Arco Vara AS

INTERIM REPORT FOR THE FIRST QUARTER 2016

ARCO VARA

INTERIM REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2016 (UNAUDITED)

Company name:	Arco Vara AS
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E-mail:	info@arcovara.ee
Corporate website:	www.arcorealestate.com
Regional websites:	www.arcovara.ee www.arcoreal.lv www.arcoreal.bg
Core activities:	Real estate development Renting and operating of real estate (EMTAK 6820) Activities of real estate agencies (EMTAK 6831) Real estate management (EMTAK 6832)
Financial year:	1 January 2016 – 31 December 2016
Reporting period:	1 January 2016 – 31 March 2016
Supervisory board:	Hillar-Peeter Luitsalu, Rain Lõhmus, Allar Niinepuu, Kert Keskpaik, Steven Yaroslav Gorelik
Chief executive:	Tarmo Sild
Auditor:	AS PricewaterhouseCoopers

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Directors' report for first quarter 2016

General information

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

The Service division is engaged in real estate brokerage, valuation, management and consulting as well as in short-term investment in residential real estate. The Service division offers to the group additional value by generating analytical data on market demand and supply, also behaviour of potential clients. Analytical data allows making better decisions on real estate development: on purchase of land plots, planning and designing, pricing end products also on timing the start of construction.

The Development division develops complete living environments and commercial real estate. Fully developed housing solutions are sold to the end-consumer. In some cases the group is developing also commercial properties until they start generating cash flow for two possible purposes: for the support of the groups' cash flows or for resale. The group is currently holding completed commercial properties that generate rental income.

As at 31 March 2016: the group comprised 23 companies, which is two less than at the end of year 2015. On 19 February 2016, the group's subsidiary Fineprojekti OÜ was deregistered in Estonian Commercial Register, the liquidation process was started in 2014. The liquidation also resulted in derecognition of Romanian subsidiary Arco Capital Real Estate SRL from the group's structure. The liquidation has no impact on the group's net assets.

In Q1 2016, the group's interest in Bulgarian real estate fund Arco Real Estate Fund REIT was increased from 70% up to 100% and the share capital of the fund was additionally increased by 77 thousand euros.

Goals and core values

Common **goals** for all Arco Vara companies are:

1) to provide clients with trustworthy real estate services which are based on quality information and integrated real estate products of high value in use, being innovative in the same time;
2) to gain stable and high return on equity for the shareholders, which beats the competition in real estate business and justifies investing and holding Arco Vara shares;
3) to create the best conditions for self-realization in real estate industry for the people working for the group.

Arco Vara's **core values** include:

Partnership – our client is our partner

Reliability – we are reliable, open and honest

Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

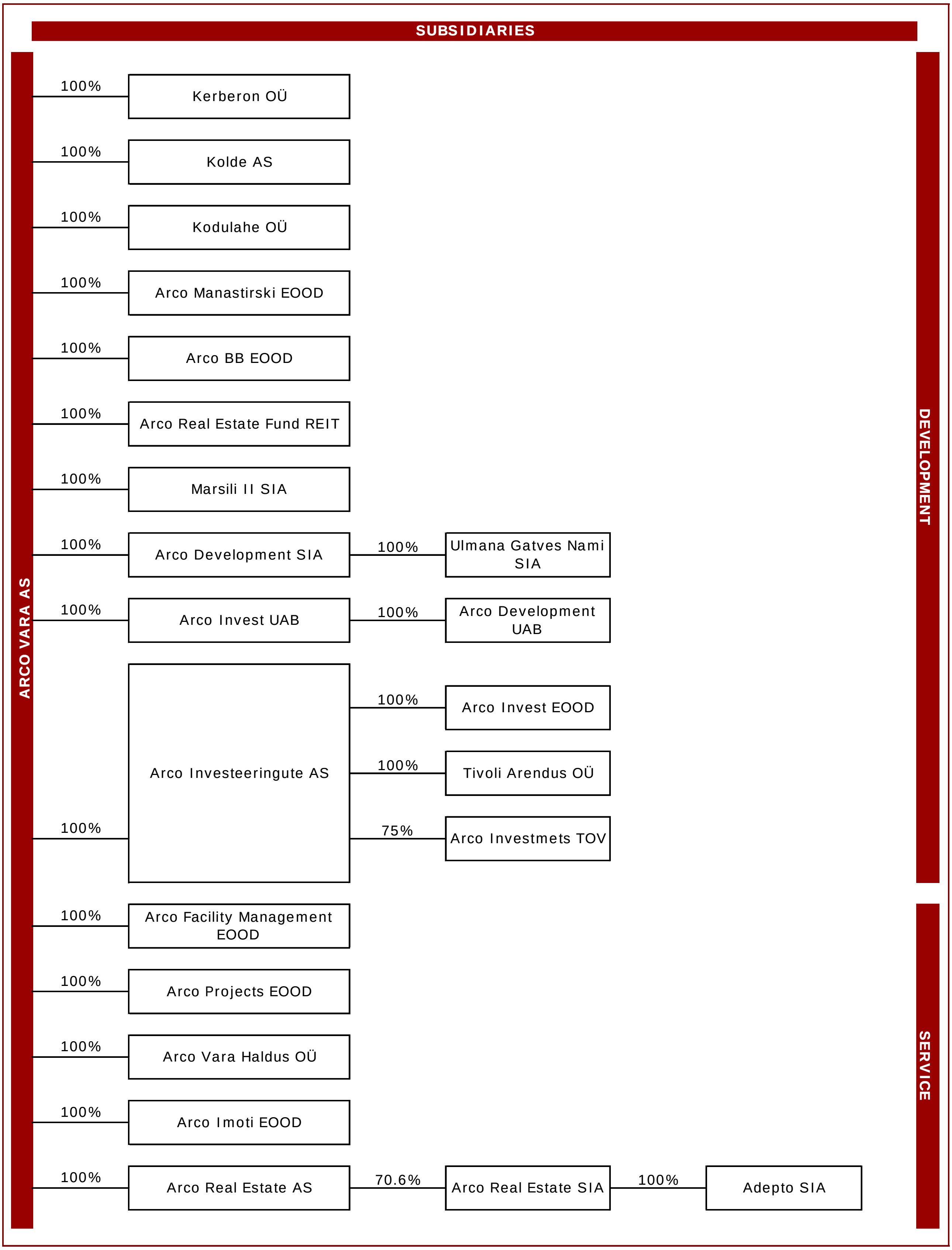
Significant subsidiaries

Company name	Location	Segment	Share capital (nominal value)	Equity balance at 31 March 2016	The group's interest
In thousands of euros					
Arco Manastirski EOOD	Bulgaria	Development	2,676	4,069	100%
Arco Invest EOOD	Bulgaria	Development	26,826	-286	100%
Arco Real Estate Fund REIT [1]	Bulgaria	Development	332	317	100%
Kodulahe OÜ	Estonia	Development	3	-145	100%
Kerberon OÜ	Estonia	Development	5	1,269	100%
Marsili II SIA	Latvia	Development	1,524	931	100%
Arco Real Estate AS	Estonia	Service	42	-979	100%
Arco Real Estate SIA [1]	Latvia	Service	1,905	50	70.6%
Arco Imoti EOOD	Bulgaria	Service	444	181	100%

[1] - Non-controlling interest in Arco Real Estate SIA equals to the group's total non-controlling interest

GROUP STRUCTURE

As at 31 March 2016



Key Performance Indicators

- In Q1 2016, the group's revenue was 5.1 million euros, exceeding by 15% the revenue of first three months 2015, when revenue amounted to 4.4 million euros. Revenue increased in Development division, where revenue amounted to 4.4 million euros in first three months 2016 (in Q1 2015: 3.8 million euros). The revenue of Service division amounted to 0.7 million euros in Q1 2016, decreased by 4% compared to Q1 2015. However the external revenue (sales outside the group) of Service division increased by 6% in Q1 2016 compared to Q1 2015.
- In first 3 months 2016, the group's operating profit (=EBIT) was 1.2 million euros and net profit 1.1 million euros. In Q1 2015, the same figures were 0.9 million euros and 0.7 million euros respectively. Similarly to the revenue growth the EBIT of Q1 2016 came from Development division. Service division ended up Q1 2016 with the operating loss of 73 thousand euros, due to the continuing unprofitability of Estonian brokerage unit.
- In Q1 2016, the group continued to decrease debt burden. Net loans decreased by 2.5 million euros in first 3 months 2016 down to the level of 9.5 million euros as at 31 March 2016. Total loans and borrowings amounted 11.4 million euros at 31 March 2016, decreased by 1.4 million euros through the quarter. As at 31 March 2016, the weighted average annual interest rate of loans was 5.7%. This is an increase by 0.7 percentage points compared to 31 December 2015. The average interest rate raised due to the bond issue conducted in January 2016 in amount of 1.12 million euros with the interest rate of 12% (significantly higher than average rate).
- In Q1 2016, 68 apartments and 2 commercial spaces were sold in projects developed in the group. In Q1 2015, 48 apartments and 5 commercial spaces were sold.

	Q1 2016	Q1 2015
In millions of euros		
Revenue		
Development	4.4	3.8
Service	0.7	0.8
Eliminations	-0.1	-0.2
Total revenue	**5.1**	**4.4**
Operating profit (EBIT)		
Development	1.4	1.0
Service	-0.1	0.0
Unallocated income and expenses	-0.2	-0.2
Eliminations	0.1	0.1
Total operating profit (EBIT)	**1.2**	**0.9**
Finance income and expense	0.2	-0.2
Income tax	0.0	0.0
Net profit	**1.1**	**0.7**
Main ratios		
Earnings per share, EPS (in euros)	0.17	0.12
Diluted earnings per share (in euros)	0.16	0.11
ROIC (rolling, four quarters)	3.6%	4.8%
ROE (rolling, four quarters)	7.9%	13.8%
ROA (rolling, four quarters)	3.3%	4.3%

	31 March 2016	31 Dec 2015
In millions of euros		
Total assets	24.0	24.5
Invested capital	22.0	22.4
Net loans	9.5	12.0
Equity	10.6	9.6
Current ratio	6.33	3.22
Quick ratio	1.21	0.32
Financial leverage	2.26	2.54
Average loan term (in years)	1.7	1.7
Average annual interest rate of loans	5.7%	5.0%
Number of staff, at period end	189	178

Cash flows

	Q1 2016	Q1 2015
In millions of euros		
Cash flows from operating activities	2.9	3.0
Cash flows used in investing activities	0.0	-0.1
Cash flows used in financing activities	-1.7	-2.8
Net cash flows	**1.1**	**0.1**
Cash and cash equivalents at beginning of period	0.7	1.7
Cash and cash equivalents at end of period	1.9	1.8

Revenue and net profit/loss from continuing operations

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	**Total 2013**	Q1 2014	Q2 2014	Q3 2014	Q4 2014	**Total 2014**	Q1 2015	Q2 2015	Q3 2015	Q4 2015	**Total 2015**	Q1 2016
In millions of euros																
Revenue	1.7	3.5	3.5	2.0	**10.7**	1.1	1.1	1.2	5.8	**9.2**	4.4	2.1	2.1	2.1	**10.7**	5.1
Net profit/loss	0.0	1.4	0.1	2.0	**3.5**	0.4	-0.3	0.4	0.6	**1.1**	0.7	0.0	0.2	-0.4	**0.5**	1.1

FORMULAS USED

Earnings per share (EPS) = net profit attributable to owners of the parent / (weighted average number of ordinary shares outstanding during the period – own shares)
Invested capital = current interest-bearing liabilities + non-current liabilities + equity (at end of period)
Net loans = current interest-bearing liabilities + non-current liabilities – cash and cash equivalents – short-term investments in securities (at end of period)
Return on invested capital (ROIC) = past four quarters' net profit / average invested capital
Return on equity (ROE) = past four quarters' net profit / average equity
Return on assets (ROA) = past four quarters' net profit / average total assets
Current ratio = current assets / current liabilities
Quick ratio = (current assets - inventory) / current liabilities
Financial leverage = total assets / equity
Number of staff at period-end = number of people working for the group under employment or authorization (service) contracts

Group Chief Executive's review

Arco Vara is an international group involved in real estate development, brokerage and valuation services which generates net profit for its shareholders. Thankfully, the international scope and involvement in development as well as services are starting to show in quarterly and annual results, even though the undertaking is currently nanoscopic on the European scale and even for the Tallinn stock market, the company is considered a small company.

The goal of the management is to double the activity volumes and profit of Arco Vara by the end of 2018 at the latest. Therefore, the results of the first quarter of 2016 are an example of a quarter which, according to the goal of the management, should be a relatively typical quarterly result for Arco Vara starting from 2018. The sales of the first quarter of 2016 were a little over five million euros and net profit a little over one million euros. This also emptied out the majority of our stock of development products which were created over the past year.

In order to double the activity volumes, the company must achieve a stable development and sales activity. In 2013–2015, we were involved in restarting the development business, resulting in mostly positive, if volatile quarterly results, whereas now the goal is constant development, constant sales, and constant profit. All this is supported by the brand which is kept visible by the service division and data flow. Sales volumes and profit achievable in the future are possible only if we manage to launch and constantly maintain development projects which the clients want and can buy in the present.

From the second quarter of 2016 to the end of the third quarter of 2017, the group must undergo a period of construction and pre-sales, when very little is happening for the income statement. The following quarterly results will be relatively modest in the financial sense.

Important developments: Kodulahe and Iztok Parkside

At present, we are involved in the construction and preliminary sales of Kodulahe residential area first stage in Tallinn and in the concurrent design, establishment of a detailed plan, and conclusion of the purchase transaction of the property at the Iztok Parkside project in Sofia. By the end of 2016, the construction and preliminary sales should also be underway at Iztok Parkside.

In recent years, Arco Vara has not developed two large residential developments in the construction stage at the same time. This will be a big challenge to the group's team and cash flows. The expected revenue of the first stage of Kodulahe is approximately 16 million euros (130 apartments and business premises) and the expected revenue of Iztok Parkside is approximately 7 million euros (about 70 apartments and business premises). The expected profit margin of both projects meets the goal set for return on equity (ROE 20% per year) and for the development of both projects, it is critical to find financing solutions which enable – in the case of sufficient demand – to continue the development of second stage in Kodulahe project without delay, as well as the development of project X following Iztok Parkside in Sofia.

At present, the management is satisfied with the tempo of preliminary sales at Kodulahe (we only consider notarized contracts with at least 10% down payment to be preliminary sales). I am also satisfied with the speed of development of the Iztok Parkside project, where we have developed the project so far without allocating significant equity to it. At the same time, only the completion of the acquisition transaction and obtaining the right of construction for the plot count, both of which are expected in the second quarter this year.

Madrid Blvd

By the end of the first quarter, we have concluded one long-term lease contract for leasing nearly 500 square metre office premises, and six more leased premises sized 500-900 m2 are still vacant. The lease revenue currently earned on the building is a little lower than the interest expenses for the loan from Piraeus Bank. Despite some interest of various potential tenants, concluding long-term contracts with tenants of good quality has been slower than expected. The quality of lease revenue earned on the building is most important for us, regardless of whether we will sell the building at Madrid Blvd as an object of cash flow or continue to operate the house itself. The expectations for occupancy rate for 2016 and lease revenue for the current year must also be adjusted accordingly. At present, we can predict that at least 85% of vacant office premises will be leased by the end of this year.

As we sold two apartments (plus some parking spaces) in Madrid Blvd building in first quarter and one more in April, the balance of the bank loan on the building has dropped below 10 million euros by the publication date of interim report.

At the publication date of interim report, 23 apartments still remain to be sold at the building (GSA 2,539 m2), of which 15 apartments are leased out, as well as 111 parking spaces, and commercial and office premises (GLA 7,350 m2).

Service division

The management is not satisfied with the results of service division. We are generating profit and growing in Bulgaria, bordering on profitability in Latvia, and generating a loss in Estonia. The management continues to carry out changes necessary in the Estonian division, involving better marketing, more effective brokerage and distribution of information, and better targeted general expenses. The management is expecting the Estonian division to become profitable by the end of 2016 at the latest.

Annual forecast

At the end of first quarter, the management sticks to his previously announced annual forecast: year 2016 revenue of 10.3 million euros and net profit of 0.8 million euros.

SERVICE DIVISION

In Q1 2016, revenue of service division was 748 thousand euros (in Q1 2015: 779 thousand euros), that included intra-group revenue of 77 thousand euros (in Q1 2015: 143 thousand euros). Revenue of service division from main services (real estate brokerage and valuation services) was 678 thousand euros in first three months 2016, decreased by 3% compared to the first quarter of previous year. In first quarter, revenue from main services increased only in Estonian brokerage agency, increasing by 8% compared to Q1 2015. The revenue from main services decreased in Latvian and Bulgarian real estate agency: decreasing by 3% and 21% respectively. The drop in the revenue of Bulgarian agency can be attributed to the decreased income from mediating the sales of the group's own properties: 33 thousand euros in Q1 2016 and 100 thousand euros in Q1 2015.

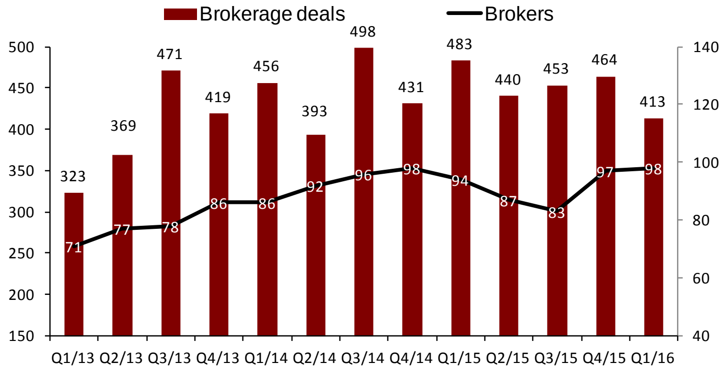
Revenue of real estate agencies from brokerage and valuation

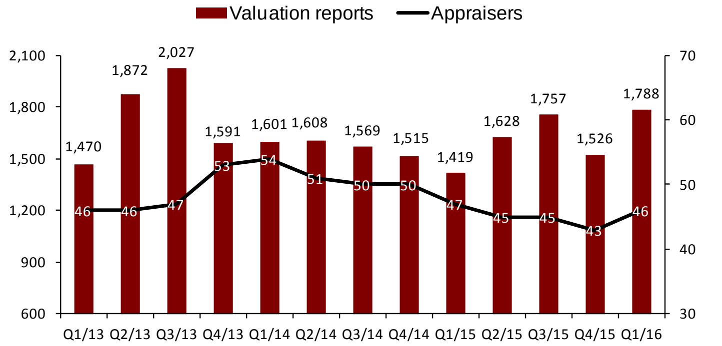
In thousands of euros	**Q1 2016**	Q1 2015	Change, %
Estonia	300	278	8%
Latvia	235	243	-3%
Bulgaria	143	180	-21%
Total	**678**	**701**	**-3%**

In Q1 2016, the Estonian agency has operated on a loss of 73 thousand euros (in Q1 2015: loss of 7 thousand euros). In Q1 2016, Latvian and Bulgarian agencies had small net profit of 1 thousand and 9 thousand euros, respectively. In Q1 2015, the Bulgarian agency earned net profit of 51 thousand euros and Latvian agency had a loss of 15 thousand euros.

In addition to brokerage and valuation services, the service division also provides real estate management services as well as accommodation service in Bulgaria. The revenue from real estate management was 27 thousand euros in first three months 2016, 23 thousand euros of which was intra-group revenue (in Q1 2015: 41 thousand and 28 thousand euros, respectively). Revenue from accommodation services amounted to 30 thousand euros in Q1 2016 (in Q1 2015: 23 thousand euros).

Service division numbers for brokerage deals and valuation reports, and number of staff are shown in following graphs.





The number of staff in service division has been increased to 176 employees in first three months of 2016, this is 11 people more compared to year end 2015. The number of staff is increased in all three countries.

DEVELOPMENT DIVISION

In Q1 2016, revenue of development division totalled 4,412 thousand euros (in Q1 2015: 3,782 thousand euros). The development division revenue was higher than usual quarterly revenue because of the sale of properties in the group's own development projects: amounting to 4,305 thousand euros in Q1 2016 and 3,505 thousand euros in Q1 2015.

Most of the remaining revenue of development division consist of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounted to 76 thousand euros in Q1 2016 (237 thousand euros in Q1 2015). Rental income has decreased compared to previous year due to conclusion of rental agreement with anchor tenant and the renovation works of rental spaces in Q4 2015. The rental space that was previously rented out for one anchor tenant is now divided into 7 separate spaces. The search of new tenants is ongoing, first rental agreement is concluded by the publication date of interim report. The rental income is planned to recover on the previous level by the end of year 2016.

In Q1 2016, operating profit of development division was 1,386 thousand euros, 966 thousand euros of operating profit was earned in Q1 2015.

In Q1 2016, handing over the apartments to the clients and concluding final sales in third stage (block D) apartment building of Manastirski Livadi project in Sofia has been continued. The process started in the end of December 2015. In Q1 2016, sale of 66 apartments and 1 commercial space were concluded. As at 31 March 2016, one apartment and seven commercial spaces were left unsold. By the publication date of interim report, the last apartment and also an additional commercial space have been sold.

In Q1 2016, one commercial space has been sold in second stage (Block AB) of Manastirski Livadi project and one more left unsold. All apartments and parking places are sold in this building.

As at 31 March 2016, 26 apartments remained unsold in Madrid Blvd complex in Sofia. In Q1 2016, sales were concluded for two apartments presold at the end of 2015. In 2016, 3 more apartments have been pre-sold, final sales will be in second quarter 2016. 15 apartments, out of all Madrid Blvd unsold apartments, are rented out as accommodation service. Unsold 111 parking places are also rented out.

In first three months 2016, 68 apartments and 2 commercial spaces were sold in the group's Bulgarian projects (in Q1 2015: 48 apartments and 5 commercial spaces).

In March 2016, the construction of first stage apartment building (with 125 apartments and 5 commercial spaces) in Kodulahe project was started in Tallinn. By the publishing date of the interim report, first 30 apartment presale agreements have been concluded. The construction of the apartment building should finalize at the beginning of summer 2017.

In Latvia, 14 Marsili residential plots are not sold yet. A presale agreement for one of these plots was concluded in December 2015, the final sale should be concluded in Q2 2016.

As at 31 March 2016, 5 people were employed in development division, the same number as at the end of year 2015.

SUMMARY TABLE OF ARCO VARA'S ACTIVE PROJECTS AS AT 31 MARCH 2016

Project name	Address	Product main type	Stage	Area of plot(s) (m^2)	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Manastirski A/B	Manastirski, Sofia	Apartments	S5	-	83	1
Manastirski D	Manastirski, Sofia	Apartments	S5	-	674	8
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	21
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	2,990	26
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	25,389	14
Marsili residential plots	Marsili, near Riga	Residential plots	S2	120,220	<120,220>	<68>
Kodulahe, stage 1	Lahepea 7, Tallinn	Apartments	S4/S5	6,102	8,732	130
Kodulahe, stages 2-5	Lahepea, Soodi, Pagi streets, Tallinn	Apartments	S2	22,396	<13,300>	<200>
Lehiku carpet building	Lehiku 21,23 Tallinn	Apartments	S2	5,915	<1,100>	<5>
Liimi	Liimi 1b, Tallinn	Lease: Office	S2/S5	2,463	<6,500>	1
Viimsiranna	Haabneeme, Viimsi vald	Office/Mix	S3/S5	14,174	500	1

Note: Value presented inbetween < > means future target value as the project is in early (S1, S2) development stage and the building rights or the design have not been finished yet. The table does not reflect sellable or lettable volumes below grade including parking spaces and storages. The table does not provide complete overview of the group's land bank.

Description of stages

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

PEOPLE

As at 31 March 2016, 189 people worked for the group (178 as at 31 December 2015). Employee remuneration expenses in first three months 2016 amounted to 0.7 million euros (in Q1 2015: 0.6 million euros).

The remuneration of the member of the management board/chief executive and the members of the supervisory board of the group's parent company including social security charges in Q1 2016 amounted to 28 thousand euros (25 thousand euros in Q1 2015).

MANAGEMENT BOARD AND SUPERVISORY COUNCIL

The management board of Arco Vara AS has one member. Since 22 October 2012, the member of the management board and chief executive of Arco Vara AS has been Tarmo Sild. The mandate of the chief executive was prolonged by 3 years (until October 2018) on the supervisory board meeting held in September 2015.

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

More information on key persons of Arco Vara you can find on company's corporate web page www.arcorealestate.com.

DESCRIPTION OF THE MAIN RISKS

Strategic risk

Most of the group's equity is placed in real estate development. The group is focused mainly on residential real estate development where development cycle lasts for years consisting of detail planning, designing, construction and sale - starts from purchase of land plot and finishes with the sale of end products to customers. The equity is invested mainly in starting phase of the cycle (purchase of land) on the assumption that there will be a demand for certain products in the future. Considering that the demand for development product is largely based on forecast and not on transaction then the main risk for the group is investing equity to the development product for which there is no demand in the future.

For mitigating the risk: (i) the group invests equity into different development project in different markets (in 2016, in Sofia and Tallinn), (ii) monitoring current demand and supply in its home markets and (iii) makes efforts to narrow the time between moment of investment and moment of the demand is rising - signing pre-agreements with clients, purchases land without using equity or postpones it using project financing alternatives there equity placement is not necessary.

Credit risk

The group's credit risk arises mainly from two sources: real estate development activities and reliability of the banks where bank deposits are placed. As on real estate transactions a lot of counterparty financing goes through banks, co-operation with financing banks is common to mitigate counterparty risk. And not all cash and cash equivalents are placed on the same banking group. As a consequence, the group considers credit risk as substantially mitigated.

Liquidity and interest rate risks

The base currency of all of the group's loan agreements is euro and the base interest rate is 3 or 6 months EURIBOR. As a result, the group is exposed to developments on the international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In first 3 months 2016, the group's interest-bearing liabilities have decreased by 1.4 million euros and at 31 March 2016 amounted to 11.4 million euros, of which only 0.1 million euros is due within next 12 months. At the same time, the group's cash and cash equivalents totalled 1.9 million euros as at 31 March 2016 (at 31 December 2015: 0.7 million euros). In Q1 2016, interest payments on interest-bearing liabilities totalled 0.2 million euros (in Q1 2015: 0.3 million euros). The group's weighted average loan interest rate was 5.7% as at 31 March 2016. This is an increase by 0.7 percentage points compared to the end of year 2015. The reason for the increase is bonds issued in January 2016, the bonds bear significantly higher than average interest rate.

Currency risk

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

Share and shareholders

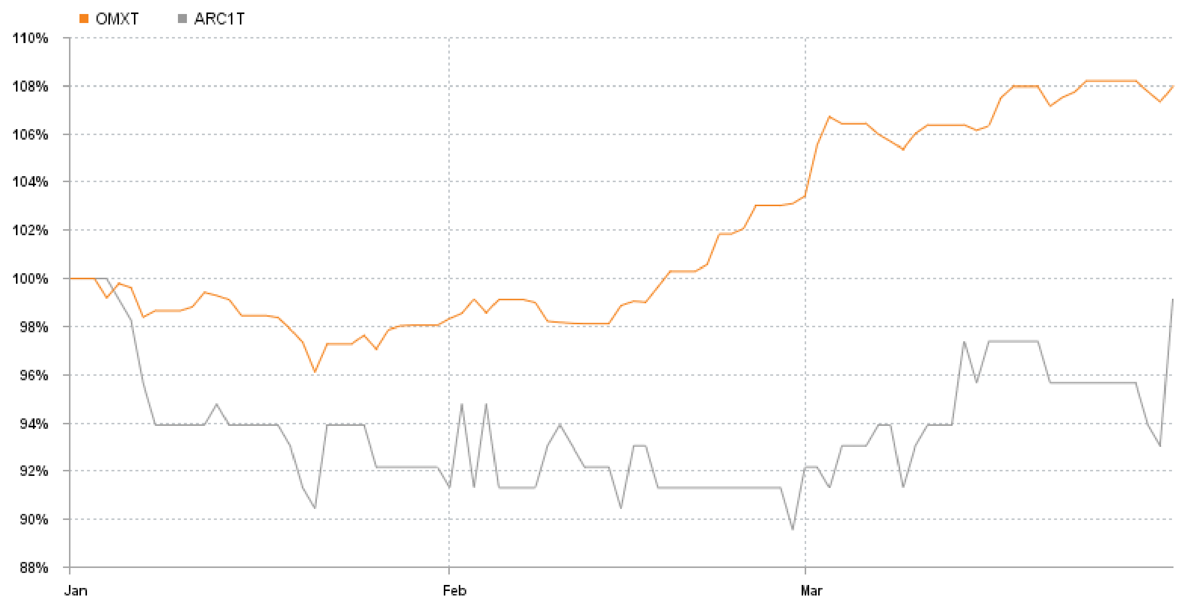
Arco Vara AS has issued a total of 6,117,012 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ Tallinn stock exchange. As at 31 March 2016, the company had 1,579 shareholders (at 31 December 2015: 1,600) including 1,365 individuals as shareholders (at 31 December 2015: 1,381 individuals). The share price closed at 1.14 euros. The price has decreased by 1% within 3 months 2016 (closing price at the end of 2015 was 1.15 euros). During the period, the highest price per share was 1.15 euros and lowest price 1.03 euros. As at 31 March 2016, market capitalization of shares amounted to 6,973 thousand euros, P/E ratio of the share was 8.8 and P/B ratio 0.66 (at 31 December 2015: 7,035 thousand euros, 15.8 and 0.73, respectively).

The following charts reflect movements in the price and daily turnover of Arco Vara share in last three years: for the period from 31 March 2013 until 31 March 2016.

In Q1 2016:

In the period from 31 March 2013 until 31 March 2016:

Changes in Arco Vara share (ARC1T) price compared with the benchmark index OMX Tallinn in Q1 2016.



Index/equity	31 Dec 2015	31 March 2016	+/-%
OMX Tallinn	898.99	970.60	+7.97
ARC1T	1.15 EUR	1.14 EUR	-0.87

Major shareholders at 31 March 2016	No of shares	Interest %
NORDEA BANK FINLAND PLC client	862,820	14.1%
AS Lõhmus Holdings	602,378	9.8%
Gamma Holding Investment OÜ	572,356	9.4%
Alarmo Kapital OÜ	489,188	8.0%
LHV PENSIONIFOND L	389,765	6.4%
FIREBIRD REPUBLICS FUND LTD	356,428	5.8%
HM Investeeringud OÜ	325,505	5.3%
FIREBIRD AVRORA FUND, LTD.	185,800	3.0%
LHV PENSIONIFOND XL	173,583	2.8%
FIREBIRD FUND L.P.	150,522	2.5%
Other shareholders	2,008,667	32.8%
Total	**6,117,012**	**100.0%**

Holdings of members of the management and supervisory boards (and related persons) at 31 March 2016	Position	No of shares	Interest %
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	602,378	9.8%
Tarmo Sild ja Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	489,188	8.0%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	chairman of supervisory board	364,259	6.0%
Kert Keskpaik (privately and through K Vara OÜ)	member of supervisory board	194,633	3.2%
Steven Yaroslav Gorelik [1]	member of supervisory board	0	0.0%
Total		**1,650,458**	**27.0%**

[1] - Steven Yaroslav Gorelik is active as fund manager in three investment funds holding interest in Arco Vara (Firebird Republics Fund Ltd, Firebird Avrora Fund Ltd and Firebird Fund L.P) of 692,750 shares (total of 11.3% interest).

Chief executive's confirmation on director's report

The chief executive/member of the management board confirms that the director's report of Arco Vara AS for the first quarter ended 31 March 2016 provides a true and fair view of the development, financial performance and financial position of the group as well as a description of the main risks and uncertainties.

Tarmo Sild

Chief Executive and Member of the Management Board of Arco Vara AS

On 5 May 2016

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	**Q1 2016**	Q1 2015
In thousands of euros			
Continuing operations			
Revenue from sale of own real estate		4,305	3,505
Revenue from rendering of services		752	892
Total revenue	2, 3	**5,057**	**4,397**
Cost of sales	4	-3,179	-2,900
Gross profit		**1,878**	**1,497**
Other income		1	17
Marketing and distribution expenses	5	-142	-109
Administrative expenses	6	-499	-475
Other expenses		-6	-12
Operating profit		**1,232**	**918**
Finance income and costs	7	-172	-190
Profit before tax		**1,060**	**728**
Net profit from continuing operations		**1,060**	**728**
Discontinued operations			
Loss from discontinued operations		0	-11
Net profit for the period		**1,060**	**717**
attributable to owners of the parent		*1,060*	*722*
attributable to non-controlling interests		*0*	*-5*
Total comprehensive income for the period		**1,060**	**717**
attributable to owners of the parent		*1,060*	*722*
attributable to non-controlling interests		*0*	*-5*
Earnings per share (in euros)	8		
- basic		**0.17**	0.12
- diluted		**0.16**	0.11

Consolidated statement of financial position

	Note	31 March 2016	31 December 2015
In thousands of euros			
Cash and cash equivalents		1,877	745
Receivables and prepayments	9	750	679
Inventories	10	11,124	12,818
Total current assets		**13,751**	**14,242**
Receivables and prepayments	9	11	0
Investment property	11	9,531	9,513
Property, plant and equipment		482	489
Intangible assets		258	229
Total non-current assets		**10,282**	**10,231**
TOTAL ASSETS		**24,033**	**24,473**
Loans and borrowings	12	118	2,345
Payables and deferred income	13	1,974	1,935
Provisions		82	146
Total current liabilities		**2,174**	**4,426**
Loans and borrowings	12	11,246	10,417
Total non-current liabilities		**11,246**	**10,417**
TOTAL LIABILITIES		**13,420**	**14,843**
Share capital		4,282	4,282
Share premium		292	292
Statutory capital reserve		2,011	2,011
Other reserves	8	298	298
Retained earnings		3,716	2,656
Total equity attributable to owners of the parent		**10,599**	**9,539**
Equity attributable to non-controlling interests		14	91
TOTAL EQUITY		**10,613**	**9,630**
TOTAL LIABILITIES AND EQUITY		**24,033**	**24,473**

Consolidated statement of cash flows

	Note	**Q1 2016**	Q1 2015
In thousands of euros			
Cash receipts from customers		5,826	5,893
Cash paid to suppliers		-1,782	-1,285
Other taxes paid and recovered (net)		-771	-1,503
Cash paid to employees		-324	-235
Other cash payments and receipts related to operating activities (net)		-47	127
NET CASH FROM OPERATING ACTIVITIES		**2,902**	**2,997**
Payments made on purchase of tangible and intangible assets		-39	-56
Interest received		0	1
Other payments related to investing activities		-3	0
Net cash flow of discontinued operations		0	0
NET CASH USED IN INVESTING ACTIVITIES		**-42**	**-55**
Proceeds from loans received	12	1,020	0
Settlement of loans and borrowings	12	-2,418	-2,533
Interest paid		-202	-303
Other payments related to financing activities		-128	0
NET CASH USED IN FINANCING ACTIVITIES		**-1,728**	**-2,836**
NET CASH FLOW		**1,132**	**106**
Cash and cash equivalents at beginning of period		745	1,691
Increase in cash and cash equivalents		**1,132**	**106**
Cash and cash equivalents at end of period		1,877	1,797

Consolidated statement of changes in equity

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands of euros								
Balance as at 31 December 2014	**4,282**	**292**	**2,011**	**179**	**2,250**	**9,014**	**36**	**9,050**
Total comprehensive income for the period	0	0	0	0	722	722	-5	**717**
Balance as at 31 March 2015	**4,282**	**292**	**2,011**	**179**	**2,972**	**9,736**	31	**9,767**
Balance as at 31 December 2014	**4,282**	**292**	**2,011**	**298**	**2,656**	**9,539**	**91**	**9,630**
Profit distribution	0	0	0	0	0	0	0	**0**
Change in non-controlling interest	0	0	0	0	0	0	-77	**-77**
Total comprehensive income for the period	0	0	0	0	1,060	1,060	0	**1,060**
Balance as at 31 March 2016	**4,282**	**292**	**2,011**	**298**	**3,716**	**10,599**	**14**	**10,613**

Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the first quarter ended 31 March 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

All amounts in the financial statements are presented in thousands of euros unless indicated otherwise.

2. Segment information

The group has the following reportable operating segments:

Development - development of residential and commercial real estate environments;

Service - real estate services: real estate brokerage, valuation, management and short-term investment in real estate.

Inter-segment transactions are conducted at market prices and priced on the same basis as transactions with external counterparties. A significant proportion of inter-segment transactions is generated by the Service segment that sells real estate brokerage services to the Development segment. Unallocated items include primarily income, expenses, assets and liabilities of the group's parent.

Revenue and operating profit by operating segment

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015
in thousands of euros										
External revenue	4,386	3,760	671	636	0	1	-	-	5,057	4,397
Annual change	*17%*		*6%*						*15%*	
Inter-segment revenue	26	22	77	143	-	-	-103	-165	0	0
Total revenue	**4,412**	**3,782**	**748**	**779**	**0**	**1**	**-103**	**-165**	**5,057**	**4,397**
Operating profit	**1,386**	**966**	**-73**	**43**	**-164**	**-173**	**83**	**82**	**1,232**	**918**

Assets and liabilities by operating segment

Segment	Development		Service		Unallocated		Consolidated	
	31 March 2016	31 Dec 2015	31 March 2016	31 Dec 2015	31 March 2016	31 Dec 2015	31 March 2016	31 Dec 2015
in thousands of euros								
Assets	21,880	23,318	612	505	1,541	650	24,033	24,473
Liabilities	11,746	14,060	425	518	1,249	265	13,420	14,843

3. Revenue

	Q1 2016	Q1 2015
In thousands of euros		
Sale of own real estate	4,305	3,505
Real estate brokerage and valuation	620	581
Rental of real estate	105	260
Property management services	9	33
Other revenue	18	18
Total revenue	**5,057**	**4,397**

4. Cost of sales

	Q1 2016	Q1 2015
In thousands of euros		
Cost of real estate sold (note 10)	-2,707	-2,433
Personnel expenses	-383	-344
Property management costs	-59	-80
Vehicle expenses	-6	-4
Depreciation, amortisation and impairment losses	-3	-3
Other costs	-21	-36
Total cost of sales	**-3,179**	**-2,900**

5. Marketing and distribution expenses

	Q1 2016	Q1 2015
In thousands of euros		
Advertising expenses	-80	-61
Personnel expenses	-34	-28
Market research	-4	-4
Brokerage fees	-3	0
Other marketing and distribution expenses	-21	-16
Total marketing and distribution expenses	**-142**	**-109**

6. Administrative expenses

	Q1 2016	Q1 2015
In thousands of euros		
Personnel expenses	-250	-243
Office expenses	-97	-112
Services purchased	-69	-55
IT expenses	-42	-35
Depreciation, amortisation and impairment losses	-23	-9
Vehicle expenses	-8	-6
Legal service fees	-4	-9
Other expenses	-6	-6
Total administrative expenses	**-499**	**-475**

7. Finance income and costs

	Q1 2016	Q1 2015
In thousands of euros		
Interest expenses	-164	-183
Interest income	0	1
Other finance income and costs	-8	-8
Total finance income and costs	**-172**	**-190**

8. Earnings per share

Basic earnings per share are calculated by dividing profit or loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by taking into account the effects of all potentially issued shares.

	Q1 2016	Q1 2015
Weighted average number of ordinary shares outstanding during the period	6,117,012	6,117,012
Number of ordinary shares potentially to be issued	390,000	390,000
Net profit attributable to owners of the parent (in thousands of euros)	1,060	722
Earnings per share (in euros)	**0.17**	0.12
Diluted earnings per share (in euros)	**0.16**	0.11

According to the decision of the annual general shareholders' meeting of Arco Vara AS, held on 1 July 2013, one convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the chief executive of the group's parent company the right to subscribe up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2016. An equity reserve is formed in amount of 298 thousand euros for the option associated with the bond. See also note 14.

9. Receivables and prepayments

Short-term receivables and prepayments

	31 March 2016	31 December 2015
In thousands of euros		
Trade receivables		
Receivables from customers	261	235
Allowance for doubtful trade receivables	-12	-12
Total trade receivables	**249**	**223**
Other receivables		
Loans provided	6	6
Miscellaneous receivables	31	119
Total other receivables	**37**	**125**
Accrued income		
Prepaid and recoverable taxes	148	75
Other accrued income	7	3
Total accrued income	**155**	**78**
Prepayments	**309**	**253**
Total short-term receivables and prepayments	**750**	**679**

Long-term receivables

	31 March 2016	31 December 2015
In thousands of euros		
Prepayments	11	0
Total long-term receivables and prepayments	**11**	**0**

10. Inventories

In thousands of euros	**31 March 2016**	31 December 2015
Properties purchased and being developed for resale	10,884	12,580
Materials and finished goods	14	12
Prepayments for inventories	226	226
Total inventories	**11,124**	**12,818**

Properties purchased and being developed for resale

In thousands of euros	**2016**	2015
Balance at the beginning of period, 1 January	**12,580**	**11,942**
Construction costs of apartment buildings	840	71
Capitalized borrowing costs	165	27
Other capitalized costs	6	64
Reclassification from/to investment property (note 11)	0	10
Cost of sold properties (note 4)	-2,707	-2,433
Balance at the end of period, 31 March	**10,884**	**9,681**

11. Investment property

In thousands of euros	**2016**	2015
Balance at the beginning of period, 1 January	**9,513**	**11,585**
Capitalised development costs	18	1
Reclassification from/to inventories (note 10)	0	-10
Balance at the end of period, 31 March	**9,531**	**11,576**

12. Loans and borrowings

	As at 31 March 2016			As at 31 December 2015		
In thousands of euros	**Total**	*of which current portion*	*of which non-current portion*	**Total**	*of which current portion*	*of which non-current portion*
Bank loans	10,222	105	10,117	12,585	2,179	10,406
Bonds	1,121	0	1,121	151	150	1
Finance lease liabilities	21	13	8	26	16	10
Total	**11,364**	**118**	**11,246**	**12,762**	**2,345**	**10,417**

In Q1 2016, the group settled loans and borrowings in amount of 2,418 thousand euros (in Q1 2015: 2,533 thousand euros) through cash transactions and new loans in amount of 1,020 thousand euros were raised (in Q1 2015 new loans were not received).

In first three months 2016, were settled following major loan obligations:

- In January and February, the group repaid the remaining 1,536 thousand euros of bank loan used for financing the construction of Manastirski Livadi project III stage.

- In March, the group repaid final 500 thousand euros of bank loan, which was raised for the acquisition of Kodulahe project land plot in 2013.

- 313 thousand euros of Madrid Blvd project bank loan principal was repaid to Piraeus bank in Bulgaria.

- In January, the group redeemed bonds (issued in March 2014) in amount of 150 thousand euros, of which 50 thousand euros through cash transaction. 100 thousand euros out of total bond issue had been converted to new bonds. New bonds were issued at the beginning of January with the total volume of 1 120 thousand euros. The bonds redemption date is on 6 January 2018 and annual interest rate is 12%. The new bonds are not secured. See also note 14.

13. Payables and deferred income

	31 March 2016	31 December 2015
In thousands of euros		
Trade payables	**681**	**296**
Miscellaneous payables	**73**	**172**
Taxes payable		
Value added tax	183	47
Corporate income tax	86	114
Social security tax	38	40
Personal income tax	29	31
Other taxes	336	336
Total taxes payable	**672**	**568**
Accrued expenses		
Payables to employees	130	174
Interest payable	0	8
Other accrued expenses	4	11
Total accrued expenses	**134**	**193**
Deferred income		
Prepayments received on sale of real estate	412	704
Other deferred income	2	2
Total deferred income	**414**	**706**
Total short-term payables and deferred income	**1,974**	**1,935**

14. Related party disclosures

The group has conducted transactions or has balances with the following related parties:

1) **companies under the control of the chief executive and the members of the supervisory board of Arco Vara AS that have a significant interest in the group's parent company**;

2) **other related parties** – the chief executive and the members of the supervisory board of Arco Vara AS and companies under their control (excluding companies that have a significant interest in the group's parent company).

Transactions with related parties

In thousands of euros	**Q1 2016**	Q1 2015
Companies that have a significant interest in the group's parent company		
Services purchased	7	7
Bonds issued	100	0
Redemption of bonds	150	750
Paid interest	3	81
Other related parties		
Services sold	0	1
Redemption of bonds	0	250
Paid interest	0	39

Balances with related parties

In thousands of euros	**31 March 2016**	31 December 2015
Companies that have a significant interest in the group's parent company		
Bonds issued	100	150
Other related parties		
Bonds issued	1	1

On 21 March 2014, Arco Vara AS issued bonds as targeted issue in total amount of 160 thousand euros. 150 thousand euros out of the total issued bonds were subscribed by the companies that have significant interest in the group's parent company. The bonds maturity date was 20 June 2015 and annual interest rate is 9.8%. In June 2015, were agreed with bondholders to postpone the redemption by six months. In January 2016, the bonds were redeemed including bonds in amount of 100 thousand euros which were converted to the new bond issue conducted in December 2015 and January 2016. See also note 12.

In Q1 2016, the remuneration provided to the group's key management personnel, i.e. the chief executive/member of the management board and the members of the supervisory board of the group's parent company, including social security charges, amounted to 28 thousand euros (in Q1 2015: 25 thousand euros). The remuneration provided to the chief executive/member of the management board is based on his service contract. The termination benefits agreed with Tarmo Sild, who was appointed chief executive officer/member of the management board of Arco Vara AS in October 2012, amount to up to five months' basic board member remuneration. The mandate of the chief executive was prolonged by 3 years (until October 2018) on the supervisory board meeting held in September 2015.The basis for the remuneration provided to the members of the supervisory board was changed in July 2013 and were slightly amended in February 2015. According to the resolutions of the general meeting of Arco Vara AS, the members of the supervisory board will get paid 500 euros (net amount) for every participated meeting but not more than 1,000 euros (net amount) per month. The payment of the remuneration is made dependent on the signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating on the board meetings are also compensated to the members of the supervisory board. The group's key management personnel was not provided or paid any other remuneration or benefits (bonuses, termination benefits, etc) in the reporting period.

In favor of chief executive/member of management board is issued convertible bond, which gives him the right to subscribe up to 390,000 ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2016. On issuing the bond, the fair value of the option was measured in amount of 298 thousand euros and has been recognized as payroll expense distributed to the period from July 2013 until December 2015. By the end of 2015, equity reserve has been formed for the whole value of the option. See also note 8.

Statement by the chief executive/member of the management board

The chief executive/member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the first quarter ended 31 March 2016.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and they give a true and fair view of the financial position, financial performance and cash flows of Arco Vara AS. Arco Vara AS is a going concern.

Tarmo Sild

Chief Executive and Member of the Management Board of Arco Vara AS

On 5 May 2016