the Company and its subsidiaries are active and certain jurisdictions in which they conduct their operations, reliable market information is often not available or is incomplete. While reasonable care was taken to provide best possible assessments of the relevant market situation and the information on the relevant industry, such information may not be relied upon as final and conclusive.

Updates. The Company will update the information contained in this Prospectus only to such extent and at such intervals and by such means as is required by the applicable law or considered necessary and appropriate by the Management. The Company is under no obligation to update or modify forward-looking statements included in this Prospectus (please see Section “Forward-Looking Statements” below).

Definitions of Terms. In this Prospectus, capitalised terms have the meaning ascribed to them in Section “Glossary”, with the exception of such cases where the context evidently requires to the contrary, whereas the singular shall include plural and vice versa. Other terms may be defined elsewhere in the Prospectus.

1.5. Information Incorporated by Reference

The following documents are incorporated in this Prospectus by reference:

- a) the audited consolidated financial statements of the Group for the financial year ended on 31 December 2016, available at www.nasdaqbaltic.com/upload/reports/arc/2016_ar_et_eur_con_00.pdf
- b) the unaudited consolidated financial statements of the Group for (i) the first quarter of 2017, (ii) the second quarter and six months ended on 30 June 2017, and (iii) the third quarter and nine months ended on 30 September 2017, available respectively at:
http://www.nasdaqbaltic.com/upload/reports/arc/2017_q1_et_eur_con_00.pdf
http://www.nasdaqbaltic.com/upload/reports/arc/2017_q2_et_eur_con_00.pdf
http://www.nasdaqbaltic.com/upload/reports/arc/2017_q3_et_eur_con_00.pdf

These documents may also be obtained from the website of the Company at www.arcorealestate.com in the section “Investor Relations” – “Financial Reports”.

1.6. Documents on Display

In addition to this Prospectus, the following documents (or copies thereof), where applicable, are available to all potential investors: (a) the Articles of Association, (b) the audited consolidated financial statements of the Group for the financial year ended on 31 December 2016, (c) the unaudited interim consolidated financial statements for the 9 months ended 30 September 2017; and (d) the information published as company announcements via the information system of the Nasdaq Tallinn Stock Exchange. These announcements are also available on the webpage of Nasdaq Baltic (www.nasdaqbaltic.com) and can be found in subsection "Market Announcements" under the "News" tab.

All the documents on display as described herein may be obtained from the website of the Company at www.arcorealestate.com in the section "Investor Relations".

1.7. Financial Information

The Financial Statements are the audited consolidated financial statements of the Group for the financial year ended on 31 December 2016, audited by AS PricewaterhouseCoopers (registered address at Pärnu mnt 15, 10141 Tallinn, Estonia). The Financial Statements have been prepared in accordance with the IFRS as adopted by the European Union and were published through the information system of the Nasdaq Tallinn Stock Exchange. AS PricewaterhouseCoopers is a member of the Estonian Auditing Board. In the period covered by the Financial Statements, there were no events of resignation or dismissal of an auditor appointed to audit the financial statements of the Company or the Group.

The Interim Financial Statements are the unaudited consolidated financial statements of the Group for (i) the first quarter of 2017, (ii) the second quarter and six months ended on 30 June 2017, and (iii) the third quarter and nine months ended on 30 September 2017, which have not been audited nor reviewed by an independent auditor. The Interim Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Financial Statements.

The Financial Statements and the Interim Financial Statements may be obtained from the website of the Company at www.arcorealestate.com in the section "Investor Relations – Financial Reports".

Apart from information taken from the Financial Statements, this Prospectus contains no other audited information. When references are made in this Prospectus to any interim results, such references are based on unaudited statements.

1.8. Forward-Looking Statements

This Prospectus includes forward-looking statements (notably under Sections "Summary", "Risk Factors", "Business Overview", "Reasons for Offering and Use of Proceeds", "Dividends and Dividend Policy", "Industry Overview" and "Trend Information"). Such forward-looking statements are based on current expectations and projections about future events, which are in turn made on the basis of the best judgment of the Management. Certain statements are based on the beliefs of the Management as well as assumptions made by and information currently available to the Management. Any forward-looking statements included in this Prospectus are subject to risks, uncertainties and assumptions about the future operations of the Group, the macroeconomic environment and other similar factors.

In particular, such forward-looking statements may be identified by the use of words such as "strategy", "expect", "plan", "anticipate", "believe", "will", "continue", "estimate", "intend", "project", "goals", "targets" and other words and expressions of similar nature. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. As with any projection or forecast, they are susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter the forward-looking statements contained in this Prospectus whether as a result of such changes, new information, subsequent events or otherwise.

The validity and accuracy of any forward-looking statements is affected by the fact that the Group operates in a highly competitive business. This business is affected by changes in domestic and foreign laws and regulations (including those of the European Union), taxes, developments in competition, economic, strategic, political and social conditions, consumer response to new and existing products and technological developments, and other factors. The Group's actual results may differ materially from the Management's expectations because of the changes in such factors. Other factors and risks could adversely affect the operations, business or financial results of the Group (please see "Risk Factors" for a discussion of the risks which are identifiable and deemed material at the date hereof).

1.9. Use of Prospectus

This Prospectus is prepared solely for the purposes of the Offering and of the listing and the admission to trading of the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. This Prospectus may not be used for any other purpose. You may not copy, reproduce (other than for private and non-commercial use) or disseminate this Prospectus without express written permission from the Company.

2. SUMMARY

This Summary is a brief overview of the information disclosed in this Prospectus. This summary is made on the basis of the applicable disclosure requirements known as “Elements”. These Elements are numbered in Sections A – E (A.1 – E.7). This Summary contains all Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding that Element. In this case, a short description of the Element is included in this Summary with the mention of “not applicable”.

Section A – Introduction and Warnings

Element	Title	Disclosure
A.1	Introduction and warnings	This Summary should be read as an introduction to the Prospectus and any decision to invest in the Shares should be based on the consideration of the Prospectus as a whole. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff might, under the applicable law, have to bear the costs of translating the Prospectus before legal proceedings are initiated. Civil liability attaches only to those persons who have prepared the Summary, including any translation thereof, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Shares.
A.2	Use of Prospectus for subsequent resale of Shares	Not applicable; the Prospectus cannot be used for the resale of the Shares.

Section B – Issuer

Element	Title	Disclosure
B.1	Legal and commercial name	Arco Vara AS
B.2	Domicile/ legal form/ legislation/ country of incorporation	The Company has been established and is currently operating under the laws of Estonia in the form of a public limited company (in Estonian: <i>aktsiaselts</i> or AS) and is established for an indefinite term.
B.3	Description and key factors of current operations and principal	The Group operates primarily in the market for real estate development. It designs, builds and sells residential and commercial real estate projects, aiming to create complete environments through a full cycle of development from the acquisition of suitable land to construction and sales.

	activities, categories of products and/or services. Principal markets	In addition, the Group also offers real estate services such as appraisal and brokerage. These services are auxiliary to real estate development and operate near break-even. They allow the Group access to valuable real-time market data to better guide its development business. In both segments, the Group operates in Estonia and Bulgaria, primarily in their capital cities of Tallinn and Sofia. The Latvian services business was sold to its management in 2016, and on the development side, the Group is selling last land plots in Latvia with no intention to commence new developments there in the observable future.																										
B.4a	Significant recent trends affecting the industry	There has been no material adverse change in the prospects of the Group since 31 December 2016. The Management is not aware of any trends having material adverse effect on the operations of the Group. Demand for residential and commercial real estate remains relatively stable in Estonia and Bulgaria with no significant trends to single out.																										
B.5	Group description. Position of the Company within the Group	The Company is the parent Company for the Group. It has 20 subsidiaries, including 7 in Estonia, 7 in Bulgaria and 3 in Latvia. In addition, it has 1 subsidiary in Ukraine and 2 in Lithuania, which are not engaged in any operations. The Group prefers to separate each development project into a separate subsidiary (SPV) to facilitate accounting and financing, and to isolate project risks.																										
B.6	Persons, directly or indirectly having interest in the Company's capital or voting rights notifiable under Estonian law and the amount of such interest. Voting rights of major shareholders. Direct or indirect control of the company	As at the date of this Prospectus, the Shareholders holding over 5% of all Shares in the Company are the following: <table><thead><tr><th>Name of Shareholder</th><th>Shares</th><th>%</th></tr></thead><tbody><tr><td>OÜ Alarmo Kapital (a company under the control of Mr Tarmo Sild, the member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board)</td><td>1,015,805</td><td>15.6109%</td></tr><tr><td>Nordea Bank AB Finland Branch-Non-Treaty Clients (beneficial owner Ms Mari Tool)</td><td>862,820</td><td>13.2598%</td></tr><tr><td>AS Lõhmus Holdings (a company under the control over Mr Rain Lõhmus, a member of the Supervisory Board)</td><td>602,378</td><td>9.2574%</td></tr><tr><td>Gamma Holding Investment OÜ (a company under the control of Mr Arvo Nõges)</td><td>562,893</td><td>8.6506%</td></tr><tr><td>LHV Pensionifond L</td><td>389,765</td><td>5.9899%</td></tr><tr><td>Firebird Republics Fund Ltd</td><td>356,428</td><td>5.4776%</td></tr><tr><td>Osaühing HM Investeeringud (a company under the control of Mr Hillar-Peeter Luutsalu, a member of the Supervisory Board)</td><td>330,505</td><td>5.0792%</td></tr></tbody></table> The major shareholders in the Company do not have voting rights different from those of all other shareholders. There are no agreements between the shareholders of the Company that the Company is aware of.			Name of Shareholder	Shares	%	OÜ Alarmo Kapital (a company under the control of Mr Tarmo Sild, the member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board)	1,015,805	15.6109%	Nordea Bank AB Finland Branch-Non-Treaty Clients (beneficial owner Ms Mari Tool)	862,820	13.2598%	AS Lõhmus Holdings (a company under the control over Mr Rain Lõhmus, a member of the Supervisory Board)	602,378	9.2574%	Gamma Holding Investment OÜ (a company under the control of Mr Arvo Nõges)	562,893	8.6506%	LHV Pensionifond L	389,765	5.9899%	Firebird Republics Fund Ltd	356,428	5.4776%	Osaühing HM Investeeringud (a company under the control of Mr Hillar-Peeter Luutsalu, a member of the Supervisory Board)	330,505	5.0792%
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B.7	Selected historical key financial	In TEUR, unaudited	9 months 2017*	9 months 2016*																								
		Revenue from rendering services	2,228	2,395																								

	information. Narrative description of significant change to the Company's financial condition and operating results subsequent to the period covered by selected historical key financial information ¹	Revenue from sale of own real estate	8,063	6,043
		Total revenue	10,291	8,438
		Gross profit	2,018	2,884
		Profit/ loss for the period	73	495
		Total assets	28,386	27,720
		Total equity	8,993	8,985
		Net cash from operating activities	-2,223	2,555
		Net cash from investing activities	-425	-1,973
		Net cash from financing activities	2,961	-913
		Net cash flow	313	-331
		In TEUR	2016	2015
		Revenue from rendering services	3,127	3,633
		Revenue from sale of own real estate	6,620	7,019
		Total revenue	9,747	10,652
		Gross profit	3,002	3,787
		Profit/ loss for the period	-832	460
		Total assets	27,720	24,473
		Total equity	8,985	9,630
		Net cash from operating activities	1,698	2,584
		Net cash from investing activities	-2,333	-302
		Net cash from financing activities	775	-3,228
		Net cash flow	140	-946
		* Interim statements have not been reviewed or audited.		
		There have been no significant changes to the Group's financial condition and operating results since 30 September 2017.		
B.8	Selected key <i>pro forma</i> financial information	Not applicable; the Financial Statements and the Interim Financial Statements adequately reflect the financial condition of the Group and there is no need for pro forma financial information.		
B.9	Profit forecast	Not applicable; no profit forecasts are being published. The Management has, however, indicated that it expects revenues to be low in the first half		

¹ Source: Financial Statements and Interim Financial Statements.

		of 2018, and for revenues and profit to increase toward the end of the 2018 as pending developments are completed and begin selling.
B.10	Qualifications in the audit report on the historical financial information	Not applicable; no qualifications.
B.11	Working capital	As at 30 September 2017, the total consolidated working capital of the Group was a negative 2.1 million euros and the consolidated current ratio was 0.88. However, these figures will change significantly when the outstanding loan from Piraeus Bank with a balance of 8.6 million euros will be extended by 2 years and will be re-classified as a long-term loan. A preliminary agreement for extending the loan until 30 December 2019 has been achieved with additional two repayments of 500 thousand euros each foreseen in January 2018 and January 2019. At the moment, the value of the remaining assets in the Bulgarian projects financed by the Piraeus Bank loan exceeds the balance of the loan, leading the Management to believe that the current situation is sustainable and that the prolongation of the loan will be achieved as planned.

Section C – Securities

Element	Title	Disclosure
C.1	Type and class of securities and security identification number	The Offer Shares are dematerialised bearer shares with the nominal value of EUR 0.70 each. The Offer Shares are registered with Nasdaq CSD under ISIN EE3100034653 and are kept in book-entry form.
C.2	Currency of the issue	The Offer Shares are denominated in euro.
C.3	Number of shares issued and fully paid/issued but not fully paid. Par value per share	Currently, there are altogether 6,507,012 fully paid bearer Shares of the Company with the nominal value of EUR 0.70 each. There are no Shares outstanding but not fully paid. In the course of the Offering, up to 2,670,000 Offer Shares are offered. Provided that the Offering is successful and that all the Offer Shares, (altogether 2,670,000 Shares) are subscribed for and issued by the Company, the number of the Shares will be 9,177,012.
C.4	Rights attached to the securities	The main rights attached to the Shares, including the Offer Shares, are (i) the right to participate in the corporate governance of the Company; (ii) the right to information; (iii) the right to dividends; (iv) the right to liquidation quota; (v) the preferential right to subscribe for new shares; (vi) the preferential right to convertible bonds; and (vii) the rights relating to mandatory takeover bids, squeeze-out and sell-out, as applicable. Each Share entitles a Shareholder to one vote at the General Meeting. A General Meeting is capable of passing resolutions if more than 1/2 of

		the votes represented by all Shares are represented at the General Meeting. As a rule, resolutions of a General Meeting require the affirmative vote of the majority of the votes represented at the General Meeting. Certain resolutions require a qualified majority of 2/3 of the votes represented at the meeting, and some even higher majority. The Shareholders have the right to receive information on the activities of the Company from the Management Board at the General Meeting. All the Shareholders of the Company have the right to participate in the distribution of profit of the Company and have the right to receive dividends (if declared) proportionally to their shareholding in the Company. Resolving the distribution of profit and the payment of dividends is in the competence of the General Meeting. Upon the liquidation of the Company, the Shareholders are entitled to liquidation quota proportionally to their existing shareholding. The existing Shareholders have, upon the increase of the share capital and the issue of the new shares of the Company, the preferential right to subscribe for new shares of the Company proportionally to their existing shareholding. This preferential right may be excluded by a majority of 3/4 of all votes present at the General Meeting. If the Company issues convertible bonds, the Shareholders have the preferential right to subscribe for such bonds, unless such right is excluded by a resolution of the General Meeting. The Estonian law provides for mandatory takeover bids, squeeze-out and sell-out rights in certain circumstances.
C.5	Restrictions on free transferability of securities	The Offer Shares are freely transferrable.
C.6	Admission to trading /name of regulated market	The Company's Shares are already admitted to trading on the Baltic Main List of the Nasdaq Tallinn Stock Exchange. The Company intends to apply for the admission to trading of the Offer Shares on the same market. The expected date of the admission to trading is on or about 25 January 2018.
C.7	Dividend policy	The Company does not have a formal dividend policy, but has historically paid dividends of EUR 0.01 per Share, and intends to continue to do so in the future.

Section D – Risks

Element	Title	Disclosure
D.1	Key risks specific to the Company or the industry	<i>Business Risks</i> <u>Competitive Market</u>. The real estate development market is highly competitive. Entry barriers are relatively low. High competition may lead to oversupply and drive prices down. Price remains the decisive factor on the market, even though consumers do pay attention to quality and past performance. <u>High Concentration of Risks Related to Small Number of Projects</u>. Real estate investments are capital-intensive and time-consuming, with the

full development cycle typically taking several years. The Group is only able to be involved in a few projects at any given time, leading to high concentration of risks and to challenges with managing liquidity.

Cyclical Nature of Real Estate Development Sector and Fluctuation of Prices. The real estate development sector is cyclical by nature and its profitability fluctuates over time. It is sensitive to changes in macro-economic environment and characterised by highly elastic demand. This is a problem for developers, because investment decisions are taken years in advance of actual sales.

Illiquid Market. The real estate market, by definition, involves limited liquidity. This makes it difficult to plan cash-flows which rely on future sales of real estate.

Dependence on Availability of Credit and Consumer Preferences. The demand for the projects developed by the Group is influenced by consumer preference and demographic considerations. The majority of sales transactions depend on the availability of bank financing to consumers, which may change over time.

Dependence on Cash-Flows from Subsidiaries. The Company itself does not earn any notable revenue and depends on cash-flows from its Subsidiaries to service debt and cover expenses. These cash-flows may be restricted by financing agreements and legal considerations.

Dependence on Construction Contractors. The Group is no longer engaged in construction business. It depends on third party contractors to design and build its projects, and is therefore exposed to movements in construction prices, and may be liable to customers if its contractors fail to meet deadlines or to comply with quality requirements.

Dependence on Key Personnel. The Group's success is dependent on dedicated and talented employees and their continuous loyalty to the Group. In a highly competitive environment, the Group companies must make continuous efforts to attract new qualified personnel and motivate existing management and employees.

Management Risk. The Company's Management Board only has one member, on whose services the Group depends. However, many business processes are managed by other key personnel.

Dependence on IT Systems. The Group relies on complex and numerous IT systems for brokerage and evaluation business, accounting, and other essential functions. Disruptions to these systems may adversely affect the Group's business.

Seasonality. Real estate transactions, particularly in the residential sector, tend to fluctuate seasonally, with greater activity in the autumn and spring. This poses a challenge in matching project schedules (and the Group's cash-flows) to seasonal demand.

Risks related to Divested Businesses. The Group sold its construction business in 2014, and its Latvian services business in 2016. The Group remains theoretically liable towards the respective purchasers until the relevant claims expire. Further, Arco Ehitus (the former construction arm of the Group) was declared bankrupt in 2016, leading to the theoretical risks of reversal and liability claims. However, with respect to the

construction business, any potential claims would most likely have emerged by now. With respect to the Latvian services business, the sale was made to the Latvian management, who were intimately familiar with the business.

Political, Economic and Legal Risks

Changes in Economic Environment. The Group is substantially affected by macro-economic factors. The experience of the 2007-2009 crisis underscored the ever-present possibility for sudden disruptions; it also led to tight monetary policies and record-low interest rates which persist today. This low interest rate environment would not continue indefinitely, and rising interest rates may depress real estate prices. Further, Estonia and Bulgaria, where the Group operates, are small economies open to adverse outside influence, should global or regional conditions deteriorate.

Dependence on Discretionary Decisions of Public Authorities. The real estate development business depends to a large extent on the zoning and permitting processes which are, to a degree, discretionary. Delays or adverse decisions in these processes may hinder or arrest development projects, or result in budget overruns.

Exposure to Civil Liability. The Group is liable to its customers and partners. If the Group is sued for actual or perceived breaches, such proceedings (regardless of their outcome) may cause reputational damage and lead to financial losses.

Exposure to Environmental Liability. As a real estate developer, the Group may be liable for contamination found on its plots, or for pollution in excess of the legal limit. Contamination liability may arise even if the Group did not contribute to it. Further, claims of environmental issues may decrease demand for the Group's projects.

Risks Related to Ongoing Proceedings. The Group is involved in a number of legal proceedings, which, although not significant, may affect the Group's performance. One Group company could hypothetically be connected to an alleged criminal case in Estonia, relating to illegal restriction on free competition.

Change of Laws or Policies. The Group depends on laws governing zoning, permitting and construction processes. These laws are complex and may change frequently, owing to the relatively short history of the current legal systems in Estonia and Bulgaria.

Tax Regime Risks. Like other laws, tax laws (and their interpretation) in the Group's target markets change frequently and may be dictated by short-term political considerations.

Financial Risks

Liquidity Risk. The Group's liquidity is difficult to manage because real estate projects are capital-intensive and take a long time to complete. While a project is under development, it generates negative cash-flows.

		Delays or planning errors may result in revenues being delayed beyond the maturity of the financing taken for the project. <u>Financing Risk.</u> The Group operates in a capital-intensive business and relies on outside financing. Existing financing arrangements may restrict further borrowing, and constrain growth. <u>Interest Rate Risk.</u> The Group's borrowings mostly involve floating interest rates, particularly those based on EURIBOR. Base rates may grow at any time from current historic lows, leading to increases in the Group's financing costs. The Group does not use interest rate hedging. <u>Risks Related to Financing Agreements.</u> Financing agreements entered into by the Group contain the customary covenants, restrictions and default provisions, including cross-default. A failure by the Group to comply with the terms of one financing agreement may have a knock-on effect on its entire indebtedness. <u>Piraeus Bank Loan.</u> An approximately 8.6 million euro part of the loan taken by the Group's Bulgarian subsidiary in relation to the Madrid Boulevard project remains outstanding and is due on 30 December 2017. The Group is in negotiations with the bank regarding the prolongation of the loan, and a preliminary agreement for extending the loan until 30 December 2019 has been achieved with additional two repayments of 500 thousand euros each, due in January 2018 and January 2019. <u>Credit Risk.</u> While the Group normally does not sell real estate on credit, in rare cases, the Group may be exposed to customer credit risk until full payment is received. These risks are difficult to assess. <u>Currency Risk.</u> A part of the Group's revenue is in Bulgarian levs, while its reporting currency (and the currency of its borrowings) is the euro. Fluctuations in the exchange rate may adversely affect the Group. <u>Tax Risks Related to Intra-Group Transactions.</u> The Group companies trade between themselves, which is typically associated with tax risks, e.g. due to transfer pricing issues. While care is taken to ensure compliance, a degree of subjectivity will always be present, leading to risks of adverse tax rulings.
D.3	Key risks specific to the shares	<u>Cancellation of Offering.</u> Best efforts will be made to ensure that the Offering is successful; however, there can be no assurance that the Offering will be successful and that the investors will receive the Offer Shares they subscribe for. The Company also has the right to cancel the Offering, even if successful. <u>Share Price and Limited Liquidity of Shares.</u> Though every effort will be made to ensure that the admission of the Offer Shares to trading on Nasdaq Tallinn Stock Exchange will occur, the Company cannot provide any assurance in that respect. Further, the Estonian market has limited liquidity and the Shareholders may not be able to sell their Shares at the desired price, or at all. In 2016, trading in the Company's shares amounted to just 7.3% of its market capitalisation; trading in 2017 so far is at a comparable level.

		<u>Payment of Dividends.</u> The Company is under no obligation to pay regular dividends and no representation can be made with respect to future dividends. <u>Dilution of Shareholdings.</u> Should the share capital of the Company be increased and new shares issued in the future, the shareholding of each individual Shareholder in the Company may be diluted. New capital issues are not unlikely, due to the capital-intensive nature of the Company's business. <u>Tax Regime Risks.</u> Changes in the tax regime applicable to transactions with the Shares or to the associated dividends may result in an increased tax burden on the Shareholders and may therefore have adverse effect on the rate of return from an investment into the Shares. <u>Lack of Adequate Analyst Coverage.</u> There is no guarantee of continued (or any) analyst research coverage for the Company. Negative or insufficient third-party coverage would be likely to have an adverse effect on the market price and the liquidity of the Shares.
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Section E – Offer

Element	Title	Disclosure
E.1	Total net proceeds. Estimate of total expenses of the offering (including estimated expenses charged to the investor)	Provided that the Offering is successful and that all the Offer Shares, (altogether 2,670,000 Shares) are subscribed for and issued by the Company, the expected amount of gross proceeds of the Offering is approximately 4 million euros. Expenses directly related to the Offering are estimated to be less than 2% of the expected proceeds. Therefore, the net proceeds of the Offering are expected to be app. 3.9 million euros. No expenses are charged to investors.
E.2a	Reasons for the offering/use of proceeds/estimated net amount of proceeds	The Company conducts the Offering to raise capital for the acquisition of new land plots for development in Bulgaria and for starting the development process there. The plots of the Lozen Stage 1/2 project are located 15 minutes from the city centre of Sofia, where the Group intends to build a residential housing project. The proceeds of the Offering will be used for Lozen Stage 1, but not for Stage 2. The estimated net amount of proceeds is as shown above (app 3.9 million euros).
E.3	Terms and conditions of the offering	In the course of the Offering, up to 2,670,000 Offer Shares with the nominal value of EUR 0.70 each are being offered publicly to the Company's existing shareholders. The Offer Shares are not offered publicly in any country other than Estonia. The Offer Price is EUR 1.50 per one Offer Share, of which EUR 0.70 is the nominal value of one Offer Share and EUR 0.80 is the issue premium.

		The Offering Period commences on 29 December 2017 at 09:00 and terminates on 15 January 2018 at 16:00 local time in Estonia. The Company will allocate Offer Shares only to those investors who are entered on the list of the Shareholders of the Company as of the end of the working day of the Nasdaq CSD Estonian settlement system on the Record Date (i.e. on the last day of the Offering Period). The Company will decide on the allocation of the Offer Shares after the expiry of the Offering Period, on or about 17 January 2018. In the first round of allocation, each Shareholder will be guaranteed Offer Shares up to the amount which is proportionate to that Shareholder's participation in the Company as of the Record Date. Any unused quota will thereafter be allocated according to the participation in the Company by those Shareholders whose Subscription Undertakings were not fulfilled in full in the first round. The Offer Shares allocated to investors will be transferred to their securities accounts on or about 18 January 2018 through the "delivery versus payment" method simultaneously with the transfer of payment for such Offer Shares. The maximum size of the Offering is fixed and if the Offering is oversubscribed, the number of the Offer Shares will not be increased. If the Offering is undersubscribed, the Company may reduce the number of the Offer Shares accordingly, or cancel the Offering. The Company has also reserved the right to cancel the Offering in full in its sole discretion, at any time until the end of the Offering Period. The Company intends to apply for the admission to trading of all the Offer Shares on the Main List of the Nasdaq Tallinn Stock Exchange. Trading with the Offer Shares is expected to commence on or about 25 January 2018.
E.4	Interests material to the offering/ conflicting interests	As far as the Management is aware, the persons involved in the Offering do not have any personal interests material to the Offering. The Management is not aware of any conflicts of interests related to the Offering.
E.5	Name of persons or entity offering to sell the security. Lock-up agreements: parties involved; period of lock-up	The Offering is carried out by the Company. The Company has not engaged a manager. There are no lock-up agreements.
E.6	Immediate dilution	As at the date of this Prospectus, the number of the Shares of the Company is 6,507,012. The number of the Offer Shares is up to 2,670,000. Therefore, the number of the Shares of the Company after the successful registration of the increase of the share capital of the Company will be up to 9,177,012,

		provided, however, that the number of the Offer Shares is not changed. Therefore, the shareholdings in the Company existing immediately prior to the Offering will be diluted by up to 29.1% as a result of the Offering, unless a Shareholder subscribes for and is allocated additional Shares in the course of the Offering.
E.7	Estimated expenses charged to the investor by the Company	Not applicable; no expenses are charged to the investor by the Company. Investors will be liable for their own costs in connection with the participation in the Offering, primarily for the service fees that may be charged by the financial institutions through which they will subscribe for the Offer Shares.

3. RISK FACTORS

3.1. Introduction

Investing into the Shares entails risks. In the course of its everyday business, the Group is exposed to a variety of risks, including the risks described in this Section. The impact of any such risks will depend on the Group's ability to foresee, manage and mitigate them. Any of the risk factors described herein, or additional risks not currently known to the Management or not considered significant, could have a material adverse effect on the business, financial condition, operations or prospects of the Group and may result in a corresponding decline in the value of the Shares (regardless of whether such a consequence is specifically described or mentioned with respect to each of the risks listed below). As a result, investors could lose a part or all of the value of their investment. Therefore, each prospective investor in the Shares should thoroughly consider all the information in this Prospectus, including the risk factors described below.

It is important to note that the risks outlined in the Prospectus are not in any way ranked in terms of their importance, probability of occurrence or potential financial impact, nor is the list exhaustive. There may be additional risks the Group is not currently aware of or that are not considered significant.

This Prospectus is not, and does not purport to be, investment advice or an investment recommendation to acquire the Shares. Each prospective investor in the Shares must determine, based on its own independent review and analysis and such professional advice as it deems necessary and appropriate, whether an investment into the Shares complies with its financial needs and investment objectives and whether such investment is consistent with such rules, requirements and restrictions as may be applicable to that investor.

3.2. Business Risks

Competitive Market (Real Estate Development). The Group's main operations – real estate development – are in a highly competitive market. The Group faces intense competition from local, national and international real estate development firms, real estate investment funds, and others. Entry barriers are relatively low, which gives immediate competitive advantage to companies with better access to financing and expertise on market conditions. High competition may lead to oversupply and over-development of residential and commercial real estate, which in turn may decrease the average rent or sale prices. Price remains the decisive factor even though customers do pay attention to the quality of design and construction, technological expertise, past performance, health and safety record, as well as to reputation and experience.

High Concentration of Risks Related to Small Number of Projects. The Group's projects in the real estate development business segment require significant investments and are time-consuming. The full development cycle – from the making of an initial investment into a real estate development project until it is completed and sold – typically takes several years. Due to these circumstances, the Group is only able to be involved in a limited number of concurrent projects, which in turn results in a high concentration of business risks. Currently, the Group has nine active development projects and its short- and mid-term results will depend on the successful sale and/or management of these projects.

Cyclical Nature of Real Estate Development Sector and Fluctuation of Prices. The real estate development sector is cyclical by its nature and its profitability tends to fluctuate due to changes in the general macroeconomic conditions, rental yields, interest rates, personal income, inflation, availability of credit, etc. The sector would be adversely affected if the economy slowed down or entered recession, not least because companies in the sector commit to projects for years in advance and are generally not able to change course or take corrective measures quickly.

Illiquid Market. The real estate market in general is characterised by limited liquidity. There is no assurance that the Group will be able to sell its real estate development projects on favourable commercial terms or sell them at all. Real estate investments are time-consuming and take years to

complete, while there is no guarantee that the price received from the sale would meet or exceed costs of development.

Dependence on Availability of Credit and Consumer Preferences. Most of the Group's projects are residential housing projects – apartments and residential plots. The residential housing market is influenced by several factors beyond the control of the Group companies, such as demographic variables (family size, the age composition of the family, the number of first and second children, net migration (immigration minus emigration), non-family household formation, the number of double-family households, death rates, divorce rates, marriages, the general macroeconomic climate, the level of and changes in personal income and consumer prices and, perhaps most importantly, the availability of credit. The vast majority of the transactions made in the housing market involve bank financing, which makes the operating results of the Company highly dependent on the availability of credit to consumers.

Dependence on Cash-Flows from Subsidiaries. The Company is a holding company conducting its operations mainly through its Subsidiaries. The Company itself does not own significant assets other than investments into the Subsidiaries. Therefore, in order to be able to pay dividends to its shareholders and meet its own obligations, the Company is dependent on the receipt of loans, fees or dividends from its Subsidiaries. Such payments from the Subsidiaries may be subject to statutory and/or contractual restrictions, and may not always be available.

Dependence on Construction Contractors. In the beginning of 2014, the Group divested its shareholding in Arco Ehitus OÜ and terminated its operations in the construction business segment. Since then, the Group relies on contractors and subcontractors for all construction works. Due to that, the results of the operations of the Group depend on the ability of these construction contractors and subcontractors to comply with the terms of the agreements executed with them. Delays in completing construction may result in additional costs and damages for the Group, which may not be fully recoverable from contractors and subcontractors, and extend the Group's exposure to price fluctuations. Furthermore, breaches of construction agreements by contractors and subcontractors may cause the Group to in turn breach sale agreements executed by the Group with purchasers. In the opinion of the Management, the Group's agreements include reasonable contractual remedies to mitigate the above risks, but every development presents a new combination of construction risks which are impossible to mitigate fully.

Dependence on Key Personnel. The Group's performance is reliant upon the efforts, diligence, skill and business network of its key personnel. Well-connected local managers with knowledge of the relevant local market are essential for the Group's property development business. The Group may not always be able to impose competition covenants or other contractual restrictions on key personnel to ensure their continuing engagement with the respective Group companies, or, despite best efforts, to ensure their continued loyalty. Should the Group lose one or more key persons and fail to find a suitable replacement quickly enough, or should such key person join a competing business, it could adversely affect the business and results of operations of the Group.

Management Risk. As from the end of the year 2009, the Management Board comprises of one member and therefore the management of the Company is, to some extent, dependent on one person only. However, in addition to the Management Board, the Company's operations are managed on a daily basis by heads of departments and other senior personnel.

Dependence on IT Systems. Although real estate services and development are generally not considered to be high-tech or technology-intensive industries, rapidly developing technology is nevertheless one of the determining factors of success in these fields of business. The Group has developed and uses a variety of IT systems and web-based solutions for its operations, including online agency services, internal accounting and management information systems, solutions for the handling of customer and tenant information, project designs and specifications, and general administrative functions. Failures in or significant disruptions to the Group's IT systems could prevent it from conducting its operations efficiently. Furthermore, should the Group experience a significant security breach or other disruption to its IT-systems, sensitive information could be compromised and the Group's relationship with its customers and suppliers may suffer as a result, in addition to other negative consequences.

Seasonality. The real estate market as a whole is subject to seasonal fluctuations. Such fluctuations are particularly characteristic of the residential real estate market. The volumes of real estate transactions tend to increase in autumn and spring. Winter and summer are usually low season for the real estate market. The Group companies make continuous efforts to consider such seasonal fluctuations while planning their operations; nevertheless, such seasonality makes planning more difficult, which may have an adverse effect on the financial position and the results of operations of the Group.

Risks related to Divested Businesses. The Group sold its construction business (conducted by Arco Ehitus OÜ) in 2014, and sold its Latvian services business (SIA Arco Real Estate) in 2016. The Group remains theoretically liable towards the respective purchasers until the relevant claims expire. Further, Arco Ehitus was declared bankrupt in 2016, leading to the theoretical risks of reversal and liability claims for the period of three years (and in extreme cases up to five years) preceding the bankruptcy. However, these risks do not appear significant. With respect to Arco Ehitus, any potential claims would most likely have emerged by now. With respect to the Latvian services business, the sale was made to the Latvian management, who were intimately familiar with the business and are therefore unlikely to have any recourse to the Group.

3.3. Political, Economic and Legal Risks

Changes in Economic Environment. The operations of the Group are affected by general economic and geopolitical conditions. The global financial crisis of 2007 – 2009 and the subsequent sovereign debt crisis (particularly in the Eurozone) resulted in uncertainty regarding future economic development, the effects of which continue to be felt. Recent years saw several major events surprising the financial markets, including the result of the Brexit referendum, the potential repercussions of which are difficult to quantify as the event is still unfolding; however, the referendum triggered a large initial sell-off in global financial markets and led to a substantial further increase in economic uncertainty. Growth in the global economy remains modest at around 2 to 3 per cent. Monetary policy pursued by central banks around the world has led to comparably high valuations of residential real estate, fuelled by historically low interest rates. These are likely to change in the future, which would influence the results of the operations of the Group and its profitability. Any deterioration in the economic environment of the countries where the Group operates could have a direct negative impact on the Group. The economies of Estonia and Bulgaria are small open economies that are closely linked to the global economy and especially the macroeconomic conditions in the Eurozone countries and Russia. Although the Group constantly monitors developments on both domestic and international markets, it is not possible to forecast the timing or extent of changes in the economic environment.

Dependence on Discretionary Decisions of Public Authorities. Real estate development and construction sectors are subject to extensive regulatory requirements. Construction rights for a land plot are determined by the detail plan of the particular site or its surrounding area. Therefore, before any construction work can be started, the Company needs to ensure that a detailed plan corresponding to the Company's development needs is duly adopted. Furthermore, construction works, as a general rule, require a building permit. Planning is carried out and building permits are issued by local municipalities. These proceedings are time-consuming and may take from several months to several years depending on the area, the number of interested parties involved, and the difference in their interests. These proceedings also involve several discretionary decisions from the local municipality. Such discretion may be exercised relying on the circumstances beyond the control of the Company and therefore there can never be full certainty that the necessary planning and permitting procedures are successfully completed. There can also be no certainty as to the duration of such proceedings, as can be seen from the example of the Iztok Parkside project in Bulgaria, which has not proceeded as quickly as planned because of a delay at the permitting stage (which is by now resolved). A detailed plan adopted by a local municipality may be contested in court by any person capable of establishing their justified interest in the matter. Such court proceedings may take several years and their results are often unpredictable. Such dependency on the discretionary decisions of public authorities may result in material delays and budget overruns or may require changes to be made in the project or even lead to the abandoning of the project.

Exposure to Civil Liability. The Group companies, like all companies, face the risk of potential litigation from customers and business partners. The results of any such disputes and legal proceedings are inherently difficult to predict and even the disputes and proceedings themselves, not only unfavourable outcomes, may result in the Group incurring significant expenses and damages, and in negative effects on the Group's reputation, which in turn may have material adverse effect on the Group's operations. The Group seeks to mitigate the civil liability related risks by creating special reserves and by obtaining insurance coverage for such risks; however, these measures may not always be sufficient. Certain losses arising from the civil liability of the Group may be recovered from contractors and subcontractors; however, there can be no full certainty in such respect.

Exposure to Environmental Liability. The real estate and the construction sectors are affected by laws and regulations for environmental protection. Such laws and regulations cover a wide range of different aspects of environmental protection, such as the protection of ambient air, pollution, use of water, waste handling, etc. As all of the target markets of the Group are members of the European Union, the principle "polluter pays" is in place in all these jurisdictions. Furthermore, environmental laws impose liability on the land owner for the contamination in their territory even if the current owner did nothing to contribute to the contamination. Therefore, the Group may be required to clean a land plot owned by it before any construction can commence on such land. In addition to the clean-up obligation, the Group may face certain restrictions imposed in respect of contaminated land plot by public authorities, which may result in the land not being used for its initial purpose. Failure to discover contamination on a land plot used for a real estate project before the commencement of construction works, even if adequately addressed later, may lead to difficulties in the marketing and sale of the project or expose the Group to civil liability. In the opinion of the Management, the Group has taken adequate measures to mitigate the risks associated with environmental liability, such as introducing internal procedures to ensure compliance with applicable environmental laws and regulations and mitigating the environmental pollution risks contractually upon the acquisition of land.

Risks Related to Ongoing Proceedings. Some Group companies are involved in ongoing court proceedings in Bulgaria and one Group company could hypothetically be connected to an alleged criminal case in Estonia, relating to illegal restriction on free competition (please see the Section "Legal Proceedings" for further details). As at the date of this Prospectus, the final results of such proceedings cannot be estimated with certainty and they may have adverse effect on the financial condition and results of operations of the respective Group companies.

Change of Laws or Policies. The Group's operations, sales and revenues are dependent on the legal and regulatory framework, as well as on planning and construction policies of the target markets. Any changes in these factors in the jurisdictions where the Group companies operate, may have a material adverse effect on the Group's operations. As the Group operates in markets where legal systems are relatively young, changes in laws and their interpretation happen often and may be unpredictable.

Tax Regime Risks. Tax regimes of the geographical markets where the Group operates are from time to time subject to changes, some of which may be dictated by short-term political needs and may therefore be unexpected and unpredictable. Any changes in the tax regimes in the jurisdictions where the Group companies operate or in the interpretation of tax laws, regulations or treaties may have material adverse effect on the Group's operations.

3.4. Financial Risks

Liquidity Risk. The liquidity risk is one of the most important risks for the business of the Company. Due to the highly uneven and somewhat uncertain timing of revenues in the real estate development sector (where the Group earns revenue only when development projects are completed and start selling), the Group's liquidity is difficult to manage. For example, only 2 apartments and 6 land plots were sold in the first half of 2017 (compared to 73 apartments, 6 land plots and 4 commercial spaces in the same period in 2016), because the Group had not yet completed the next batch of development projects (particularly the Kodulahe development in Tallinn, which began selling in the third quarter of 2017). By contrast, in the third quarter of 2017, 58 apartments and 2 commercial spaces were sold as sales began at the

Kodulahe development. Until projects are ready to sell, the Group relies on external financing. The Management is confident the Group's liquidity situation will remain entirely manageable, with new projects becoming available for sale in time to meet the Group's financial liabilities, the above illustrates the risk inherent in small- to medium-scale real estate development. Unless the Group grows substantially to be able to manage a sufficiently broad pipeline of investments to even out cashflows, the Group's liquidity will continue to be characterised by dry spells in between the periods of active sales.

Financing Risk. The Group operates in a capital-intensive industry and needs substantial working capital to support the acquisition and development of real estate. The Group's internally generated cash-flow from the real estate services business and from the sales and management of real estate projects may not be sufficient for covering the Group's financing needs. The Group has substantial indebtedness (please see the Section "Capitalisation, Indebtedness and Working Capital" for further details). This may restrict the Group's access to further external debt financing. The lack of sufficient financing may have an adverse effect on the financial position and operations of the Group.

Interest Rate Risk. The interest rates on most of the loans taken by the Group entities are variable and are based on the EURIBOR base rate. Therefore, increases in the European Central Bank interest rates (and, consequently, increases in the EURIBOR base rate) will lead to a corresponding increase in the financial costs of the Group. It is conceivable that EURIBOR will rise in the observable future from the current historic lows. At the moment, the Group is not using hedging instruments to mitigate interest rate risks.

Risks Related to Financing Agreements. Several Group entities have entered into financing agreements with various financial institutions. Such financing agreements include the customary covenants, restrictions and obligations (among other things, restrictions on further financing, payment of dividends, changes in the Group's corporate structure or the nature of its business, etc.). In case of default, the financial institutions may in some cases unilaterally change the interest rates, claim contractual penalties or demand immediate repayment. Compliance with some of the financial covenants may be a matter of interpretation, which creates a risk that the Group may be in default under some financing agreements according to the creditor's judgement. At the same time, most of the financing agreements contain cross-default provisions. A cross-default provision is a provision in a loan agreement that puts a borrower or any related party in default if the borrower defaults on another obligation arising from another loan or financing agreement with the same or a different lender. The exact content of cross-default provisions may be different in different agreements. Such cross-default clauses expose the Group to default risks depending on the performance under other agreements. Failure to comply with the financing agreements (for instance if immediate repayment is demanded) could result in the enforcement with respect to collateral granted by the Group, including the mortgages on the real estate owned by the Group or the commercial pledges on the assets of the Group.

Piraeus Bank Loan. On 11 August 2008, Arco Invest EOOD, the fully-owned Bulgarian Subsidiary of the Company, entered into a loan agreement with Piraeus Bank Bulgaria PLC. Arco Investeeringute AS, Arco Facility Management EOOD and Arco Imoti EOOD, the fully-owned Subsidiaries of the Company, act as co-debtors under the agreement. Under the agreement, Arco Invest EOOD was granted a loan in the principal amount of up to 16.5 million euros for the financing of the Madrid Boulevard project in Sofia, Bulgaria (please see the Section "Investments" for further details), of which approximately 8.6 million euros remains outstanding. Currently, the maturity of the loan is 30 December 2017. The Company is in negotiations with the bank regarding the prolongation of the loan. A preliminary agreement for extending the loan until 30 December 2019 has been achieved with additional two repayments of 500 thousand euros each foreseen in January 2018 and January 2019. However, since final agreement has not yet been signed, the Company cannot say with absolute confidence that the loan will be extended. A failure to extend the loan may have an adverse effect on the Group's liquidity and may necessitate raising additional capital.

Credit Risk. The real estate developed by the Group is normally sold only against immediate payment. Overdue payments from clients are thus rare and the management believes the credit risk has been taken to the minimum. However, in some rare cases, the period between the transaction and the full

payment can be several months, which exposes the Group to third party credit risks. In order to mitigate these risks, the Company tries to minimise the amount of transactions made on deferred payment terms, and also assesses such risk periodically. If necessary, collateral arrangements are used.

Currency Risk. The Group has exposure to fluctuations in currency exchange rates. The Group's consolidated reporting currency is euro; however, part of its revenues is earned in Bulgarian leva (currently pegged to euro). Therefore, significant changes in the exchange rate of the Bulgarian lev could have a significant adverse effect on the results of operations and the financial position of the Group. Currently, the Group is not using hedging instruments to mitigate exchange rate risk.

Tax Risks Related to Intra-Group Transactions. Every now and then, the Group companies enter into intra-Group transactions, e.g. for the sale of real estate. Although the Group companies have taken and will take reasonable care to make sure that all such intra-Group transactions are made on market terms, it cannot be fully excluded that they will result in adverse tax consequences, should tax authorities determine, for example, that intra-Group transactions were not correctly priced.

3.5. Risks related to Shares, Offering and Listing

Cancellation of Offering. Best efforts will be made to ensure that the Offering will be successful; however, there can be no assurance that it will, and that the investors will receive the Offer Shares they subscribe for. The Company also has the right to cancel the Offering, even if successful, as described in Section "Cancellation of Offering".

Share Price and Limited Liquidity of Shares. The Shares are listed on the Baltic Main List of the Nasdaq Tallinn Stock Exchange and an application will be made to the Nasdaq Tallinn Stock Exchange for the Offer Shares to likewise be admitted to trading. Though every effort will be made to ensure that admission to trading will occur, the Company cannot guarantee that the Offer Shares will be admitted to trading. Further, the Nasdaq Tallinn Stock Exchange is substantially less liquid and more volatile than established markets. The relatively small market capitalisation and low liquidity of the Nasdaq Tallinn Stock Exchange may impair the ability of the Shareholders to sell their Shares, or could increase the volatility of the price of the Shares. The value of the Shares can fluctuate on the securities market due to events and the materialisation of risks related to the Group, but also because of events outside the Group's control such as global or regional financial crises. Furthermore, if at any point a person controlling a large block of Shares decided to sell such Shares, the demand on the Nasdaq Tallinn Stock Exchange may not be sufficient to accommodate such a sale and any sale may take longer than originally expected or a sale may take place at a lower price than expected. Since 31 August 2017, there are no market-making arrangements with respect to the Company's Shares. Trading in the Company's shares is limited: in 2016, the total turnover was 0.59 million euros (approximately 7.3% of market capitalisation) and in 2017 so far, 0.85 million (approximately 8.1%). While this provides some liquidity, large holdings could be particularly difficult to dispose of.

Payment of Dividends. The Company is under no obligation to pay regular dividends and no representation can be made with respect to future dividends. The Management's recommendations for the distribution of profit will be based on financial performance, working capital requirements, possible restrictive covenants in credit or other agreements, reinvestment needs and strategic considerations which may not necessarily coincide with the short-term interests of all Shareholders. The payment of dividends and the amount thereof will, however, be subject to the ultimate discretion of the majority of the Shareholders. With respect to dividends, the Shareholders are not bound by the recommendations of the Management Board.

Dilution of Shareholdings. Should the share capital of the Company be increased, and new shares be issued in the future, the shareholding of each individual Shareholder in the Company may be diluted. The decision to increase the share capital of the Company may be proposed if there is a need to raise additional capital. New issues are not unlikely, due to the capital-intensive nature of the Group's business. The dilution of an individual Shareholder's shareholding in the Company can take place if that Shareholder cannot or decides not to subscribe for newly issued shares pro rata to their existing

shareholding. Increasing the share capital may also adversely affect the share price, as there is no general requirement in Estonian law for new share issues to take place at or above market value.

Tax Regime Risks. Changes in the tax regime applicable to transactions with the Shares or to the associated dividends may result in increased tax burden on the Shareholders and may therefore have adverse effect on the rate of return from an investment into the Shares.

Lack of Adequate Analyst Coverage. There is no guarantee of continued (or any) analyst research coverage for the Company. Over time, the amount of third party research available in respect of the Company may increase or decrease with little or no correlation with the actual results of its operations, as the Company has no influence on the analysts who prepare such reports. Negative or insufficient third-party reports would be likely to have an adverse effect on the market price and the trading volume of the Shares.

4. TERMS AND CONDITIONS OF THE OFFERING

4.1. Offering

In the course of the Offering, up to 2,670,000 Offer Shares are publicly offered to the existing Shareholders of the Company. The Offering is a public offering of securities in the meaning of the Estonian Securities Market Act and will be conducted in accordance with the laws of Estonia. The Shares are not offered publicly in any country other than Estonia.

The Offer Shares are ordinary bearer shares with the nominal value of 0.70 euros each. The Offer Shares will be registered with Nasdaq CSD (Nasdaq CSD SE, register code 40003242879, registered address Valņu iela 1, Rīga LV-1050, Latvia) under the same ISIN as the existing Shares, and will be kept in book-entry form. No share certificates have or may be issued. The Offer Shares are denominated in euro and governed by the laws of Estonia. The Offer Shares are freely transferrable.

All the Shares, including the Offer Shares, are of one class, rank *pari passu* with each other and carry equal voting rights. The Offer Shares will give rights to dividends declared by the Company (if any) after the Offer Shares are issued. For further description of the rights attached to the Shares, including the Offer Shares, please see the Section "Rights of Shareholders".

The Offering will involve the issue of as many new Shares as subscribed for in the course of the Offering and allocated to investors in accordance with the terms described in this Section "Terms and Conditions of Offering". In order to conduct the Offering, increasing the share capital and the issue of the Offer Shares has been placed on the agenda of the General Meeting scheduled for 27 December 2017.

The maximum size of the Offering is fixed. The total amount of Offer Shares may decrease if a part of the Offering is cancelled – see Section "Cancellation of Offering" for further details.

As far as the Management is aware, the persons involved in the Offering do not have any personal interests material to the Offering. The Management is not aware of any conflicts of interests related to the Offering.

The Offering will be announced through the information system of the Nasdaq Tallinn Stock Exchange and through the Company's website (www.arcorealestate.com).

4.2. Right to Participate in Offering

The Offering is directed only to the existing Shareholders of the Company who are entered in the list of the Company's Shareholders as of the Record Date. Subscription Undertakings from persons not entered on such list will be cancelled during the allocation process.

4.3. Offer Price

The Offer Price is 1.50 euros per one Offer Share, of which 0.70 euros is the nominal value of one Offer Share and 0.80 euros is the issue premium.

4.4. Offering Period

The Offering Period is the period during which eligible investors may submit Subscription Undertakings (please see Section "Subscription Undertakings" for further details) for the Offer Shares. The Offering Period commences on 29 December 2017 at 09:00 and terminates on 15 January 2018 at 16:00 local time in Estonia.

4.5. Subscription Undertakings

Submitting Subscription Undertakings

The Subscription Undertakings may be submitted through any intermediary who is registered as an account operator with Nasdaq CSD Estonian settlement system, and has entered into an agreement

with Nasdaq CSD to mediate public offerings and new issues of shares. As of the date of this Prospectus, these are:

- SEB Pank AS
- Coop Pank AS
- Danske Bank A/S Eesti filiaal
- Swedbank AS
- LHV Pank AS
- Luminor Bank AS (Eesti)
- Tallinna Äripank AS
- Versobank AS
- Luminor Bank AB (Leedu)
- SEB Pank (Leedu)
- Siaulių bankas
- Luminor Bank AS (Latvia)
- Citadele (Latvia)

A complete and up to date table can be found at the following address:

<https://nasdaqcsd.com/et/teenused/teenused-turuosalistele/avalike-pakkumiste-vahendajad-eesti-turul/> (currently not available in English).

In order to be able to subscribe for the Offer Shares, an investor must have a securities account opened with one of these institutions. The treatment of Subscription Undertakings in the allocation is not determined on the basis of which institution they are made through.

Content of and Requirements for Subscription Undertakings

Subscription Undertakings must include *inter alia* the number of Offer Shares subscribed for, the Offer Price (per one Offer Share and total), and the number of the securities account of the investor. Forms for Subscription Undertakings will be provided by the financial institution through which the investor submits the Subscription Undertaking.

Subscription Undertakings may be submitted only during the Offering Period, only at the Offer Price, and only in euros. If multiple Subscription Undertakings are submitted by one investor, they will be merged for the purposes of allocation.

Each investor must ensure that the information contained in the Subscription Undertaking submitted by such investor is correct, complete and legible. Incomplete, incorrect, unclear or illegible Subscription Undertakings, or Subscription Undertakings that do not otherwise comply with the terms set out in this Prospectus, may be rejected at the sole discretion of the Company.

An investor may submit a Subscription Undertaking either personally or through a representative whom the investor has authorised (in the form required by the local law and by the relevant financial institution) to submit the Subscription Undertaking.

Costs and Fees

Investors must bear all costs and fees charged by the respective financial institution through which they submit their Subscription Undertaking. This may include costs and fees for the submission, amendment or cancellation of a Subscription Undertaking, or for the settlement of the transaction. These costs and fees may vary depending on the rules and prices established by the particular financial institution.

Submission of Subscription Undertakings through Nominee Accounts

An investor may submit a Subscription Undertaking through a nominee account only if such an investor authorises the owner of the nominee account to disclose the investor's identity, personal ID number or

registration number, and address to the Company and Nasdaq CSD. Subscription Undertakings submitted through nominee accounts without the disclosure of the above information will be disregarded.

Amendment and Cancellation of Subscription Undertakings

Investors have the right to amend or cancel their Subscription Undertakings at any time until the end of the Offering Period. This may result in costs and fees charged by the financial institution through which the Subscription Undertaking is submitted.

Legal Effect of Subscription Undertakings

By submitting a Subscription Undertaking, every investor:

- (i) accepts the terms and conditions of the Offering set out in this Section and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Offer Shares;
- (ii) accepts that the number of the Offer Shares indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of the Offer Shares which the investor wishes to acquire (the **Maximum Amount**) and that the investor may receive less (but not more) Offer Shares than the Maximum Amount subscribed for (please see Section "Distribution and Allocation");
- (iii) undertakes to acquire and pay for any number of the Offer Shares allocated to them up to the Maximum Amount;
- (iv) authorises and instructs the financial institution through which the Subscription Undertaking is submitted to arrange the settlement of the transaction on their behalf (taking such steps as are legally required to do so) and to forward the necessary information to the extent necessary for the completion of the transaction;
- (v) authorises the financial institution through which the Subscription Undertaking is submitted, and Nasdaq CDS, to amend the information contained in the Subscription Undertaking to (a) specify the value date of the transaction, (b) specify the number of the Offer Shares to be purchased by the investor and the total amount of the transaction, up to the Maximum Amount times the Offer Price; (c) correct or clarify obvious mistakes or irregularities in the Subscription Undertakings, if any;
- (vi) acknowledges that the Offering does not constitute a sales offer for the Offer Shares, and that the submission of a Subscription Undertaking does not constitute the acceptance of a sales offer, and therefore does not in itself entitle the investor to acquire the Offer Shares, nor results in a contract for the sale of the Offer Shares between the Company and the investor.

4.6. Payment

By submitting a Subscription Undertaking, each investor authorises and instructs the institution operating the investor's cash account connected to their securities account (which may or may not also be the financial institution through which the Subscription Undertaking is being submitted) to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or until funds are released in accordance with this Prospectus. The transaction amount to be blocked will be equal to the Offer Price multiplied by the Maximum Amount. An investor may submit a Subscription Undertaking only when there are sufficient funds on their cash account. If blocked funds are insufficient, the Subscription Undertaking will be deemed null and void to the extent funds are insufficient.

4.7. Distribution and Allocation

The Company will decide on the allocation of the Offer Shares after the expiry of the Offering Period, on or about 17 January 2018.

Offer Shares will be allocated as follows:

(i) In the first round, every investor shall receive a guaranteed amount of Offer Shares which is equal to the Quota (i.e. the proportion of that investor's shareholding in the Company as of the Record Date times the total number of Offer Shares), but not more Offer Shares than subscribed for.

(ii) In the second round, any Quota which is left unused in the first round shall be redistributed between all investors whose Subscription Undertakings were not fully fulfilled in the first step. For this purpose, each such investor shall be entitled to such part of the unused Quota which corresponds to the proportion of their shareholding in the Company as of the Record Date as compared to the shareholdings of the other investors competing for the same Quota, but not more Offer Shares than subscribed for.

(iii) If any Quota remains unused in the second round, the second round will be repeated until all Offer Shares are allocated.

The Company may make such adjustments to the above allocation mechanism as may be necessary in order to ensure that each investor receives an integer number of Offer Shares (e.g. by rounding up or down as appropriate) or otherwise necessary to ensure correct allocation, within the limits of the law.

If the Offering is oversubscribed, the number of the Offer Shares will not be increased. If the Offering is undersubscribed, the Company may reduce the number of the Offer Shares accordingly, or cancel the Offering as described in Section "Cancellation of Offering" below.

The Company is not aware whether any major Shareholders or any eligible members of the Management Board or the Supervisory Board intend to participate in the Offering, or whether any person intends to subscribe for more than five per cent of the Offering.

The Company expects to announce the results of the allocation process through the information system of the Nasdaq Tallinn Stock Exchange and the Company's website (www.arcorealestate.com) on or about 17 January 2018.

4.8. Settlement and Trading

The settlement of the Offering will be carried out by Nasdaq CSD Estonian Securities Settlement System. The Offer Shares allocated to investors will be transferred to their securities accounts on or about 18 January 2018 through the "delivery versus payment" method simultaneously with the transfer of payment for such Offer Shares. The title to the Offer Shares will pass to the relevant investors when the Offer Shares are transferred to their securities accounts.

If an investor has submitted several Subscription Undertakings through several securities accounts, the Offer Shares allocated to such investor will be transferred to all such securities accounts proportionally to the number of shares indicated in the Subscription Undertakings submitted for each account, rounded up or down as necessary.

The Offer Shares omitted from the first settlement (if any) shall be reallocated rather than cancelled, the manner for such reallocation to be decided by the Company.

The Offer Shares received by the investors may not be transferred or sold further until the date of admission of the Shares to trading on the Nasdaq Tallinn Stock Exchange. To ensure compliance with this condition, the operators of the investors' securities accounts will block the Offer Shares on the securities accounts of the respective investors until then.

Trading with the Offer Shares is expected to commence on the Nasdaq Tallinn Stock Exchange on or about 25 January 2018. For further information, please see Section "Listing and Admission to Trading".

4.9. Return of Funds

If the Offering or a part thereof is cancelled, if the investor's Subscription Undertaking is rejected or if the allocation is less than the amount of the Offer Shares applied for, the funds blocked on the investor's cash account (or the excess part thereof) will be released by the respective financial institution on or about 18 January 2018. Regardless of the reason for which funds are released, the Company shall

never be liable for the release of the respective funds and for the payment of interest on the released funds for the time they were blocked (if any).

4.10. Cancellation of Offering

The Company has the right to cancel the Offering in full or in part in its sole discretion, at any time until the end of the Offering Period. In particular, the Company may decide to cancel the Offering in the part not subscribed for. Any cancellation of the Offering will be announced through the information system of the Nasdaq Tallinn Stock Exchange and through the Company's website (www.arcorealestate.com). All rights and obligations of the parties in relation to the cancelled part of the Offering will be considered terminated as of the moment when such announcement is made public

4.11. Dilution

As at the date of this Prospectus, the number of the Shares of the Company is 6,507,012. The number of the Offer Shares is up to 2,670,000. Therefore, the number of the Shares of the Company after the successful registration of the increase of the share capital of the Company will be up to 9,177,012, provided, however, that the number of the Offer Shares is not changed in accordance with the terms and conditions described in Section "Cancellation of Offering". Therefore, the shareholdings in the Company existing immediately prior to the Offering will be diluted by up to 29.1% as a result of the Offering, unless a Shareholder subscribes for and is allocated additional Shares in the course of the Offering.

5. REASONS FOR OFFERING AND USE OF PROCEEDS

Provided that the Offering is successful and that all the Offer Shares (altogether 2,670,000 Shares) are subscribed for and issued by the Company, the expected amount of gross proceeds of the Offering is up to approximately 4 million euros. Expenses directly related to the Offering are estimated to be less than 2% of the expected proceeds. Therefore, the net proceeds of the Offering are expected to be app 3.9 million euros.

The proceeds of the Offering will be used for financing the purchase of three land plots in Sofia, Bulgaria for the development of the “Lozen Stage 1” project, for undertaking the design works on these plots, and for financing some of the constructions costs. The plots are located next to Lozen village and have picturesque views of surrounding mountains. The location is near Sofia ring road, a 15-minute drive from the city centre, with easy access to Sofia Airport and highways to large cities of Varna and Burgas. Total area of the plots is 52,800 sqm and the planned development foresees approximately 21,000 sqm to be built. A detail plan is in force for the plots, allowing for the quick start of design works. The Group intends to build apartment buildings, row houses and private houses. The purchase agreement for the acquisition of the plots was signed in November 2017 and the purchase is to be finalised by the end of January 2018. The purchase agreement provides for a further acquisition of 5 neighbouring land plots (“Lozen Stage 2”) in December 2020, with a total area of 69,300 sqm and a buildable area of approximately 47,000 sqm. These future land acquisitions and the related development activities will be financed separately from the current offering and the proceeds of the Offering will not be used for Lozen Stage 2.

6. DIVIDEND POLICY

The Offer Shares will give rights to dividends declared by the Company (if any) after the Offer Shares will be issued. Over the past three years, the Company has regularly paid symbolic dividends to its Shareholders at one cent per share, as detailed in the table below:

	2015	2016	2017
Total amount of dividend paid (in EUR)	61,170.12	61,170.12	65,070.12
Number of Shares at payment date	6,117,012	6,117,012	6,507,012
Dividend amount per Share (in EUR)	0.01	0.01	0.01
Adjusted number of Shares	6,507,012	6,507,012	6,507,012
Adjusted dividend amount per Share (in EUR)	0.0094	0.0094	0.0100

As of the date of this Prospectus, there is no formal dividend policy in place, nor is it expected to be formally adopted in the future. The Company is under no obligation to pay regular dividends, and no representation can be made in this regard. The declaration and payment by the Company of any future dividends and the amount thereof will depend on the results of the Group's operations, its financial condition, cash requirements, future prospects and on other factors. It will ultimately be decided by the majority of the General Meeting. Without prejudice to the above, the Management intends to continue paying the same dividend per share (one cent) as in prior years.

It must be noted that the financing agreements entered into by certain Subsidiaries restrict payment of dividends; however, such restrictions do not apply to the Company itself.

As of the date of this Prospectus, the Articles of Association do not contain any restriction on the payment of dividends. For general information on dividends under the Estonian law, and on possible restrictions as regards dividends, please see Section "Rights of Shareholders".

7. GENERAL CORPORATE INFORMATION

7.1. General Corporate Information

The business name of the Company is Arco Vara AS. It was registered in the Estonian Commercial Register under register code 10261718 on 12 September 1997.

The Company has been established and currently operates under the laws of the Republic of Estonia in the form of a public limited company (in Estonian: *aktsiaselts* or AS) and is established for an indefinite term.

The contact details of the Company are as follows:

Arco Vara AS
Rävala pst 5, 10143 Tallinn, Estonia
Phone: +372 6 144 630
Fax: +372 6 144 631
E-mail: info@arcovara.ee

The official fields of activity of the Company are real estate development, renting and operating of own or leased real estate (EMTAK 6820), activities of real estate agencies (EMTAK 6831) and management of real estate on a fee or contract basis (EMTAK 6832).

7.2. Articles of Association

The latest version of the Articles of Association of the Company was adopted by a respective resolution of the extraordinary General Meeting of shareholders dated 12 May 2011. The main terms of the Articles of Association of the Company are as follows:

- (i) the minimum amount of the share capital of the Company is 2,500,000 euros and the maximum amount of the share capital of the Company is 10,000,000 euros; within these brackets, the share capital of may be increased and decreased without amending the Articles of Association;
- (ii) the Company has one type of share only; the nominal value of the ordinary share of the Company is 0.70 euros and each share grants one vote at the General Meeting;
- (iii) the shareholders of the Company have the preferential right to subscribe for new shares upon the increase of the share capital of the Company, unless such right has been excluded by a resolution of the General Meeting with 3/4 of the shareholders participating at the meeting voting in favour;
- (iv) the Shares are freely transferrable;
- (v) the Company may issue convertible bonds;
- (vi) the Management Board comprises of one to five members elected for a period of three years; the Company may be represented by the Chairman of the Management Board (if there is more than one member in the Management Board) or two members of the Management Board acting jointly;
- (vii) the Supervisory Board comprises of five to seven members elected for a period of five years;
- (viii) the financial year of the Company is the calendar year.

8. SHARE CAPITAL, SHARES AND OWNERSHIP STRUCTURE

8.1. Share Capital and Shares

The current registered share capital of the Company is 4,554,908.40 euros, which is divided into 6,507,012 ordinary bearer shares (the **Shares**) with the nominal value of 0.70 euros each. All the issued Shares have been fully paid up. The Shares are registered with Nasdaq CSD (Nasdaq CSD SE, register code 40003242879, registered address Valņu iela 1, Rīga LV-1050, Latvia) under ISIN EE3100034653 and are kept in book-entry form. No share certificates have or may be issued. The Shares are listed and traded on the Baltic Main List of the Nasdaq Tallinn Stock Exchange.

The Shares are ordinary bearer shares with no restrictions on transferability. The Shares are governed by the laws of Estonia. All the Shares are of one class and rank *pari passu* with each other. All the Shares carry equal voting rights.

In addition to the above, the Company has the following obligations regarding authorised but unissued capital:

- (i) for the purposes of the Offering, the Company proposes to increase the share capital and issue 2,670,000 new Shares (i.e. the Offer Shares), and this has been placed on the agenda of the General Meeting scheduled for 27 December 2017;
- (ii) the share capital of the Company has been conditionally increased in connection with the issue of convertible bonds (which is currently outstanding), as described in Section “Other Instruments”.

8.2. Major Shareholders

As at the date of this Prospectus, the Shareholders holding over 5% of all the Shares in the Company are the following:

Name of Shareholder	Number of Shares	Proportion
OÜ Alarmo Kapital (a company under the control of Mr Tarmo Sild, the member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board)	1,015,805	15.6109%
Nordea Bank AB Finland Branch-Non-Treaty Clients (beneficial owner Ms Mari Tool)	862,820	13.2598%
AS Lõhmus Holdings (a company under the control over Mr Rain Lõhmus, a member of the Supervisory Board)	602,378	9.2574%
Gamma Holding Investment OÜ (a company under the control of Mr Arvo Nõges)	562,893	8.6506%
LHV Pensionifond L	389,765	5.9899%
Firebird Republics Fund Ltd	356,428	5.4776%
Osaühing HM Investeeringud (a company under the control of Mr Hillar-Peeter Luitsalu, a member of the Supervisory Board)	330,505	5.0792%

Since the Shares are traded on the Baltic Main List of the Nasdaq Tallinn Stock Exchange, the shareholder list changes on a daily basis.

The Management Board is as at the date of this Prospectus not aware of any person directly or indirectly controlling the Company, nor of any arrangements or circumstances which may at a subsequent date result in a change in control over the Company. Further, the Management is as at the date of this Prospectus not aware of any agreements executed between the Shareholders in respect of their shareholdings in the Company.

The major Shareholders in the Company do not have voting rights different from those of all other Shareholders.

8.3. Rights of Shareholders

This Section aims to provide a general overview of the most important rights of the Shareholders arising from the Articles of Association and Estonian law. This overview is not meant to be exhaustive and does not purport to cover all possible legal considerations involved in owning the Shares.

Right to Participate in Corporate Governance. The Shareholders of the Company are entitled to take part in the governance of the Company through the General Meeting of shareholders, where they can exercise their powers to decide on certain important matters, such as the amendment of the Articles of Association, the increase and decrease of the share capital, the approval of the annual reports, the distributions of profit etc. The General Meeting is the highest governing body of the Company.

Ordinary General Meeting. The ordinary General Meeting is held once a year pursuant to the procedure and at the time set forth by the law and the Articles of Association. The ordinary General Meeting adopts resolutions on the annual report, on the reports of the Management Board and the Supervisory Board and on the use of the profit from the previous accounting year, as well as on other issues included in its agenda. The Estonian Securities Market Act specifies that the annual reports of publicly traded companies must be made public within four months as from the end of a financial year, therefore the ordinary General Meeting must be held before the end of April each year.

Extraordinary General Meeting. An extraordinary General Meeting may be convened when considered necessary by the Management Board, and further must be convened: (i) in the event where the net equity of the Company decreases below half of the share capital or other legally required minimum level, or (ii) upon a written and justified demand of shareholders representing at least 1/20 of the share capital, the Supervisory Board or the auditor, or (iii) if the meeting is required in the interests of the Company. If the Management Board fails to convene the extraordinary General Meeting with the demanded agenda within one month after the receipt of a relevant demand, then the Shareholders (or, if relevant, the Supervisory Board or the auditor) have the right to convene the extraordinary General Meeting themselves.

Notice of Convening the General Meeting. The notice of an upcoming General Meeting must be published and disclosed to the Shareholders three weeks in advance by the Management Board. The notice must be published through the information system of the Nasdaq Tallinn Stock Exchange and on the Company's homepage and in at least one daily national newspaper in Estonia. If there is a material breach of the requirements of convening a General Meeting or to the announcement of information associated with it, such General Meeting does not have the capacity to adopt resolutions, except if all the shareholders participate at the meeting.

Agenda. As a rule, the General Meeting may take decisions only on those issues which are included in the agenda before the meeting, except for a few issues set out in the law that may be decided on even if not included in the agenda (e.g. convening a new meeting). The agenda is determined by the Supervisory Board, or, if the General Meeting is convened by the Shareholders or the auditor, the agenda is determined by them. The Management Board or the Shareholders whose shares represent at least 1/20 of the share capital of the Company may demand the inclusion of a certain item in the agenda. An item which is initially not in the agenda may be included upon the consent of at least 9/10 of the Shareholders who participate at the General Meeting if their shares represent at least 2/3 of the share capital.

Quorum. A General Meeting is capable of passing resolutions if more than 1/2 of the votes represented by all Shares are represented at the General Meeting. If this quorum requirement is not met, the Management Board is required to convene a new General Meeting with the same agenda within three weeks but not less than seven days after the date of the initial General Meeting. There are no quorum requirements for the reconvened General Meetings.

Voting. Each Share entitles a Shareholder to one vote. A Shareholder may attend and vote at a General Meeting in person or by proxy. Only those Shareholders are eligible to attend and vote at a General Meeting who were on the list of shareholders (which is maintained by the ECRS) on the date falling seven calendar days before the General Meeting.

Resolutions of the General Meeting. As a rule, resolutions of a General Meeting require the affirmative vote of the majority of the votes represented at the General Meeting. Certain resolutions, such as e.g. amending the Articles of Association, increasing or decreasing the share capital, resolutions relating to a merger or liquidation of the company, removal of Supervisory Board members etc., require a qualified majority of 2/3 of the votes represented at the General Meeting. Some resolutions require an even higher majority.

Right to Information. The Shareholders have the right to receive information on the activities of the Company from the Management Board at the General Meeting. However, the Management Board may refuse to give information if there is a reason to presume that this may cause significant damage to the interests of the Company, in which case the Shareholders may require the General Meeting to decide on the legality of such refusal or submit a respective claim to a court.

Right to Dividends. All the Shareholders of the Company have the right to participate in the distribution of profit of the Company and have the right to receive dividends (if declared) proportionally to their shareholding in the Company. While distributing profit and making dividend payments to the Shareholders, the Company must treat all Shareholders equally.

Resolving the distribution of profit and the payment of dividends is in the competence of the General Meeting. The resolution for the distribution of profit and the payment of dividends is adopted on the basis of the approved annual report for the preceding financial year or, in some cases, based on an interim report. The Management Board must make a proposal for the distribution of profit and the payment of dividends in the annual report or in a separate document accompanying the annual report. This proposal is reviewed by the Supervisory Board, which is entitled to amend it. The list of Shareholders entitled to dividends is determined as at the end of the working day of Nasdaq CSD Estonian Settlement System on the record date set by the General Meeting in its resolution on the distribution of profit. The record date may not be earlier than on the tenth trading day after the General Meeting. Once the resolution on the payment of dividends is adopted, the Shareholder's right to demand payment of a dividend expires in 3 years.

Dividends are payable in cash. Dividends may not be declared or paid if the annual report of the Company (or, with respect to interim dividends based on interim financial statements, the interim report) shows that the Company's equity is less than the total amount of the share capital.

Right to Liquidation Quota. Upon the liquidation of the Company, the Shareholders are entitled to liquidation quota proportionally to their existing shareholding, in the instances and in accordance with the procedure specified in the law.

Preferential Right to Subscribe for New Shares. The existing Shareholders have, upon the increase of the share capital and the issue of the new shares of the Company, the preferential right to subscribe for new shares of the Company proportionally to their existing shareholding. Such preferential right can be excluded by a respective resolution of the General Meeting, which requires the affirmative vote of 3/4 of the votes represented at the General Meeting.

Preferential Right to Convertible Bonds. If the Company issues convertible bonds, the Shareholders have the preferential right to subscribe for such bonds, unless such right is excluded by a resolution of the General Meeting. The nominal values of convertible bonds must not exceed 1/3 of the share capital of the Company.

Mandatory Takeover Bids. A mandatory takeover bid to buy all the Shares of the Company has to be made by a person or persons acting in concert, if such person(s) (i) directly or indirectly acquire over 50% of the votes represented by the Shares of the Company; (ii) obtain the right to appoint or remove the majority of members of the Supervisory Board or Management Board; (iii) acquire control over more

than 50% of votes pursuant to an agreement entered into with other Shareholders. The minimum price at which the mandatory takeover bid must be made is determined according to the rules set forth by law.

The Shareholder who fails to make a mandatory takeover bid or fails to comply with the respective procedure and requirements set out in the law is not entitled to exercise their voting rights at the General Meeting and these votes will not be included in the quorum unless and until that Shareholder complies with the law.

Squeeze-out Rights. A Shareholder whose Shares represent at least 90% of the voting rights in the Company may take over the Shares belonging to the remaining Shareholders. Adopting the squeeze-out resolution is in the competence of the General Meeting, requiring the affirmative vote of 95% of the votes represented at the General Meeting. The amount of compensation for the minority Shares, which are subject to takeover, is based on the value of shares as at ten days prior to the date on which the notice on convening the General Meeting was published.

In addition, a Shareholder who acquired at least 90% of the Shares of the Company as the result of a takeover bid may take over the Shares belonging to the remaining Shareholders on the basis of the resolution of the General Meeting, which requires the affirmative vote of 90% of the votes represented and must be held within three months after the expiry of the takeover term. The takeover price may not be lower than the purchase price of the takeover bid.

Sell-out Rights. If a Shareholder acquires at least 90% of the Shares in the Company as the result of a takeover bid, each of the remaining minority Shareholders may require for up to three months after the date of disclosure of the takeover bid that the majority Shareholder purchases their Shares for the purchase price of the takeover bid. The entitlement of the minority Shareholders to exercise the sell-out right expires upon the majority Shareholder exercising their squeeze-out right.

8.4. Other Instruments

The Company has issued the following convertible bonds, which are outstanding as of the date of the Prospectus:

2016 Issue. On 10 May 2016, the General Meeting adopted a resolution to increase the share capital of the Company conditionally in connection with issuing one convertible bond to Mr Tarmo Sild, the sole member of the Management Board of the Company (issued on 24 May 2016, nominal value 1,000 euros, registered with Nasdaq CSD under ISIN EE3300110873). The convertible bond gives its owner the right to subscribe for up to 390,000 Shares for 0.70 euros per share starting from 10 May 2019 until 31 December 2019. In such a case, the Management Board may increase the share capital by up to 273,000 euros, i.e. by 390,000 Shares. The convertible bond carries interest at the rate of 5%, payable annually, and the maturity date of the convertible bond is 31 March 2020. For further information, please see Section "Material Agreements".

2017 Issue. On 30 May 2017, the General Meeting adopted a resolution to increase the share capital of the Company conditionally in connection with issuing convertible bonds within the incentives framework described in Section "Employees and Labour Relations". On 31 August 2017, the Company issued 12 such convertible bonds with the nominal value of 500 euros each, which are registered with Nasdaq CSD under ISIN EE3400000032. The bonds were issued to 12 senior employees of the Group. Provided that the Group's net profit for the years 2017-2019 is at least 5.5 million euros in total, the owners of the convertible bonds may subscribe for up to 200,000 Shares in which case the Management Board may increase the share capital by up to 140,000 euros. These convertible bonds carry interest at the rate of 5%, payable annually, and the maturity date of these convertible bonds is 31 December 2020.

In addition to convertible bonds, the Company has issued non-convertible bonds, as described in Section "Material Agreements".

9. MANAGEMENT

9.1. Management Structure

In accordance with the Estonian law, the operational management of the Company is structured as a two-tier system. The Management Board is responsible for the day-to-day management of the Company's operations and may represent the Company on the basis of the law and the Articles of Association. The Supervisory Board is responsible for the strategic planning of the Company's business and for supervising the activities of the Management Board.

The address of operations of the Management and Supervisory Board is the registered address of the Company – Rävala pst 5, 10143 Tallinn, Estonia.

9.2. Management Board

Role. The Management Board is responsible for the day-to-day management of the Company's operations, the representation of the Company, and the organisation of its accounting. Further, according to the Estonian Commercial Code, it is the obligation of the Management Board to draft the annual report and submit the report to the Supervisory Board for review and to the General Meeting for approval. The Management Board is accountable to the Supervisory Board and must adhere to its lawful instructions.

Specific Duties. The Management Board must present an overview of the economic activities and economic situation of the Company to the Supervisory Board at least once every three months and must give immediate notice of any material deterioration of the economic condition of the Company or of any other material circumstances related to its operations. If the Company is insolvent and such insolvency is not temporary, the Management Board must immediately file for bankruptcy.

The Management Board may only enter into transactions outside the Company's ordinary scope of business with the consent of the Supervisory Board. According to the Articles of Association, the consent of the Supervisory Board is required for the following transactions:

- (i) acquiring and termination of holdings in other companies;
- (ii) establishing or termination of a subsidiary;
- (iii) approval and amendment of strategy;
- (iv) large changes in the activity of the Company or involving the Company in a business activity that is not related to the objectives of the present business activity.

Organisation and Members of Management Board. According to the Articles of Association, the Management Board comprises of one to five members who are elected by the Supervisory Board for a term of three years. Currently, the Management Board has only one member – Mr Tarmo Sild, whose term in office ends on 15 September 2018.

Mr Tarmo Sild was born in 1975. He graduated from the Law Faculty of the University of Tartu in 1998; during 1997-1998 he studied at the Law Faculty of the University of Helsinki. He holds an LL.M degree with distinction from the Vrije University of Brussels.

During the years 1998-2003, Mr Sild worked as an attorney with the Estonian law firm HETA. In 2003, he was one of the founders of the law firm LEXTAL, where he worked as an attorney and served as a member of the management board until 2012. Mr Sild is also the founder of AS luteCredit Europe, a multinational consumer credit provider, and from 2008 serves as a member of its management board. From 2000, Mr Sild has served as a member of the management board of MFV Lootus OÜ, a multinational fishery business which he founded. Information on positions in management, administrative or supervisory bodies of other companies held by Mr Sild is provided in Section "Other Mandates".

The business address for Mr Sild is the registered address of the Company, i.e. Rävala pst 5, 10143 Tallinn, Estonia. He does not have any potential conflicts of interest between his duties towards the Group and his private interests or other duties. Within the previous five years, Mr Sild has not been convicted of any fraudulent offences or been involved in any bankruptcies, receiverships or liquidations, nor has he been subject to official incriminations or sanctions by statutory or regulatory authorities (including designated professional bodies). Further, he has not been disqualified by a court from acting as a member of the administrative, management or supervisory body of a company, or from acting in the management or conduct of the affairs of any company.

9.3. Supervisory Board

Role. The Supervisory Board of the Company is responsible for the strategic planning of the business activities of the Company and supervising the activities of the Management Board. The Supervisory Board is accountable to the Shareholders of the Company (acting through the General Meeting).

Specific Duties. In accordance with the Estonian Commercial Code, before the ordinary General Meeting is held, the Supervisory Board must review the annual report and provide the General Meeting with a written report on the annual report indicating whether the Supervisory Board approves the report but also providing information on how the Supervisory Board has organised and supervised the activities of the Company. In practice, this report is made available together with the notice convening the General Meeting.

Organisation and Members of the Supervisory Board. According to the Articles of Association of the Company, the Supervisory Board consists of five to seven members who are appointed by the General Meeting for a period of five years. The members of the Supervisory Board elect among themselves a Chairman of the Supervisory Board who is responsible for organising the activities of the Supervisory Board. The meetings of the Supervisory Board are held according to actual necessity, but in any case, at least once every three months. According to the Articles of Association, a meeting of the Supervisory Board has quorum if more than one half its members participate. A resolution of the Supervisory Board is passed if more than half of the attending members vote in favour.

As of the date of the Prospectus, the members of the Supervisory Board are:

Mr Hillar-Peeter Luitsalu. Mr Hillar-Peeter Luitsalu, born in 1959, is the Chairman of the Supervisory Board. Mr Luitsalu graduated from the University of Tartu in 1994. In 1993, Mr Luitsalu joined AS Arco Vara and has been active in the management of different Group companies since then. During the years 1999 – 2004, Mr Luitsalu was a member of the Management Board of the Company and during the years 1993 – 2005, Mr Luitsalu was a member of the supervisory board of AS Arco Vara Kinnisvarabüroo.

Mr Allar Niinepuu. Mr Allar Niinepuu, born in 1973, graduated from the Estonian Marine Education Centre in 1992 where he acquired a shipmaster's degree. In 1994 he established his first company AS Kavass where he currently serves as a member of the management board.

Mr Steven Yaroslav Gorelik. Mr Gorelik, born in 1979, graduated from Carnegie Mellon University and Columbia University. In 2005, he joined Firebird Management and currently serves there as Portfolio Manager. Mr Gorelik is a Chartered Financial Analyst.

Mr Kert Kesksaik. Mr Kesksaik, born in 1983, graduated from Tallinn Technical University in 2007 with a degree in business management. Until 2010, Mr Kesksaik worked as a real estate broker in Tallinn. Mr Kesksaik has been an active Tallinn Stock Exchange investor since 2000, and is the founder and a member of the management board of OÜ K Vara. Mr Kesksaik also founded in 2001 a skating sports club Albe Team where he serves as a member of the management board.

Mr Rain Lõhmus. Mr Lõhmus, born in 1966, graduated from the Tallinn Polytechnic Institute in 1988 and from Harvard Business School in 1999. Mr Lõhmus was one of the founders of Eesti Pank and Hansapank (currently Swedbank). During the years 1991 – 1999, Mr Lõhmus served as the Vice-

Chairman of the management board of Hansapank. In 1999, Mr Lõhmus founded LHV Direct (currently AS LHV Pank) where he currently serves as a member of the supervisory board.

Information on positions in management, administrative or supervisory bodies of other companies held by the members of the Supervisory Board is provided in Section "Other Mandates".

The business address for all of the Supervisory Board members is the registered address of the Company, i.e. Rävala pst 5, 10143 Tallinn, Estonia. None of the members of the Supervisory Board have any potential conflicts of interest between their duties towards the Group and their private interests or other duties. Within the previous five years, none of the above officers have been convicted of any fraudulent offences or have been involved in any bankruptcies, receiverships or liquidations, except for the information on liquidations provided in Section "Other Mandates". Further, none of the Supervisory Board members have been subject to any official incriminations or sanctions by statutory or regulatory authorities (including designated professional bodies) within the previous five years nor have they ever been disqualified by a court from acting as a member of the administrative, management or supervisory body of a company, or from acting in the management or conduct of the affairs of any company.

9.4. Other Key Executive Personnel

Mr Tiit Nõu (Head of Development Unit). Mr Tiit Nõu was born in 1967. He graduated from the Tallinn Technical University and acquired a degree in wood technology in 1989. He has worked as a chief development officer of AS Ober Haus under Paul Oberschneider between 1995 – 2012. Under his management, several major residential and retail real estate projects in Tallinn were commenced and successfully implemented. Mr Nõu joined the Group in 2014.

Mr Ivaylo O. Mishev (Head of Bulgarian Development Unit). Mr Ivaylo Mishev was born in 1984. Mr Mishev obtained a Bachelor's degree from the University of Portsmouth in 2007 and an executive MBA in finance from the University of Sheffield in 2013. During 2005 – 2006, Mr Mishev worked as a product manager in Antipodes Media OOD; during 2007 – 2010, Mr Mishev worked as a project manager and finance officer at the Bulgarian Development unit of the Group. As of 2010, Mr Mishev is the head of the Bulgarian Development unit of the Group, also in charge of the facility management operations of the Group in the country. Mr Mishev is a certified real estate appraiser.

Mr Elari Tamm (Head of Estonian Brokerage Unit). Mr Tamm was born in 1979. He graduated from the University of Tartu and acquired a Master's degree in theology in 2016. During 2004-2010, he worked as a real estate broker in Uus Maa real estate company and 2010-2014 he was a co-owner of the same. In 2006, he founded Haapsalu Kinnisvarabüroo Uus Maa OÜ, where he was engaged until 2014. He has also been the co-owner of St Michaels Media OÜ, Uus Maa Kolimisteenused OÜ and the CEO of Epicenter Kinnisvara. Since 2014, Mr Tamm has been working as a columnist, freelance blogger and a lecturer. He became the Head of Estonian Brokerage Unit of the Group in 2017.

Mr Evgeni Vasilev (Head of Bulgarian Brokerage Unit). Mr Evgeni Vasilev was born in 1979. Mr Vasilev obtained a Bachelor's degree in marketing and management from the University of National and World Economy in 2003. In 2007, Mr Vasilev obtained a Master's degree in tourism and in 2015, a Master's degree in real estate from the same university. During 1998 - 1999, Mr Vasilev worked as a sales agent at "D.I.K." L.T.D; during 1999 - 2002, at the guest services department of Burj Al Arab Hotel, Jumeirah International; during 2002 - 2003, as the sales manager at "Da, Da" – Globul (Cosmote OTP); during 2003 - 2006, as the key account and community auctions manager at Mercurius; during 2006 - 2007, he worked as the sales director of KD Investments EAD; during 2007 - 2008, he was the director of agency at CB Richard Ellis in association with Elta Consult AD. As of February 2008, Mr Vasilev is working as the CEO of Arco Real Estate Bulgaria. He is also a certified broker at the Bulgarian commodity exchange and a certified real estate valuator. In addition to the above, Mr Vasilev is engaged in teaching at the Real Estate Department of the University of National and World Economy. Since 2015, Mr Vasilev is a Member of management board of National Association of Real Estate.

Ms Evelin Kanter (Chief Legal Officer (CLO)). Ms Evelin Kanter was born in 1987. In 2016, Ms Kanter graduated from the University of Tartu and obtained a degree of Masters of Arts in Law. In 2011, she

studied as an exchange student in Tampere University. During 2009 - 2012, Ms Kanter worked as an assistant in the law firm LAWIN Lepik & Luhaäär (current name law firm COBALT); from May 2012 to August 2012, Ms Kanter worked as a lawyer at Arco Ehitus OÜ. Ms Kanter joined the Company in September 2012 and she is currently serving as the head of the legal department of the Company. During the autumn semester of the academic year 2016/2017, Ms Kanter was also engaged as a lecturer at Tallinn University of Technology.

Ms Kristel Tumm (Chief Financial Officer (CFO)). Ms Kristel Tumm was born in 1971. Ms Tumm has graduated from the University of Tartu with a degree in finance and has acquired an MBA from Lehigh University in the USA. During 1995 – 2001 she worked as an investment banker in Hansabank Group, and between 2001 and 2016 as the CFO of Elcogen. Ms Tumm is the founder and current member of the management board of OÜ Sandel.

Information on positions in management, administrative or supervisory bodies of other companies held by the above officers is provided in Section “Other Mandates”.

The business address for Mr Nõu, Mr Tamm, Ms Kanter and Ms Tumm is the registered address of the Company, i.e. Rävala pst 5, 10143 Tallinn, Estonia. The business address for Mr Mishev and Mr Vasilev is 38A Cherkovna Str. Sofia 1505, Bulgaria. None of the above officers have any potential conflicts of interest between their duties towards the Group and their private interests or other duties, with the exception of those described in Section “Related Party Transactions”. Within the previous five years, none of the above officers have been convicted of any fraudulent offences or have been involved in any bankruptcies, receiverships or liquidations, except for the information on bankruptcies and liquidations provided in Section “Other Mandates”. Further, none of them have been subject to any official incriminations or sanctions by statutory or regulatory authorities (including designated professional bodies) within the previous five years, nor have they ever been disqualified by a court from acting as a member of the administrative, management or supervisory body of a company, or from acting in the management or conduct of the affairs of any company.

9.5. Other Mandates

Management Board and the Supervisory Board and the Key Executive Personnel hold or have held the following positions in management, administrative or supervisory bodies in companies outside the Group.

Member of the Management Board	Current Mandates	Past Mandates (last five years)
Mr Tarmo Sild	AS luteCredit Europe (member of the management board) MFV Lootus OÜ (member of the management board) Aia Tänav OÜ (member of the management board) OÜ Catsus (member of the management board) OÜ Alarmo Kapital (member of the management board) MTÜ Eesti Porsche Klubi (member of the management board) MTÜ Eesti Kaugpüüdjate Liit (member of the management board) Kinnisvarakeskkond OÜ (chairman of the supervisory board)	A3 Arendus OÜ (member of the supervisory board) LEX TAL OÜ (member of the management board)
Member of the Supervisory Board	Current Mandates	Past Mandates (last five years)
Mr Hillar-Peeter Luitsalu, Chairman	OÜ HM Investeeringud (member of the management board) OÜ TIK Spordimaja (member of the management board)	None

	P475 OÜ (member of the management board) Noah Villas OÜ (member of the management board) MTÜ Loodusvarade Haldus (member of the management board)	
Mr Allar Niinepuu	OÜ Kavass (member of the management board) GEST Invest Grupp OÜ (member of the management board) OÜ Alarmo Kapital (member of the management board) AS luteCredit (chairman of the supervisory board)	Intelligent Robots OÜ (deleted as a result of voluntary liquidation) (member of the management board)
Mr Steven Yaroslav Gorelik	Firebird Private Equity Advisors LLC (portfolio manager) Firebird Republics Fund LTD (portfolio manager) Firebird Avrora Fund LTD (portfolio manager) Firebird Fund L.P. (portfolio manager) Firebird U.S. Value Fund (fund manager) Farmsintez OAO (LIFE.MM) (member of the supervisory board) Teliani Valley (WINE.GG) (member of the supervisory board) EphaG AS (member of the supervisory board)	None
Mr Kert Kesksaik	OÜ K Vara (member of the management board) Spordiklubi Albe Team (member of the management board) Arco Transport AS (member of the supervisory board) Sporditurg OÜ (member of the management board) One Eleven OÜ (member of the management board) Uisuklubi Albe (member of the management board) MTÜ Rullisufestival (member of the management board)	None
Mr Rain Lõhmus	AS LHV Pank (member of the supervisory board) AS Lõhmus Holdings (member of the management board) OÜ Umblu Records (member of the management board) OÜ Merona Systems (member of the management board) Zerosportnrg OÜ (member of the management board) AS Audentes (member of the supervisory board) AS Arhiivikeskus (member of the supervisory board) Baltic Digital Archive AS (member of the supervisory board) OÜ Ha Serv (member of the supervisory board) Kodumaja AS (member of the supervisory board) AS LHV Finance (member of the supervisory board) AS Hortes (chairman of the supervisory board) AS LHV Group (chairman of the supervisory board)	AS Piletilevi (member of the supervisory board) EfTEN Kinnisvarafond AS (member of the supervisory board) Infore AS (member of the supervisory board) OÜ Tarbegaas (member of the supervisory board) OÜ Baltic Ticket Holdings (member of the supervisory board) Cuber Technology OÜ (member of the management board) AS LH Capital (deleted on 30.11.2017 as a result of voluntary liquidation) (chairman of the supervisory board)

Key Executive Officer	Current Mandates	Past Mandates (last five years)
Mr Tiit Nõu, head of development unit	OÜ Bavare (member of the management board) OÜ Spacestar (member of the management board) Lahepea 7 Korterühistu (member of the management board)	OÜ Kungla Keskus (in liquidation) (member of the management board)
Mr Ivaylo O. Mishev, head of Bulgarian development unit	Difero Design OOD (general manager)	None
Mr Elari Tamm, head of Estonian brokerage unit	St Michaels Media OÜ (member of the management board) ST Elmar Invest OÜ (member of the management board) Korteriühistu Hansu 38 (member of the management board) Melkostrex Invest AS (member of the supervisory board)	OÜ Kinnisvarabüroo Uus Maa (member of the management board) Haapsalu Kinnisvarabüroo OÜ (member of the management board) Epicenter Kinnisvara OÜ (member of the management board) Kristlik Noorsooühendus Risttee (member of the management board) MTÜ Uus Maa Spordiklubi (member of the management board) Tellikolimine Consulting OÜ (member of the management board) UM Äripinnad OÜ (deleted 2014, due to merger with OÜ Kinnisvarabüroo Uus Maa) (member of the management board)
Mr Evgeni Vasilev, head of Bulgarian brokerage unit	Arco Real Estate Bulgaria (CEO) National Association of Real Estate (member of the management board)	None
Ms Evelin Kanter, chief legal officer (CLO)	Handies Solutions OÜ (member of the management board) Kinnisvarakeskkond OÜ (member of the management board) MTÜ Eesti Kinnisvarafirmade Liit (member of the management board) Lahepea 7 Korterühistu (member of the management board)	FTH Ehitus OÜ (in bankruptcy; however, Ms Kanter was not involved in the management of the company at the time of initiating the relevant proceedings) (member of the management board) Tivoli Arendus OÜ (deleted, the proceedings of bankruptcy application were terminated on 08.09.2016 by abatement without declaration of bankruptcy) (member of the management board) AQ Ehitusjuhtimine OÜ (member of the management board) Fineprojekt OÜ (deleted as a result of a merger) (member of the management board) Halduspluss OÜ (member of the management board)
Kristel Tumm, chief financial officer (CFO)	OÜ Sandel (member of the management board)	Elcogen (CFO)

9.6. Share Ownership

Some members of the senior management of the Group hold shares in the Company either directly or through companies under their control, as shown below:

Name and role	Number of Shares	Proportion
---------------	------------------	------------

Mr Tarmo Sild, a member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board (Alarmo Kapital OÜ)	1,015,805	15.6109%
Mr Rain Lõhmus, a member of the Supervisory Board (AS Lõhmus Holdings)	602,378	9.2574%
Mr Hillar-Peeter Luutsalu, a chairman of the Supervisory Board (OÜ HM Investeeringud, related persons)	369,259	5.6748%
Kert Kesipaik, a member of the Supervisory Board (privately and through K Vara OÜ)	206,371	3.1715%
Mr Ivaylo O. Mishev, head of Bulgarian development unit (privately)	15,000	0.2305%
Mr Evgeni Vasilev, head of Bulgarian brokerage unit (privately through custodian bank Raiffaisen Bank International AG)	4925	0.0757%
Mr Elari Tamm, head of Estonian brokerage unit (through St Elmar Invest OÜ)	200	0.0031%

In addition to these shareholdings, Mr Tarmo Sild, the sole member of the Management Board of the Company, and some other members of the key personnel of the Group hold convertible bonds issued by the Company, as further described in Section “Other Instruments”. These other members are Mr Mishev, Mr Tamm, Mr Vasilev, Ms Kanter and Ms Tumm.

Further, Mr Steven Yaroslav Gorelik, a member of the Supervisory Board, is active as a portfolio manager in three investment funds holding interest in the Company (Firebird Republics Fund Ltd, Firebird Aurora Fund Ltd and Firebird Fund L.P) of 692,750 Shares (total of 10.6% interest).

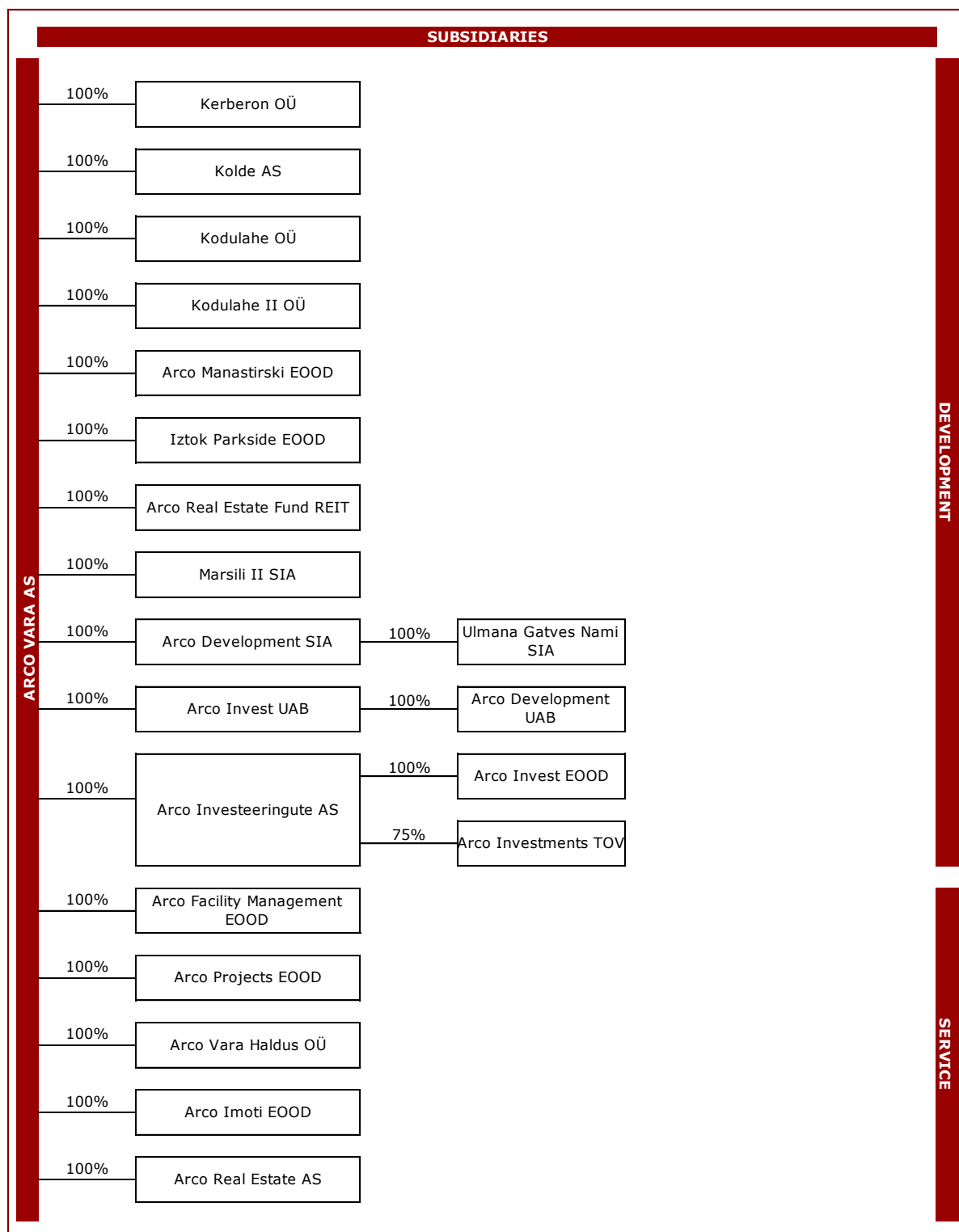
9.7. External Auditors

The appointment of external auditors is in the competence of the General Meeting, and it requires a majority of the votes present. The General Meeting held on 30 May 2017 appointed AS PricewaterhouseCoopers (registration number 10142876; registered address Pärnu mnt 15, 10141 Tallinn, Estonia) to act as the external auditor for the Group for the financial year 2017. AS PricewaterhouseCoopers is a member of the Estonian Auditing Board.

10. BUSINESS

10.1. Group Structure and Group Companies

The Group companies are engaged in real estate development, and in services related to real estate. The Group considers its home markets to be Estonia and Bulgaria, with Latvian operations discontinued. As of the date of this Prospectus, the Group consisted of 21 companies, including the Company, the same as on 31 December 2016. The structure of the Group was as follows:



Group Companies

Arco Vara AS. Arco Vara AS (the Company) is the holding company of the Group with limited operations of its own. The Company is the platform for the management of the Group.

Service Segment. The Company has five Subsidiaries in the service segment. Arco Real Estate AS and Arco Imoti EOOD are the main operating service companies of the Group respectively in Estonia and in Bulgaria. They provide real estate advisory, brokerage and appraisal services. Arco Facility Management EOOD provides real estate management services in Bulgaria and Arco Projects EOOD provides short-term and long-term lease services for certain apartments at the Madrid Boulevard project in Sofia, Bulgaria. Arco Vara Haldus OÜ is a passive company.

Development Segment. In the development segment, the Company has altogether 15 Subsidiaries, most of which are SPVs engaged in different development projects. For risk dilution purposes, and to simplify project-based financing and accounting, the Group usually establishes an SPV for each real estate development project by the time the project reaches construction stage, or earlier. As of the date hereof, the Company owns the following significant SPVs:

- (i) Arco Invest EOOD is the owner of the Madrid Boulevard project in Sofia, Bulgaria.
- (ii) Iztok Parkside EOOD is the owner and developer of the project in the Iztok district, Sofia, Bulgaria.
- (iii) Kodulahe OÜ is the owner and developer of the Kodulahe (stages 1-5) project in Tallinn, Estonia.
- (iv) The other significant Subsidiaries of the Company in the development segment are Arco Real Estate Fund REIT, a real estate investment fund listed on the Sofia Stock Exchange in Bulgaria that invests in real estate developments in Sofia; Kerberon OÜ, an Estonian holding company which acts as the Group's Estonian land bank (i.e., purchases plots for future development, which are transferred to the respective SPV when development starts); and Märsili II SIA, the owner of the few remaining Märsili land plots near Riga, Latvia (partially developed private housing land plots).

The rest of the Subsidiaries in the development segment are either holding companies or dormant companies with no material assets.

10.2. Business Segments

Real Estate Development Business Segment. The development division of the Group designs, develops and builds complete living environments and commercial real estate. Fully developed housing solutions are sold or sometimes leased to the end-customer. In some cases, the Group also develops commercial properties until they start generating cash flow, and either sells such projects or holds them as cash flow positive investments. For example, currently, the Group is holding certain commercial and residential properties in the Madrid Boulevard project in Sofia, Bulgaria, that generate rental income and may be sold as a cash-flow generating unit in the future. The Group's real estate development division is active in Estonia and Bulgaria (particularly in Tallinn and Sofia). The Group does not plan to engage in new development projects in Latvia in the observable future and no longer considers Latvia to be a target market.

Real Estate Services Business Segment. The service division of the Group is engaged in real estate brokerage, valuation, management and consulting as well as in short-term investment in residential real estate. The services segment offers additional value to the Group by generating analytical data on market demand and supply, and on the behaviour of potential clients. These data allow making better decisions in real estate development and helps guide the purchase of land plots, the planning and designing processes, pricing and timing. The Group's service division acts in Estonia and Bulgaria after the disposal of the Latvian services operations in 2016.

The financial results and the number of employees engaged in both business segments for the financial years ended on 31 December 2015 and 2016, and for 9 months ended 30 September 2017 and 30 September 2016, are summarised in the following table:²

Revenue and profit by business segment (in TEUR) and number of employees ³		Development				Services ⁴			
		2017 9m	2016 9m	2016	2015	2017 9m	2016 9m	2016	2015
Total revenue		8,511	6,401	7,048	7,947	2,142	2,404	3,231	3,254
	External ⁵	8,437	6,316	6,932	7,861	1,851	2,122	2,813	2,787
	Internal	74	85	116	86	291	282	418	467
Operating profit / loss		851	1,524	611	1,790	-23	-161	-174	-94
Number of employees		5	5	5	5	118	172	97	165

The Company aims to be a major player in the real estate development market in both target countries. Therefore, the real estate development business segment is the Company's main focus, and the services business is, in essence, auxiliary. This is also reflected in the financial results, as summarised in the table above. In 2016, the real estate development business segment generated approximately 70% of the total revenue of the Group, whereas the real estate services business segment generated 30%.

The real estate development segment also generates most of the profits of the Group, while the services segment has been operating near breakeven or at a small loss for the past two years (2015 and 2016). It made a net loss of 112 thousand euros in Estonia and a net profit of 53 thousand euros in Bulgaria in the nine months of 2017. Despite the modest profitability of the real estate services segment, the Group's operations in the segment form an integral part of the products offered by the Group and therefore remain vital to its operations. Access to reliable real estate advisory, facility management, brokerage and appraisal services enables the Group to promote the brand of the Group, reduce the Group's dependency on third parties, cut costs, mitigate business risks and enhance the Group's understanding of the market (providing direct access to information on consumer preferences and expectations and to feedback on offered products).

10.3. Target Markets

The Group operates in Estonia and Bulgaria – with a focus on their capital cities of Tallinn and Sofia. Although the Group has, in addition to these geographic markets, Subsidiaries in Lithuania and Ukraine as well, these Subsidiaries have been dormant since the end 2013 and have no business operations. In Latvia, the Group is selling the remaining land plots in the Mārsili development, but does not intend to engage in new developments in the observable future.

² The table summarises the financial results of the two real estate business segments of the Group and does not include unallocated items like income, expenses, assets and liabilities of the Company nor does the table include unrealised profits and losses which arise within the Group from transactions performed between its segments (eliminations). For more information, please refer to the Financial Statements.

³ Source: Financial Statements.

⁴ Results of the Latvian market, where operations in services segment were discontinued in October 2016, are included.

⁵ Excluding intra-segment revenues.

The Group's consolidated external⁶ revenues by geography are summarised in the table below:

External revenues by geography (in TEUR, audited) ⁷	Development				Services			
	2017 9m	2016 9m	2016	2015	2017 9m	2016 9m	2016	2015
Estonia	7,145	196	196	263	1,218	999	1,426	1,271
Bulgaria	815	5,939	6,552	7,170	633	436	623	636
Latvia (discontinued)	477	181	184	428	0	687	764 ⁸	880
Total	8,437	6,316	6,932	7,861	1,851	2,122	2,813	2,787

Over the past two years, Bulgaria has been the greatest contributor to the revenue of the Group, generating approximately 74% of total external revenue. Bulgaria is followed by Estonia with approximately 15% and Latvia with approximately 11%. This does not necessarily reflect the extent of the Group's operations in the respective markets – in the development segment, revenues are highly dependent on the timing of completion of various projects, and may vary significantly from year to year.

Estonia. In Estonia, the Group is operating via seven Subsidiaries, two of which are engaged in the services segment and five in the development segment. In 2016, approximately 88% of the external revenue in the Estonian market was generated in the services segment and 12% in the development segment. The main real estate services provided in the Estonian market are real estate brokerage and appraisal services, as further described in the Section "Business Segments". In 2016, the Group sold 4 land plots (with the total area of 18.1 hectares) in Estonia.

Bulgaria. In Bulgaria, the Group is operating via seven Subsidiaries, three of which are engaged in the services segment and four in the development segment. In 2016, about 91% of the external revenue in the Bulgarian market was generated in the development segment, whereas approximately 6% of that revenue was attributable to rental income from commercial and office premises in the Madrid Boulevard building in Sofia. In 2016, the Group sold 76 apartments (with a total area of 6,583 sqm) and 10 commercial spaces (with a total area of 741 sqm) in Bulgaria. Approximately 9% of the external revenue was generated in the services segment. Main real estate services provided in the Bulgarian market are brokerage and appraisal services, but also real estate management and accommodation services. In addition, one of the Subsidiaries, Arco Real Estate Fund REIT, is a real estate investment fund listed on the Sofia Stock Exchange in Bulgaria that invests in real estate developments in Sofia.

Latvia. In October 2016, the Group sold its Latvian agency and since then has been operating in Latvia only in the development segment, via three Subsidiaries. Latvian development operations are winding down. The Group is still to sell the last land plots in the Mārsili project (of which only 6 remained unsold as at 30 September 2017) and does not intend to engage in new developments.

10.4. Investments

Introductory Remarks. The Group's investments are made mostly into real estate (land bank) for development, and into preparatory and construction works. These investments are financed using a combination of internal and external financing. For further details on external financing, please see Section "Material Agreements".

Each real estate development project may be described broadly through six consecutive or overlapping phases:

⁶ Excluding intra-segment revenues.

⁷ Source: Financial Statements.

⁸ Operations in services segment were discontinued in October 2016.

S1: acquisition of real estate;

S2: obtaining the necessary construction rights and permits (including zoning and planning required under the applicable law);

S3: development of architectural and construction design, layouts, conducting land preparation works (access roads, utility connections, etc.);

S4: construction;

S5: marketing, pre-sale and sale (or lease, as the case may be);

S6: facility management, remedial works (if applicable).

In the opinion of the Management, it makes sense to establish a separate SPV for each real estate development project by phase S4 (construction) or earlier.

Real estate projects are typically described in terms of GFA (gross floor area), and GSA (gross sellable area) or GLA (gross leasable area), of which the first expresses the volume of construction works and the latter two express the quantities sellable or leasable to end-customers.

GSA/GLA are mostly used for calculating revenues and GFA is mostly used for calculating the cost of goods sold (COGS). GSA and GLA are almost always less than GFA. The Company applies GSA and GLA values only to areas above grade (above ground), whereas areas below grade or outside are generally thought of as units (such as parking or storage units) and are accounted for and sold as such, without specific reference to their GSA or GLA. Each real estate development project is accounted as part of inventory, unless reported differently for specific reasons.

Amount of Investments. During the first 9 months of 2017, the Group made investments into real estate development projects in the total amount of 7.03 million euros, as described in the following table (not that Mārsili and Baltezers-3 projects are not listed because no investments were made in these projects in the relevant period):

Project and location	Amount of Investments (in TEUR, unaudited)	Source of financing
Kodulahe I stage (Lahepea 7), Tallinn	6,357	Combined
Paldiski mnt 74, Tallinn	324	Internal
Iztok Parkside, Sofia	158	Combined
Kodulahe II stage (Lahepea 9), Tallinn	79	Internal
Kodulahe III-V stage	38	Internal
Madrid Boulevard, Sofia	33	Combined
Lehiku, Tallinn	34	Internal
Oa, Tartu	3	Internal

No other significant investments were made.

An overview of the Group's projects in 2017 is provided below.

Projects in Sale Stage (S5). In 2017, the Company has continued the sale of apartments and plots in the Madrid Boulevard in Sofia and Mārsili projects in Riga, while the sale of the Baltezers-3 project in Riga was completed in January 2017. The Company has completed the construction phase of the Kodulahe stage 1 project in Tallinn and has sold most apartments and commercial spaces there. The plots, apartments and commercial spaces that have been sold during the first 9 months of 2017 or remain to be sold are summarised in the following table:

Project and location	City	Main type	Total no of units (above grade)	No of units sold in 9m 2017 (above grade) ⁹	GSA of units sold in 9m 2017, in m ² (above grade)	No of units unsold (above grade)	GSA of units unsold, in m ² (above grade)
Madrid Boulevard	Sofia	Apartments	72 ¹⁰	2	245	2	256
Baltezers-3	Riga	Plots	68	68	12,527	0	0
Mārsili	Riga	Plots	61	4	7,216	6	10,831
Kodulahe stage 1	Tallinn	Apartments	130	59	3,646	71	5,081

In addition, the Company is leasing out retail office spaces with a GLA of 7,350 sqm and apartments with the GLA of 1,379 sqm in Bulgaria in the Madrid Boulevard building. These premises may be sold in the future as a revenue-generating business.

Note that the table above does not match a similar table on page 10 of the interim report for 9 months 2017. The reason for the mismatch is that the table in the interim report reflects only such projects as are considered by the Company to be “active”, and should be read together with the rest of the interim report. The Company intends to change the format of the relevant table starting from its next report to be published after the date of this Prospectus.

Projects in Development (S2/S3) and Construction (S4) Stage. The development projects of the Group ongoing as of 30 September 2017, where sales have not yet commenced, are summarised in the following table:

Project	City	Main type	Stage	Area (plots in m ²)	GSA / GLA, in m ² (above grade) available or <future target>	No of units (above grade) available or <future target>
Iztok Parkside	Sofia	Apartments	S3	2,470	7,070	68
Kodulahe, stage 2	Tallinn	Apartments	S3	3,686	<5,100>	<70>
Kodulahe, stages 3-5	Tallinn	Apartments	S2	10,578	<8,100>	<120>
Oa street apartments	Tartu	Apartments	S3	4,146	<2,100>	<30>
Lehiku 21 and 23	Tallinn	Apartments	S2	5,915	<1,100>	<5>

Note: Values presented between < > 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 and storage spaces. The table does not give a complete overview of the Group's land bank.

Note that the table above does not match a similar table on page 10 of the interim report for 9 months 2017. The reason for the mismatch is that an error was discovered in the interim report which is corrected above, and that the accuracy of GSA estimates improves over time.

Future Investments. In addition to continuing with investments into ongoing development projects, the Group has been looking to invest in new land plots suitable for development in Sofia.

In November 2017, the Group signed a purchase agreement for the acquisition of three land plots next to Lozen village near Sofia, Bulgaria for the development of “Lozen Stage 1” project. The purchase should be finalised by the end of January 2018. Total area of the plots is 52,800 sqm and the planned development foresees approximately 21,000 sqm to be built. A detail plan is in force for the plots, allowing for a quick start of design works. The Group expects to build apartment buildings, row houses and private houses. The purchase agreement provides for a further acquisition of 5 neighbouring land

⁹ Including sales under preliminary agreements.

¹⁰ Excluding 15 apartments held for lease.

plots (“Lozen Stage 2”) with a total area of 69,300 sqm and buildable area of ca 47,000 sqm in December 2020.

In November 2017, the Group also signed a non-cash compensation deal with the owner of 452 sqm plot in the prestigious Izток district of Sofia. A boutique apartment block with 9 apartments will be developed and the land owner will be compensated with 30% of the ready properties. Currently, the plot is in the detail planning stage which is expected to be completed in Q1 2018. The start of design and construction are both expected during Q2 2018, and completion by Q1 2019 the latest.

Other than the above, as of the date hereof, the Company has not made any firm commitments on future investments.

10.5. Employees and Labour Relations

As of the date of the Prospectus, the Group employed altogether 139 people, including personnel employed under service or other similar agreements. The number of employees as of 31 December 2016 was 110. The number of employees by business segment is as follows:

Business Segment	18.12.2017	31.12.2016
Real estate development business segment	5	5
Real estate services business segment	125	97
Management	9	8
Total	139	110

Arrangements for Involving Employees in the Equity of the Company. The Company has an incentives framework within which key employees of the Group may become eligible to subscribe for convertible bonds. Such convertible bonds have a nominal value of 500 euros and carry interest at 5% per annum. These convertible bonds form a part of the Company’s unsecured debt and have the same ranking as the Company’s existing unsecured and unsubordinated liabilities. Employees who are eligible to subscribe for the convertible bonds will have the right to request conversion of the bonds to up to 200,000 Shares against the payment of the subscription price of 0.7 euros per share. As a result of the subscription for the Shares, the Company’s share capital may be increased by a maximum of 140,000 euros, i.e. by 200,000 Shares.

Information on the convertible bonds issued within the incentives framework outstanding as of the date of the Prospectus is provided in Section “Other Instruments”.

No other arrangements to involve employees in the equity of the Company have been made.

10.6. Material Agreements

In the opinion of the Management, the agreements listed in this Section are material agreements. The level of detail of the information provided below may be limited due to the requirements of confidentiality; however, the Management believes that the information below is sufficient to provide an adequate overview of the overall nature and essence of the agreements.

Financing Agreements

The Company relies on external financing for its real estate development projects. An overview of the Group’s material financing agreements is provided below.

Loans and Financial Leases

Creditor	Group entity	Nature Balance as of 30.09.2017	Interest	Purpose	Repayment	Collateral
Banka Piraeus	Arco Invest EOOD	Bank loan, development TEUR 8,639	3M EURIBOR + 5%	Financing of the Madrid Boulevard project	30 December 2017	Mortgage on the Madrid Boulevard project. Commercial pledge over the assets of Arco Invest EOOD, financial collateral of the bank accounts of Arco Invest EOOD, pledge of all the shares of Arco Invest EOOD, pledge of all existing and future receivables of Arco Invest EOOD.
Raiffeisenbank (Bulgaria) EAD	Iztok Parkside EOOD	Bank loan, development TEUR 1,050	1M EURIBOR + 2.5%	Financing of the Iztok Parkside project	November 2019	First rank mortgage on land and building right (to become a mortgage on properties later), pledges on client receivables, 60 TEUR blocked deposit, 100 TEUR blocked client advances
Bond investors	Arco Vara AS	Bonds, development TEUR 1,120	12%	Financing of the Lahepea 7 project	January 2018	None
Other creditors	Arco Vara AS	Other loan, acquisition of land TEUR 250	12%	Financing of the acquisition of Paldiski mnt 74 plot	December 2017	None

Non-Convertible Bonds. On 7 January 2016, the Company issued bonds, which are registered with Nasdaq CSD under ISIN EE3300110824. Altogether 112 bonds with the nominal value of 10,000 euros each were issued to 10 investors, whereas one of the investors, AS Lõhmus Holdings, is a company under the control of a member of the Supervisory Board, Mr Rain Lõhmus. The bonds carry interest at 12% p.a., payable quarterly. The maturity date of the bonds is 6 January 2018. The bonds are not guaranteed. The bonds are paid for in full.

Convertible Bonds. The Company has issued convertible bonds to the member of Management Board and to unit managers. An overview of the convertible bonds outstanding as of the date of the Prospectus is provided in the following table:

Holder	Date of issue	Number and nominal value	Interest and maturity date	Share subscription term	Conversion terms
Mr Tarmo Sild	24 May 2016	1 convertible bond EUR 1,000	5% per annum 31 March 2020	10 May 2019 – 31 December 2019	Owner is entitled to acquire up to 390,000 Shares with the nominal value of EUR 0.7 against the payment of the subscription price of EUR 273,000

12 key employees of the Group	31 August 2017	12 convertible bonds EUR 500	5% per annum	10 May 2020 – 31 December 2020	Owners are entitled to acquire up to 200,000 Shares with the nominal value of EUR 0.7 against the payment of the subscription price of EUR 140,000 Please see Section “Employees” for further details
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For further information on the convertible bonds issued by the Company, please see Section “Other Instruments”.

Lease Agreements

The Group leases its office in Tallinn (at R vala pst 5) with the total area of 686.4 sqm. The lease agreements of the Tallinn office continue until spring 2020. In Sofia, the Group operates from own premises in the Madrid Boulevard building. In addition, the Group leases a number of locations from which its services business operates – these are not material to the Group’s business.

Other Agreements

In November 2017, the Group entered into a purchase agreement for the acquisition of three land plots in Sofia, Bulgaria, for the development of “Lozen Stage 1” project, the purchase of which is expected to be finalised by the end of January 2018. The purchase agreement provides for a further acquisition of 5 neighbouring land plots (“Lozen Stage 2”) in December 2020, with a total area of 69,300 sqm and buildable area of approximately 47,000 sqm. The Group intends to use the proceeds of the Offering for the financing of these purchases. Please see the Section “Reasons for Offering and Use of Proceeds” for further details.

In November 2017, the Group also signed a non-cash compensation deal with the owner of 452 sqm plot in the Iztok district of Sofia for developing the “Iztok 2” project for an apartment block with 9 apartments. The land owner will be compensated with 30% of the ready properties. Currently, the plot is in the detail planning stage.

On 31 October 2016, Arco Real Estate AS, which is the Company’s 100% subsidiary, sold its 70% stake in the Latvian brokerage and valuation services provider SIA Arco Real Estate to its co-shareholder and chairman of the management board Mr. Aigars Smits. The sale of SIA Arco Real Estate has no significant influence on the financial results of the Group, as SIA Arco Real Estate generated an average of 5% of the Group’s revenue, and no profit.

On 23 February 2017, the Company concluded a franchise agreement with SIA Arco Real Estate for 3 years enabling SIA Arco Real Estate to use the Company’s trademark “Arco Real Estate” for a fixed license fee.

On 31 August 2017, a market making agreement between the Company and AS LHV Pank ended. The market making agreement was in force since 1 September 2016.

10.7. Licenses, Permits and Registrations

Estonia. In Estonia, the Group’s operations are not subject to any mandatory licenses, permits or registrations. Real estate development projects themselves, however, do require permits such as the detail plan, construction and use permits, etc. In addition, the Estonian Association of Real Estate Appraisers grants appraiser certificates, which are mandatory for certain valuations. There are altogether 17 certified valuers in the Group in Estonia.

Bulgaria. Similarly to Estonia, construction operations are subject to mandatory construction and use permits. As to the real estate appraisal services, all the appraisers of the Group operating in Bulgaria are duly certified by the Bulgarian Association of Independent Valuers (official name: *Камера на независимите оценители*). In addition to the above, Arco Real Estate Fund REIT holds a real estate

fund license from the Bulgarian Financial Supervision Authority and the authorisation for listing its shares on the Bulgarian Stock Exchange.

The Management believes that the Company's operations are carried out in accordance with all applicable rules and all necessary consents and permits are being obtained when needed.

10.8. Legal Proceedings

Alleged Criminal Case. On 11 May 2017, Estonian newspaper *Postimees* published an article "Real Estate agencies' attack against kv.ee led to a criminal case" according to which the state prosecutor is investigating whether the decision of certain real estate brokerage companies to discontinue using the real estate portal kv.ee illegally restricts free competition. The portal is managed by AllePal OÜ and was used, among other real estate brokerages, by Arco Real Estate AS, who discontinued its cooperation with the portal at the same time with other brokerages. The Group has not been contacted by any authorities in connection with the alleged criminal case, and it is not known whether the criminal case concerns Arco Real Estate AS at all. The effect any possible proceedings on the financial position of the Group is, in any case, expected to be minimal.

Other Proceedings. In Bulgaria, the Group companies Arco Invest EOOD and Arco Manastirski EOOD are involved in several court proceedings in the ordinary course of their business (e.g. for the collection of lease payments, unpaid brokerage fees, employment matters etc.). In addition, the Group is involved as claimant in two disputes with construction contractors for the total amount of approximately 150 thousand euros. In Estonia, the Group is involved in an immaterial dispute regarding the use of a trade name for one of its projects. In the opinion of the Management, these court proceedings would not have any material effect on the operations and financial position of the Group.

There are no other governmental, legal or arbitration proceedings that the Company is aware of that could have a significant effect on the financial position of the Company.

10.9. Related Party Transactions

The Group entities have entered into certain agreements with related parties, which, in the opinion of the management, are all made on arm's length basis. The trading statistics with related parties as of 30 September 2017 may be found in the Interim Financial Statements. There have been no material changes in the volumes of transactions between related parties since 30 September 2017 to the date of the Prospectus.

Intra-Group Transactions. The Group operates in two vertically-integrated business segments – development and services (for further information, see Section "Business Segments"). Most of the transactions with related parties are thus intra-group transactions entered into for the purpose of selling and buying real estate related services. The turnover deriving from such transaction constituted 3.4% of the Group's turnover for the first nine months of 2017. The Management does not consider these transactions to be material to the Company.

Bonds and Convertible Bonds. The Group has issued bonds and convertible bonds in the past years, where subscription rights were given only to various related parties, including the existing Shareholders and various companies under the control of the members of the Supervisory Board and the Management Board. These issues of bonds and convertible bonds are described in detail in Sections "Material Agreements" and "Other Instruments".

Other Transactions. During the first 9 months of 2017, the Group purchased services from related parties in the ordinary course of its business for a total of 48 thousand euros and sold services to related parties for a total of 3 thousand euros. These transactions were made on arm's length basis and are not material to the Group.

11. INDUSTRY OVERVIEW

The Group companies are engaged in real estate development and provision of services related to real estate in the markets of Estonia and Bulgaria, as further described in Section “Business” above. This Section aims to provide a general overview of the real estate market in each of these countries.

11.1. Estonian Real Estate Market

General Overview. The Estonian real estate market has seen continued annual growth of transactions and price levels since 2010, when the real estate market started to recover from the financial crisis. Compared to the time prior to the financial crisis, the Estonian market appears to be characterised by a more stable growth trend. This growth is mainly led by bigger centres; the increase of market activity and transaction prices in smaller areas has been more modest.¹¹ Overall, the demand for property has continued to rise. For instance, in 2016, the number of sales transactions reached 47,369 units, which was 2% higher than a year earlier and the highest level since 2007. Likewise, the value of transactions has also been showing a growing trend – over the same period, the value of contracts increased by 3.45% to 2.85 billion euros.¹²

Statistics on Residential Apartments. The major part of the Estonian real estate market is formed by transactions with residential apartments: the share of apartment transactions comes to about 45% of all transactions.¹³ Transaction activity and prices have grown significantly in the last years. Compared to the first ten months of 2016, the volume of transactions has increased by 8.9%. In the first ten months of 2017, around 19,000 transactions were made with residential apartments. The total value of such transactions reached 1.2 billion euros, showing a 17.1% growth in comparison to the transactions in the same period of the previous year. This indicates a significant rise in average transaction prices. Compared to the ten months of 2016, an increase of up to 6.7% can be seen in the median prices of residential apartments. The median price of apartments is 1,218 euros/sqm; whereas the median price of an apartment in Tallinn has reached 1,649 euros/sqm.¹⁴ Outside Tallinn, mainly the prices of apartments in a good state have grown, while consumer interest has increased for renovated apartment houses. In more active small towns, the poor structure of offers has resulted in a growth in offer prices and a simultaneous decrease in transaction activity; significant new offers are added only as new developments come to market. In case of apartments in a poor state and in need of repair, the consumer interest is lower and the price increase has been slower.¹⁵

Statistics on Rental Market for Apartments. As of October 2017, the average price in rental offers for apartments in Tallinn was 10.80 euros/sqm, i.e. 6.9% more than at the same time last year. The increase is mainly related to the growing share of new and more expensive rental apartments in new developments. The rental price of those apartments is higher than the market's average and thus increases the average price. The price of equivalent apartments has increased up to 5% compared to 2016.¹⁶ Gross rental yields from apartments in Tallinn are moderate, ranging from 5.3% to 6.3%. Smaller apartments tend to earn higher rental returns.¹⁷ It can be expected that the average rental price is also set to increase next year as a number of new developments are being built in Tallinn, where investors are buying apartments with the aim of putting them to rent, further increasing the share of new and more expensive apartments on the rental market.¹⁸

Trends in Office Market. Tallinn's office market has been fairly active recently. In the first half of 2017, rent rates have remained stable. In Tallinn, office rental prices stay between 12.9 – 16.2 euros/sqm for

¹¹ Source: Overview of Estonian real estate market by the Company (05.11.2016).

¹² Source: Global Property Guide: Estonia's house prices are surging again (04.04.2017).

¹³ Source: Overview of Estonian real estate market by the Company (15.11.2017).

¹⁴ Source: Website of the Estonian Land Board

¹⁵ Source: Overview of the apartment market in Harju County Q4 by the Company (as at the end of December 2016).

¹⁶ Source: Real estate portal www.kv.ee.

¹⁷ Source: Global Property Guide: Yields rising in Estonia (27.09.2017).

¹⁸ Source: Baltic Course: Offer prices of rental apartments in Tallinn increased by 8.2% in June y-o-y (14.07.2017).

A class properties and 8.5 – 13.5 euros/sqm for B class properties. At the end of the second quarter of 2017, approximately 107,000 sqm of new office space was under construction.¹⁹

In 2017, most local commercial real estate funds and other large-scale investors have expressed worries that the market has become saturated and oversupply is becoming prominent, especially in office and retail space. Because of this, most investors have refrained from buying additional properties at current market prices. Additionally, over-supply in office space is expected in the near future. In the coming quarters, landlords will have to be flexible on pricing to keep their current tenants.

Pressure on rental prices is noticeable for Class B and C premises. The decline in monthly rent prices in older buildings is largely dependent on the fact that new developments have been brought to the market and tenants are looking to relocate to better locations and to more sustainable buildings with lower additional monthly costs. Because of this, the rate of vacancy is increasing in the segment of Class B and C office buildings.

Trends in New Developments. In terms of new developments, consumers seem to increasingly prefer areas with high added value in addition to that of apartments themselves. Projects that can offer a complete social and living environment besides general construction quality and price fare better.²⁰ Most transaction prices for new developments in Tallinn remain between 1,700 – 2,300 euros/sqm.²¹ The price of construction has become the most significant factor in the increasing price of new developments. Because of this, developers have started new projects in cheaper areas and in the suburbs, where land is cheaper and thus the number of potential buyers for new apartments is higher. Interest for new developments in the country is rather high, but real estate developers do not see the sense in moving to smaller markets due to the low price levels outside the capital. Therefore, new developments have been built mostly in and around Tallinn.²²

11.2. Bulgarian Real Estate Market

General Overview. Similarly with the Estonian market dynamics, the number and volume of real estate transactions has grown in Bulgaria. Bulgarian real estate market started to recover in 2014 when the prices began to rise and the sales volumes increased significantly. In the previous three years, there has been a consistent increase of around 8% per year in the number of sales. The year 2017 is considered to be the best year for the Bulgarian real estate market in all its segments for the last 10 years. Especially strong and dynamic growth was observed in the capital Sofia, where the accelerated growth in prices started at the second quarter of 2016, and for a year, the increase remained between 15-18%.²³ In the third quarter of 2017, a slowdown and stabilisation of price growth is observed; however, the number of transactions keeps growing at a moderate pace compared to previous months.²⁴

The number of sales in Sofia is about 25,000 annually, which is far below the levels comparable to the situation before the crisis, when annual sales rose to 45,000 deals a year, indicating that the current market is more balanced.²⁵ For the third quarter of 2017, 6,300 property sales were registered in Sofia, compared to 6,073 for the same period of the previous year, which indicates a growth of 3.75% on an annual bases.²⁶ The price levels of property are comparable to the rates of 2007.²⁷ In the third quarter of 2017, the average property price in Sofia reached 1,060 euros/sqm, the same as in the second quarter of the year, indicating that the price growth which accelerated in the spring of 2016 has now slowed

¹⁹ Source: Research & Forecast: Baltic States, Property Snapshot, Q2 2017 (Colliers).

²⁰ Source: Overview of the apartment market in Harju County Q4 by the Company (as at the end of December 2016).

²¹ Source: Market Overview by the Company: The apartment market of major centres is stabilising (10.10.2017).

²² Source: Overview of the apartment market in Harju County Q4 by the Company (as at the end of December 2016).

²³ Source: Bulgarian Properties, Sofia Housing market in Q2: The Price Growth Continues (25.07.2017).

²⁴ Source: Market Overview by the Group: *Пазарът на жилищни имоти в София* (Market of residential properties in Sofia), Sofia, October 2017.

²⁵ Source: Bulgarian Properties, Sofia Housing market in Q2: The Price Growth Continues (25.07.2017).

²⁶ Source: Bulgarian Properties, Sofia housing market in Q3: The market is getting balanced (26.10.2017).

²⁷ Source: Bulgarian Properties, Sofia Housing market in Q2: The Price Growth Continues (25.07.2017).

down. Compared to the third quarter of 2016, the annual price increase was 14%. The average purchase price of dwellings in Sofia was around 93 thousand euros in the third quarter of 2017.²⁸

Preferred Residential Properties. According to the statistics of the Group, the most preferred areas for residential properties are Lozenets, Doktorski Pаметник, Ivan Vazov, and Yavorov, where demand started to exceed supply in the third quarter of 2017. Increased interest is also observed in Izgrev region where multiple new residential developments are being built, and in Sofia, which, according to the statistics of the Group, contributes approximately 20% of the total demand. Within Sofia, demand is the highest for properties in the Centre and in the regions of Lozenets, Vitosha, Reduta, Dianabad, Krastova vada, Svoboda, Studentski grad, Oborishte, Ovcha kupel, and Borovo.²⁹ In terms of the types of properties, the demand for apartments remains in the lead – around 80% of the Group's customers in Bulgaria prefer different types of apartments. The most preferred apartments tend to be 2-room and 3-room apartments. As a result, the highest demand is for properties of 70-110 sqm, the final sales price of which tends to be within the range of 80 – 125 thousand euros.³⁰

Statistics on Rental Market of Apartments. In recent years, rental yields (i.e., the rental return on a property if fully rented out, before all expenses) are showing moderate to good gross rise. As of August 2017, yields in the city centre of Sofia were around 6%. Yields in the suburb areas were similar.³¹

Trends in Office Market. In 2017, the market of commercial and office properties in Sofia can be characterised by consistently high demand. The market has been exceptionally dynamic from investment point of view; however, the price levels for the sale and lease have not been subject to drastic changes. Rental rates for the A class office spaces remain stable – 12 euros/sqm for central business district, 14 euros/sqm in wide centre and 9-10 euros/sqm in suburban areas. Rental rates for B class premises also follow a trend of stabilisation and their levels range from 6.5 to 9.5 euros/sqm, depending on the location of the building. AAA class projects that meet the requirements of international companies remain at their previous levels between 13-15 euros/sqm.³²

²⁸ Source: Bulgarian Properties, Sofia housing market in Q3: The market is getting balanced (26.10.2017).

²⁹ Source: Market Overview by the Group: *Пазарът на жилищни имоти в София* (Market of residential properties in Sofia), Sofia, October 2017.

³⁰ Source: Market Overview by the Group: *Пазарът на жилищни имоти в София* (Market of residential properties in Sofia), Sofia, October 2017.

³¹ Source: Global Property Guide, Rental yields are moderately good in Sofia, Bulgaria (29.08.2017); Global Property Guide, Bulgaria's house prices rising rapidly, due to strong economic growth (21.01.2017).

³² Source: Market Overview by the Group: *Пазарът на жилищни имоти в София* (Market of residential properties in Sofia), Sofia, October 2017.

12. TREND INFORMATION

No significant change. There have been no significant changes in the trends and factors affecting the Group's activity between publishing the last audited Financial Statements and the date of this Prospectus, nor has any event with such influence taken place. Further, there has been no significant change in the financial or trading position of the Group since 30 September 2017. The sales and revenue of the Group continue to be mainly dependant on the state of completion of its development projects. This and other factors affecting the Group's business are described below. This Section should be read in conjunction with the other parts of this Prospectus which include important information on the operations and financial condition of the Group, as well as in conjunction with the Financial Statements. The factors most likely to have a negative impact on the results and operations of the Group are further described in Section "Risk Factors".

Dependency on the Stage of the Project. The revenue from the real estate development business depends on the stage of completion. Until a development projects enter the sales stage, the associated assets and costs are naturally high, and revenue is low. After the project enters the sales stage, costs are no longer incurred, and assets start decreasing while revenues increase. This cycle typically takes several years. For example, no new development projects of the Group entered the sales stage in the first two quarters of 2017, and the revenues generated from the real estate development segment decreased substantially compared to same period in 2016, when active sales took place. This trend was reversed in the third quarter of 2017 when the Kodulahe I development began selling. In line with the above trend, the Management expects revenues to be low in the first half of 2018, and for revenues and profit to increase toward the end of the 2018 as pending developments are completed and begin selling.

Macroeconomic Effects. Consumer confidence has been on the rise in recent years in both target markets. According to forecasts for the following year, consumer confidence will continue to rise in Estonia and will stay at the same level in Bulgaria, which has been experiencing rapid economic growth in the recent years. Considering these trends, there are ground to believe the real estate market will remain healthy in both countries in which the Group currently operates, and people's ability and willingness to purchase real estate remains stable or increases. However, the real estate market has historically been cyclical, and a downturn may come sooner or later. Risks related to changes in the macroeconomic situation are further described under Sections "Business Risks" and "Political, Economic and Legal Risks".

Activity in Real Estate Market. The Group's revenues are affected by the level of activity in the real estate markets in both target markets. A decrease in the rate at which the economy is growing may cause the real estate market to become increasingly passive over a period of time and the number of transactions to decrease (for further discussion, please see Section "Political, Economic and Legal Risks").

Construction Prices. Construction costs are the most important category of costs for the Group. In Estonia, rising construction costs continued to put pressure on margins in 2017, as construction costs index gradually increased throughout the year. Increase in the construction costs is a foreseeable trend for as long as the economy remains in the growth phase. Increases in construction costs are accompanied by increases of real estate rents and sales prices. In Bulgaria, construction prices remain on a more favourable level compared to Estonia, however, the sales prices have also increased slower. It is predicted Bulgaria may see bigger growth in the future in both construction and sales prices than Estonia.

Re-Evaluation of Property. The re-evaluations (upwards and downwards) of assets of the Group affect the financial position of the Group. The Group aims to be neither too conservative nor too optimistic in the valuation of its inventories and assets.

13. CAPITALISATION, INDEBTEDNESS AND WORKING CAPITAL

The total assets of the Group as of 30 September 2017 amounted to 28,386 thousand euros. Of the above, current assets formed 57% (16,198 thousand euros) and non-current assets 43% (12,188 thousand euros).

The consolidated total liabilities of the Group as of 30 September 2017 were 19,393 thousand euros, resulting in total equity of 8,993 thousand euros.

The capitalisation of the Group as of 30 September 2017 is as follows (note that information on securities associated with the secured loans may be found in Section "Material Agreements"):

In TEUR (unaudited)	30.09.2017
Total current debt (including prepayments and provisions)	18,336
Guaranteed	-
Secured	11,598
Unguaranteed / unsecured	6,738
Total non-current debt (excluding current portion of long-term debt)	1,057
Guaranteed	-
Secured	1,050
Unguaranteed/ unsecured	7
Shareholder's equity:	
Share capital	4,555
Additional paid-in capital	292
Statutory capital reserve	2,011
Other reserves	52
Total	6,910
Total capitalisation	26,303

The net indebtedness of the Group as of 30 September 2017 is as follows:

In TEUR (unaudited)	30.09.2017
A. Cash	1,158
B. Cash equivalents	0
C. Trading securities	0
D. Liquidity (A) + (B) + (C)	1,158
E. Current Financial Receivables	0
F. Current Bank debt	11,598
G. Current portion of non-current debt	0
H. Other current financial debt	1,395
I. Current Financial Debt (F) + (G) + (H)	12,993
J. Net Current Financial Indebtedness (I) – (E) – (D)	11,835
K. Non-current bank loans	1,050
L. Bonds Issued (non-current)	0

M. Other non-current loans	7
N. Non-current Financial Indebtedness (K) + (L) + (M)	1,057
O. Net Financial Indebtedness (J) + (N)	12,892

There is no indirect or contingent indebtedness.

The tables above should be read in conjunction with the Financial Statements and Interim Financial Statements incorporated into the Prospectus by reference.

As at 30 September 2017, the total consolidated working capital (calculated as current assets less current liabilities) of the Group was a negative 2.1 million euros and the consolidated current ratio (calculated as current assets divided by current liabilities) was 0.88. However, these figures will change significantly when the outstanding loan from Piraeus Bank with a balance of 8.6 million euros will be extended by 2 years and will be classified as a long-term loan. A preliminary agreement for extending the loan until 30 December 2019 has been achieved with additional two repayments of 500 thousand euros each foreseen in January 2018 and January 2019. At the moment, the value of the remaining assets in the Bulgarian projects financed by the Piraeus Bank loan exceeds the balance of the loan, leading the Management to believe that the current situation is sustainable and that the prolongation of the loan will be achieved as planned. The Management expects that the prolongation will be signed during the last week of 2017 at the latest.

The Management also expects to prolong the maturity of the 250 TEUR loan maturing in December 2017, and the bonds for 1,120 TEUR maturing in January 2018.

The Group companies have entered into several loan and other financing agreements, which include customary covenants, restrictions and obligations (among other things, restrictions on further financing, payment of dividends, changes in the Group's corporate structure or the nature of its business, etc.). Please see the Section "Material Agreements" for further details.

14. LISTING AND ADMISSION TO TRADING

As at the date of this Prospectus, the Shares are listed and admitted to trading on the Baltic Main List of the Nasdaq Tallinn Stock Exchange.

The Company intends to apply for the listing of the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange as soon as possible after the registration of the New Shares in the Estonian Commercial Register. The Company will take all necessary measures in order to comply with the Nasdaq Tallinn Stock Exchange rules so that its application will be approved. The expected date of listing and admission to trading of the Offer Shares on the Baltic Main List of the Nasdaq Tallinn Stock Exchange is on or about 25 January 2018. For the general information on the Nasdaq Tallinn Stock Exchange, please see Section "Estonian Securities Market" below.

15. ESTONIAN SECURITIES MARKET

15.1. Nasdaq Tallinn Stock Exchange

Nasdaq Tallinn Stock Exchange is the only regulated secondary securities market in Estonia. The ultimate owner of the Nasdaq Tallinn Stock Exchange is Nasdaq, Inc. Nasdaq is the world's largest exchange company, providing trading, exchange technology and public company services across six continents, with over 3,500 listed companies.

Nasdaq technology supports the operations of over 70 exchanges, clearing organisations and central securities depositories in more than 50 countries. Nasdaq Nordic and Nasdaq Baltic are not legal entities but describe the common offering from Nasdaq group exchanges in Helsinki, Copenhagen, Stockholm, Reykjavik, Tallinn, Riga, and Vilnius.

Nasdaq Tallinn has been a member of the Nordic-Baltic stock exchange alliance NOREX since April 2004. The NOREX Alliance was unique in being the first stock exchange alliance to implement a joint system for equity trading and harmonizing rules and requirements between the exchanges with respect to trading and membership.

Nasdaq stock exchanges in Tallinn, Riga and Vilnius form the Baltic Market, the core idea of which is to minimise to the extent possible the differences between the three Baltic markets in order to facilitate cross-border trading and attract more investments to the region. This includes sharing the same trading system and harmonising rules and market practices, all with the aim of reducing the costs of cross-border trading in the Baltic region.

Nasdaq Tallinn Stock Exchange is a self-regulated organisation, issuing and enforcing its own Rules and Regulations consistent with standard exchange operating procedures. Nasdaq Tallinn Stock Exchange is licensed and supervised by the Financial Supervisory Authority of Estonia.

Nasdaq Tallinn Stock Exchange uses the INET Nordic trading system for Nordic and Baltic equities trading. Recognized as the most advanced securities trading technology in the world, INET is Nasdaq's core technology used on all Nasdaq equity markets.

15.2. Nasdaq CSD and Registration of Shares

Nasdaq CSD SE (*Societas Europaea*) is the regional Baltic central securities depository (CSD) with a business presence in Estonia, Latvia and Lithuania. It was established in September 2017 through the merger of the Estonian, Latvian and Lithuanian central securities depositories in order to leverage the service offering in the changing CSD landscape in Europe. Nasdaq CSD is part of the Nasdaq Group. Nasdaq, Inc., the ultimate parent, provides trade and post-trade services in more than 50 countries.

Nasdaq CSD is licensed under the European Central Securities Depositories Regulation (CSDR). The depository is powered by modern straight-through processing (STP) technology in a solution connected to the pan-European TARGET2-Securities (T2S) platform.

Nasdaq CSD operates as:

- (i) a CSD authorized by the Latvian Financial and Capital Market Commission to provide CSD services in Latvia under the CSDR, and in Estonia and Lithuania via its Estonian and Lithuanian branches, also acting as the registrar of the Estonian Central Register of Securities via its Estonian branch;
- (ii) the operator of the Estonian securities settlement system, which is governed by Estonian law and notified to the European Securities and Markets Authority (ESMA) in accordance with the Settlement Finality Directive;
- (iii) the operator of the Latvian securities settlement system, which is governed by Latvian law and notified to ESMA in accordance with the Settlement Finality Directive; and

(iv) the operator of the Lithuanian securities settlement system, which is governed by Lithuanian law and notified to ESMA in accordance with the Settlement Finality Directive.

15.3. Listing Shares on Nasdaq Tallinn Stock Exchange

The Baltic stock exchanges have a common presentation of all listed Baltic companies on a common list, the companies in which are grouped in the lists below. In legal terms, the companies are listed on home market, i.e. the exchange in Tallinn, Riga or Vilnius and supervised by the local financial supervisory authority.

The structure of the lists of securities traded on the Nasdaq Tallinn, Riga and Vilnius exchanges is as follows:

- (i) Baltic Main List;
- (ii) Baltic Secondary List;
- (iii) Baltic Bond List;
- (iv) Baltic Fund List;
- (v) First North (multilateral trading facility, not a regulated market).

Baltic Main List. The Baltic Main List is a line-up of all blue-chip companies listed on the Tallinn, Riga and Vilnius stock exchanges. To be eligible for inclusion, a company must have 3 years of operating history, an established financial position, market capitalisation of not less than 4 million euros, with reporting according to the International Financial Reporting Standards, and a free float of 25% or worth at least 10 million euros.

Baltic Secondary List. The Baltic Secondary List comprises companies that do not meet quantitative admission requirements (free float, capitalisation) for the Baltic Main List.

Baltic Funds List. The Baltic Funds List contains the investment fund units or shares of collective investment subjects that are listed and traded on the Baltic exchanges in a manner similar to equities.

Baltic Bond List. The Baltic fixed-income instruments are presented in a joint Baltic Bond List. The fixed-income instruments include corporate and mortgage bonds of different maturities and Latvian and Lithuanian government bonds. Listing of and trading in fixed-income instruments is possible in EUR and in certain other currencies.

First North. First North is a multilateral trading facility (MTF), also known as an alternative market, operated by the different exchanges within Nasdaq. It does not have the legal status of a regulated market. Companies on First North are subject to the rules of First North and not the legal requirements for admission to trading on a regulated market. Baltic First North is divided into two separate lists – First North Baltic Share List and First North Baltic Bond List.

15.4. Trading on Nasdaq Tallinn Stock Exchange

Nasdaq Baltic Stock Exchanges employ two trading systems:

- (i) INET Nordic – the electronic trading system used for trading in equity-market instruments on the regulated market and the First North;
- (ii) Genium INET – the complete electronic multi-asset trading system used for trading in fixed-income instruments on the regulated market as well as for the execution of auctions and special procedures, such as tender offers, public share sales and IPOs.

Commonly recognised as the most sophisticated trading platform in the world, INET is the proprietary core technology utilised across Nasdaq's global markets.

Transactions can be made in two ways – automatic matching, which means that buy and sell orders are matched by the trading system automatically according to price, displayed volume and time priorities;

and manual trades – trades negotiated between stock exchange members outside of the trading system, with brokers entering the deal in the trading system within three minutes after its conclusion.

15.5. Financial Supervision

The operations of the Nasdaq Tallinn Stock Exchange are supervised by the FSA with the purpose of ensuring the compliance with the rules and requirements applicable in respect of the operations of regulated markets.

15.6. Abuse of Securities Market

According to the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (the “Market Abuse Regulation”), securities market abuse is defined as a concept that encompasses unlawful behaviour in the financial markets that consist of insider dealing, unlawful disclosure of inside information and market manipulation.

The Market Abuse Regulation defines inside information as any information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers or to one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instrument. When such information is made public, there is an increased risk of fluctuations in the price of the relevant security and of related derivative instruments.

Inside information is usually regarded to be misused when it is used as basis for transactions (or as basis for advice to third parties) or unlawfully disclosed to any other person.

As to market manipulation, the Market Abuse Regulation sets forth a non-exhaustive list of actions that qualify as market manipulation, such as actions that give, or are likely to give, false or misleading signals as to the supply of, demand for, or price of, a financial instrument; secure, or are likely to secure, the price of one or several financial instruments, etc. The regulation also states that certain particular behaviour can be considered to constitute market manipulation, such as the conduct by a person, or persons acting in collaboration, to secure a dominant position over the supply of or demand for a financial instrument, related spot commodity contracts or auctioned products based on emission allowances which has, or is likely to have, the effect of fixing, directly or indirectly, purchase or sale prices or creates, or is likely to create, other unfair trading conditions; the buying or selling of financial instruments, at the opening or closing of the market, which has or is likely to have the effect of misleading investors acting on the basis of the prices displayed, including the opening or closing prices; etc.

The Market Abuse Regulation sets an obligation to EU member states to, in accordance with national law, provide for competent authorities to have the power to apply appropriate administrative sanctions and take other administrative measures in relation to misuse of inside information and infringements of market manipulation prohibition.

The Estonian Securities Market Act establishes in the light of abovementioned obligation a number of administrative offences related to misuse of inside information and market abuse that are punishable with fines of variable gravity. Dependant on the circumstances of the offence, misuse of inside information and market manipulation may be qualified as criminal offences under the Estonian Penal Code.

16. TAXATION

This Section is meant to give an overview of the tax regime applicable to the shareholders and the Company. The below summary is in no way exhaustive and is not meant to constitute professional advice to any person. In order to establish particular tax consequences of the Offering or the ownership of the Shares, each individual investor is strongly encouraged to seek specialist assistance.

Corporate Income Tax. The system of taxation of corporate income currently in force in Estonia differs from the traditional model of corporate income taxation in that it shifts the point of corporate taxation from the moment of accrual to the moment of distribution. Therefore, in Estonia corporate income tax is charged only on the distributed profit with the reinvested profits remaining untaxed until distribution. Corporate income tax is charged on profit distributions such as dividends, payments in the course of the reduction of share capital and redemption of own shares, as well as on implicit distributions such as fringe benefits, gifts and donations, expenditures and payments not related to the business activities of a company. All of the above profit distributions are taxed at the rate of 20/80 (25%) of the net amount of the distribution, i.e. 20% of the gross amount of the distribution. The corporate income tax charged on above profit distributions is payable only at the company level with the company being responsible for calculating, declaring and paying of the respective corporate income tax (starting from 1 January 2018 a different approach will be introduced with respect to regular profit distributions – please see below for details). Corporate income tax imposed on distributed profit is not a withholding tax and thus is not influenced by the applicable international tax treaties. Payments made in the course of the reduction of share capital and redemption of shares are taxable at the company level only to the extent such payments exceed the monetary and non-monetary contributions previously made by the shareholders into the company.

Dividend Tax. Currently, in Estonia, dividends paid by an Estonian resident legal person are exempt from taxation at the level of the recipient (no classical dividend tax), regardless of whether the recipient is a natural or a legal person, an Estonian resident or a non-resident person (this will change for regular profit distributions starting from 1 January 2018 – please see below for details). Taxation takes place only at the level of the Estonian legal person making the distribution. Upon the repeated distribution of dividends by an Estonian resident legal person on the account of the dividends derived from a resident company of the European Economic Area contracting state (including Estonia) or Switzerland, the repeated distribution of dividends shall be exempt from income tax, provided the distributing company held at least 10% of the shares or votes in the company from which the underlying dividends were derived at the time of deriving the dividends. The latter restriction should be taken into account by an Estonian resident investor when deciding on whether to acquire the Shares as a natural or a legal person. If the recipient is a non-resident person, then the dividends received from the Estonian legal person may be taxed with dividend tax in the person's respective country of residence. In order to establish particular tax consequences arising in the non-resident person's country of residence, investors are advised to seek specialist assistance.

Taxation of Regular Profit Distributions. Starting from 1 January 2018, a new tax regime will be introduced with respect to regularly distributed profit distributions (including dividends). Under the new rules, profit distributed during a calendar year will be taxed at the level of the Estonian resident legal person at a reduced income tax rate of 14/86 (16.3%) of the net amount of the distribution (i.e. 14% of the gross amount of the distribution), but only to the extent which corresponds to the average size of the profit that had been distributed by the Estonian resident company and taxed in Estonia during the previous 3 calendar years. Tax exempt profit distributions are not taken into account when calculating the 3-year historical average. The rest of the distributed profit, i.e. the part which exceeds the 3-year historical average, will be taxed at the standard income tax rate of 20%.

Starting from 1 January 2018 profit distributions made under the reduced income tax rate of 14% will also be taxed at the level of the recipient, if the recipient is a resident or a non-resident natural person. The applicable income tax rate is 7%, whereas the relevant tax amount must be withheld by the Estonian resident legal person making the distribution. The 7% withholding applies both if the reduced rate is

applied by the distributing entity itself, but also where the underlying profit of the distribution (e.g. dividends received from a subsidiary of the distributing entity) had been taxed at a reduced rate of 14%. Considering that the 7% income tax imposed on profit distributed under the reduced 14% rate is a withholding tax, it will be subject to avoidance of double taxation under the applicable international tax treaties, i.e. non-resident natural persons may have the possibility to credit the income tax withheld in Estonia against their potential dividend tax liability in their respective country of residence. The 7% withholding tax does not apply to resident and non-resident legal persons. However, similarly to other profit distributions, regular profit distributions received by a non-resident person from Estonia may be taxed with dividend tax in the person's respective country of residence.

Capital Gains from Sale or Exchange of Shares. Gains realised by an Estonian resident individual upon the sale or exchange of securities (including the Shares) are subject to income tax at the rate of 20%. Payments received by an Estonian resident individual in the course of the reduction of share capital or redemption of shares are also taxable as capital gains, if the amount of the received payment exceeds the acquisition cost of the relevant shareholding, except to the extent such payment has been already taxed at the company level. Since all earnings of resident legal persons, including capital gains, are taxed only upon distribution, capital gains accruing to resident legal persons are not subject to immediate taxation. As a rule, capital gains received by non-residents from the sale or exchange of securities are not taxed in Estonia (except for certain securities related to the Estonian real estate). Non-resident shareholders receiving capital gains from the sale or exchange of the Shares may be subject to declaring and paying income tax in their respective countries of residence. For the purposes of capital gains taxation, the gain derived from the sale of securities (including the Shares) is the difference between the acquisition cost and the sales price of such securities. The gain derived from the exchange of securities is the difference between the acquisition cost of securities subject to exchange and the market price of the property received as a result of the exchange. The expenses directly related to the sale or exchange of shares may be deducted from the gains.

Investment Account. Estonian resident individuals may postpone the taxation of their investment income by using an investment account for the purposes of making transactions with certain financial assets (including the Shares). An investment account is a monetary account opened with a European Economic Area or the Organisation for Economic Co-operation and Development (OECD) member state credit institution, through which the transactions with the financial assets, taxation of income from which (e.g. capital gains, etc.) a person wants to postpone, shall be made. The moment of taxation of the financial income held on an investment account is postponed until such income is withdrawn from the investment account (i.e. the amount withdrawn from the account exceeds the amount which had been previously paid in to the account). Therefore, financial income held at the investment account may be reinvested tax-free until it is withdrawn from the account.

GLOSSARY

Term	Definition
Articles of Association	The Articles of Association of the Company effective as at the date of this Prospectus.
Company	Arco Vara AS an Estonian public limited company, registered in the Estonian Commercial Register under register code 10261718, having its registered address at Rävala pst 5, 10143 Tallinn, Estonia, whereas a reference to “us”, “our” and “we” should be construed to represent a reference to the Company.
EUR	The official currency of Eurozone countries, including Estonia and Latvia, the euro.
Eurozone	The economic and monetary union (EMU) of the European Union member states, which have adopted euro as their single official currency.
Financial Statements	See Section 1.5 (“Accounting Principles and Financial Information”).
FSA	The Estonian Financial Supervision Authority, a financial supervision institution with autonomous competence and a separate budget which conducts supervision over credit institutions, insurance companies, insurance intermediaries, investment firms, management companies, investment and pension funds as well as the payment service providers, e-money institutions and the securities markets that have been authorised by the Financial Supervision Authority in the name of the state and which is independent in its activities and decisions.
General Meeting	The General Meeting of shareholders of the Company, the highest governing body of the Company.
GFA	Gross floor area (please see the Section “Investments” for further details).
GLA	Gross leasable area (please see the Section “Investments” for further details).
Group	The Company and all its Subsidiaries.
GSA	Gross sellable area (please see the Section “Investments” for further details).
IAS	The International Accounting Standards as adopted by the European Union.
IFRS	The International Financial Reporting Standards as adopted by the European Union.
Interim Financial Statements	See Section 1.5 (“Accounting Principles and Financial Information”).

Management	The Management Board and the Supervisory Board of the Company.
Management Board	The Management Board of the Company.
MEUR	Millions of euro.
Nasdaq CSD	Nasdaq CSD SE (Societas Europaea), the regional Baltic central securities depository (CSD), register code 40003242879, registered address Valņu iela 1, Rīga LV-1050, Latvia.
Nasdaq Tallinn Stock Exchange	The only regulated market operated by Nasdaq Tallinn AS (register code 10359206).
OECD	The Organisation for Economic Co-operation and Development (OECD), an international economic organisation of 34 countries founded in 1961 to stimulate economic progress and world trade.
Offering	The offering of the Offer Shares to the existing shareholders of the Company, which is a public offering of securities in the essence of the Estonian Securities Market Act.
Offering Period	The period within which investors will have the opportunity to submit Subscription Undertakings.
Offer Price	The final price per each Offer Share, which shall be a fixed price of 1.50 euros.
Offer Shares	Up to 2,670,000 Shares that are being offered to investors in the course of the Offering.
Prospectus	This document.
Quota	The proportion of investor's shareholding in the Company as of the Record Date times the total number of Offer Shares.
Record Date	The end of the working day of the Nasdaq CSD Estonian settlement system on the last day of the Subscription Period (i.e. on 15 December 2018).
Section	A section of this Prospectus.
Share(s)	The Offer Shares and the existing ordinary shares of the Company with the nominal value of 0.7 euros, registered with Nasdaq CSD under ISIN EE3100034653.
Shareholder	Natural or legal person, holding the Share(s) of the Company at any relevant point of time.
SPV	A special purpose vehicle, a legal entity whose operations are limited to a specific project or transaction.
Subscription Undertaking	The order submitted by an investor for the purchase of the Offer Shares in accordance with the terms and conditions of the Offering.

Subsidiaries	The subsidiaries of the Company as listed in the Section “Group Structure and Group Companies”.
Summary	The summary of this Prospectus.
Supervisory Board	The Supervisory Board of the Company.
TEUR	Thousands of euro.

COMPANY

Arco Vara AS

(Rävala pst 5, 10143 Tallinn, Estonia)



LEGAL COUNSEL TO COMPANY

Advokaadibüroo Primus OÜ

(Kai 1, 10111 Tallinn, Estonia)

P R I M U S

AUDITORS

Aktsiaselts PricewaterhouseCoopers

(Pärnu mnt 15, 10141 Tallinn, Estonia)



(note that the auditors have not been involved in the preparation of this Prospectus in any capacity)