



Arco Vara AS

INTERIM REPORT FOR THE FIRST QUARTER OF 2017



ARCO VARA

INTERIM REPORT FOR THE FIRST QUARTER OF 2017
(UNAUDITED)

Company name: Arco Vara AS

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Corporate website: www.arcorealestate.com

Regional websites: www.arcovara.ee
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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 2017 – 31 December 2017

Reporting period: 1 January 2017 – 31 March 2017

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

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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DIRECTORS' REPORT FOR Q1 2017

GENERAL INFORMATION

Group's activities

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

The Service Division is engaged in real estate brokerage, valuation, management and consulting 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, and behaviour of potential clients. Analytical data allows making better decisions on real estate development: purchase of land plots, planning and designing, pricing end products, and timing the start of construction.

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

Goals and core values

Common goals for all Arco Vara companies are:

- Providing clients with trustworthy real estate services which are based on quality information and integrated real estate products of high use value, while remaining innovative;
- Achieving stable and strong return on equity for the shareholders, which beats the competition in real estate business and justifies investing in and holding Arco Vara's shares;
- Creating 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;
- Caring – we value our clients as individuals;
- Responsibility – we keep our promises.

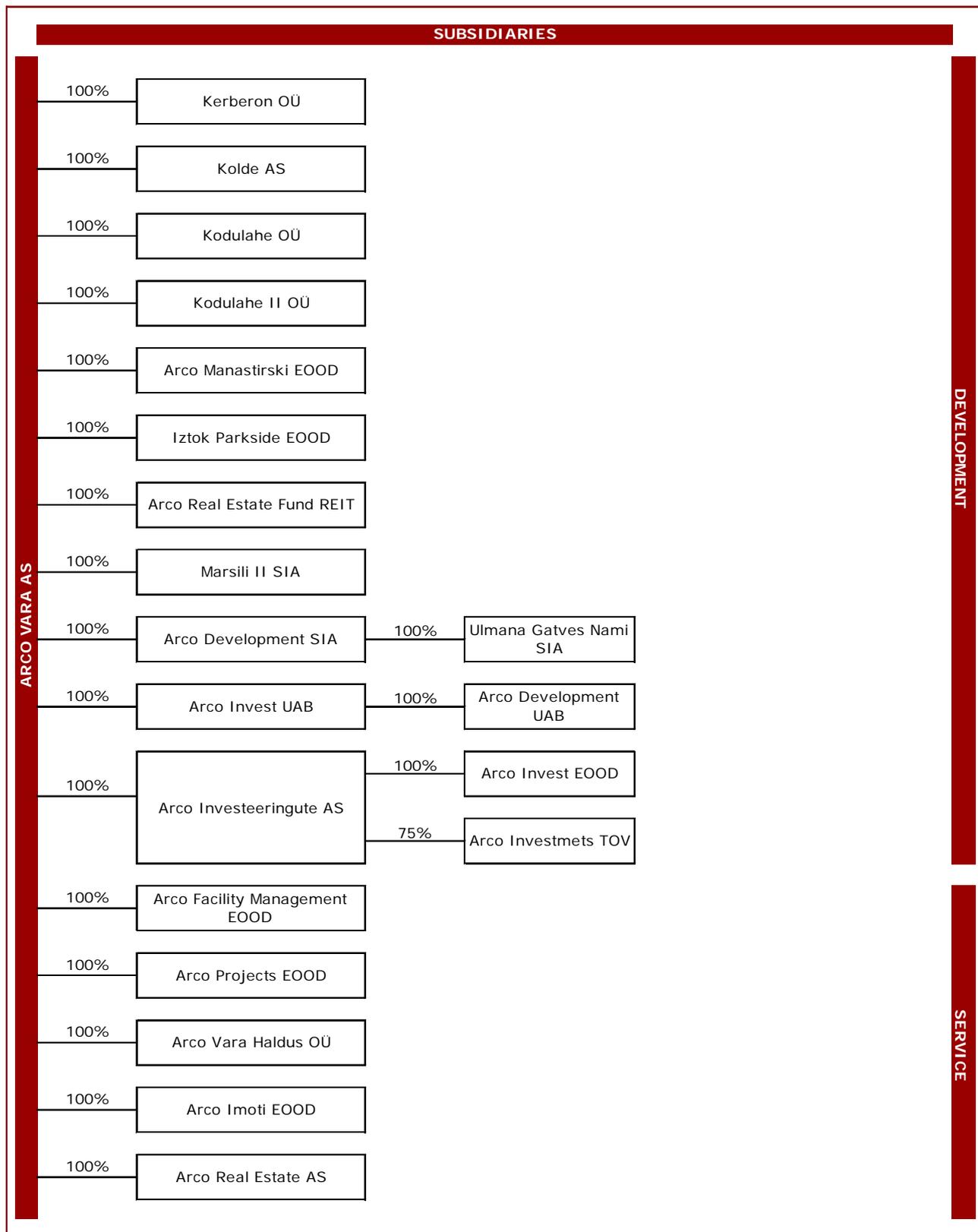
Group structure

As of 31 March 2017, the group consisted of 22 companies, the same as on 31 December 2016. During first three months of the year, there were no changes in the group's structure.

Significant subsidiaries as of 31 March 2017

Company name	Location	Segment	Share capital (nominal value)	Equity balance on 31 March 2017	The group's interest
In thousands of euros					
Arco Invest EOOD	Bulgaria	Development	26,826	-1,359	100%
Iztok Parkside EOOD	Bulgaria	Development	1,433	1,120	100%
Arco Real Estate Fund REIT	Bulgaria	Development	332	307	100%
Kodulahe OÜ	Estonia	Development	3	-380	100%
Kerberon OÜ	Estonia	Development	5	1,413	100%
Marsili II SIA	Latvia	Development	1,524	735	100%
Arco Real Estate AS	Estonia	Service	42	-32	100%
Arco Imoti EOOD	Bulgaria	Service	444	206	100%

Group structure as of 31 March 2017



KEY PERFORMANCE INDICATORS

- In Q1 2017, the group's revenue was 1.6 million euros, which is 68% less compared to the revenue of 5.1 million euros in Q1 2016. In Q1 2017, revenue of the Development Division amounted to 1.1 million euros (Q1 2016: 4.4 million euros) and revenue of the Service Division amounted to 0.7 million euros (Q1 2016: 0.8 million euros).
- In Q1 2017, the group's operating loss (=EBIT) was 0.2 million euros and net loss 0.3 million euros. In Q1 2016, the group earned operating profit of 1.2 million euros and net profit of 1.1 million euros. In Q1 2017, the Development Division made operating loss of 14 thousand euros and the Service Division made operating loss of 12 thousand euros. In Q1 2016, the Development Division earned operating profit of 1.4 million euros and the Service Division made operating loss of 0.1 million euros.
- In Q1 2017, 1 apartment and 3 land plots were sold in projects developed in the group (in Q1 2016: 68 apartments and 2 commercial spaces were sold). Number of sold properties explains big differences in revenue and operating profit figures of the Development Division. In Q1 2016, active sale was ongoing in Manastirski project in Bulgaria, but no development projects were completed in Q1 2017.
- In the first 3 months 2017, the group's debt burden (net loans) increased by 1.2 million euros up to the level of 14.6 million euros as of 31 March 2017. As of 31 March 2017, the weighted average annual interest rate of interest bearing liabilities was 5.1%. This is a decrease of 0.2 percentage points compared to 31 December 2016.

Main financial figures

In millions of euros	Q1 2017	Q1 2016
Revenue		
Development	1,1	4,4
Service	0,7	0,8
Eliminations	-0,2	-0,1
Total revenue	1,6	5,1
Operating profit (EBIT)		
Development	0,0	1,4
Service	0,0	-0,1
Unallocated income and expenses	-0,2	-0,2
Eliminations	0,0	0,1
Total operating profit/loss (EBIT)	-0,2	1,2
Finance income and expense	-0,1	-0,2
Income tax	0,0	0,0
Net profit/loss	-0,3	1,1
Total assets at the end of period	30,0	27,7
Invested capital at the end of period	24,4	23,2
Net loans at the end of period	14,6	13,4
Equity at the end of period	8,7	9,0
Cash flows from/used in operating activities	-0,6	2,9
Cash flows used in investing activities	-0,3	-0,1
Cash flows from/used in financing activities	1,2	-1,7
Net cash flows	0,3	1,1
Cash and cash equivalents at the beginning of period	0,8	0,8
Cash and cash equivalents at the end of period	1,1	1,9

Key ratios

EPS (in euros)	-0,04	0,17
Diluted EPS (in euros)	-0,04	0,16
ROIC (rolling, four quarters)	-9,6%	3,6%
ROE (rolling, four quarters)	-22,4%	7,9%
ROA (rolling, four quarters)	-8,1%	3,3%
Current ratio	0,88	1,15
Quick ratio	0,09	0,09
Financial leverage	3,45	3,09
Average loan term (in years)	0,9	1,2
Average annual interest rate of loans	5,1%	5,3%
Number of staff, at period end	120	110

Revenue and net profit/loss from continuing operations

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Total 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Total 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Total 2016	Q1 2017
In millions of euros																
Revenue	1.1	1.1	1.2	5.8	9.2	4.4	2.1	2.1	2.1	10.7	5.1	2.1	1.2	1.3	9.7	1.6
Net profit/loss	0.4	-0.3	0.4	0.6	1.1	0.7	0.0	0.2	-0.4	0.5	1.1	-0.2	-0.4	-1.3	-0.8	-0.3

Formulas used:

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

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

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

Net loans = current interest-bearing liabilities + non-current liabilities – cash and cash equivalents – short-term investments in securities (at the 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 CEO'S REVIEW

As promised, Q1 2017 was a boring quarter and should remain the last but one boring quarter with modest financial volumes. We continued selling the last units from already empty stock. During the first 3 months, our balance sheet grew by 10% to 30M EUR. Investors and bypassers alike could watch construction works of Kodulahe phase I and follow its presale levels, which by now exceed 70% and which will convert into effective sales numbers starting from Q3. If we outperform ourselves, Kodulahe sales may commence already at the end of Q2. Expected revenue from phase I exceeds 16M EUR.

We have run into bureaucratic delays with Iztok Parkside, another potential source of significant revenue (more than 8M EUR) and profit. The problem lies in getting the construction permit for future access street that will be constructed on the landplots belonging to the state. We depend on cooperation of Sofia municipality and the government, which hopefully will be efficient and smooth so that we can commence the construction very soon. Achieved presale levels exceed 20%, but currently we have stopped presales as we cannot guarantee to our clients the delivery time.

We made progress in Madrid Blvd building where the offices vacancy has dropped to only two premises (unoccupied GLA has decreased to 2000 sqm) and new tenants have moved in. We also sold the Liimi 1b landplot in Tallinn for a price that exceeded our expectations.

We progressed well with Oa development in Tartu where we are in design phase, and Kodulahe phase II building design. Arco Vara's aim is to commence construction of both projects by year-end. Taking into account our recent experience, it should be added - subject to getting the construction permit according to our schedule.

We have been the least successful with acquiring new landplots in Sofia. There is nothing to report about it at this time.

The backbone of Q1 results are the ongoing brokerage and evaluation services in Estonia and in Bulgaria that on a stand-alone basis have crossed the breakeven point and have started to support the Group's overhead costs. In the first quarter, the number of served customers exceeded 2000 people and the combined revenue from those customers exceeded 660,000 EUR, which is better than in Q1 2016 (when our revenue without Latvia was 520,000 EUR).

To sum up, the Group stays well on the course of meeting its 2017 targets.

SERVICE DIVISION

Revenue of the Service Division amounted to 680 thousand euros in Q1 2017 (Q1 2016: 748 thousand euros), which included intra-group revenue of 120 thousand euros (Q1 2016: 77 thousand euros). In Q1 2017, revenue of the Service Division from main services (real estate brokerage and valuation services) decreased by 11% compared to Q1 2016. The main reason is the fact that the revenue in the amount of 235 thousand euros from Latvian agency (which was sold in Q4 2016) was included in the group revenue Q1 2016. It is pleasant to see from the table below that the revenue from main services increased significantly both in Estonian and Bulgarian agencies (increases compared to the Q1 2016 by 35% and 38%, respectively).

Revenue of real estate agencies from brokerage and valuation

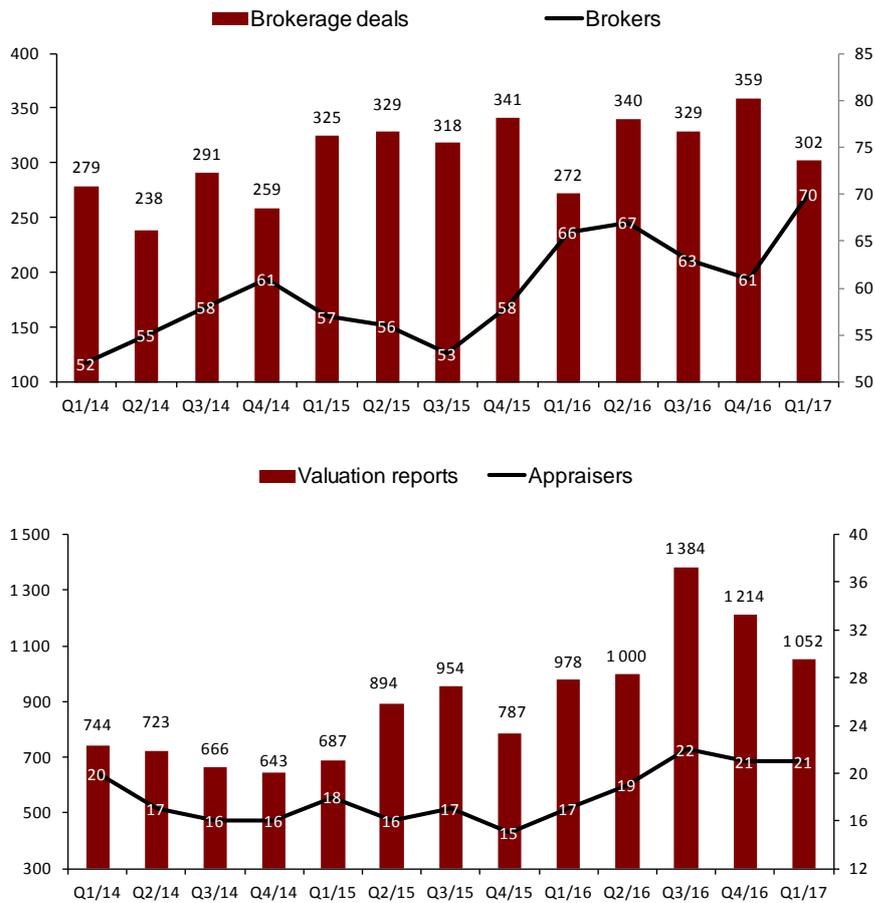
	Q1 2017	Q1 2016	Change, %
In thousands of euros			
Estonia	406	300	35%
Bulgaria	197	143	38%
Latvia	-	235	-
Total	603	678	-11%

In Q1 2017, Estonian agency had net loss of 62 thousand euros (Q1 2016: net loss of 73 thousand euros), but Bulgarian agency earned net profit of 35 thousand euros (Q1 2016: net profit of 9 thousand euros).

In addition to brokerage and valuation services, the Service Division also provides real estate management services and accommodation service in Bulgaria. The revenue from real estate management was 29 thousand euros in Q1 2017, 24 thousand euros of which was intra-group revenue (Q1 2016: 27 thousand and 23 thousand euros, respectively). Revenue from accommodation services amounted to 39 thousand euros in Q1 2017 (Q1 2016: 30 thousand euros).

The numbers of brokerage deals and valuation reports of the Service Division, together with the number of staff are shown in the following graphs. For better comparability, only Bulgarian and Estonian figures are shown.

Transaction volumes of the Service Division during the last 3 years



On 31 March 2017, the number of staff in the Service division was 107 (on 31.12.2016: 97).

DEVELOPMENT DIVISION

In Q1 2017, revenue of the Development Division totalled 1,063 thousand euros (in Q1 2016: 4,412 thousand euros) including revenue of 938 thousand euros (Q1 2016: 4,305 thousand euros) from the sale of properties in the group’s own development projects.

Most of the other revenue of the Development Division consists of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 92 thousand euros in Q1 2017 (Q1 2016: 76 thousand euros). Two new rental agreements were concluded in Q1 2017. By the publishing date of the interim report, last two office spaces remained vacant. The group expects to rent out all vacant spaces during Q2 2017.

In Q1 2017, operating loss of the Development Division was 14 thousand euros. In Q1 2016, operating profit in the amount of 1,386 thousand euros was earned. Revenue and profitability figures were significantly higher in Q1 2016 due to the conclusion of most of sale agreements in the last stage of Manastirski project in Sofia in that period (the construction of apartment building was finished in December 2015).

During Q1 2017, the construction and presale of apartments of the first stage apartment building (with 125 apartments and 5 commercial spaces) in the group’s largest development project Kodulahe continued in Tallinn. By the publishing date of the interim report, presale agreements for 92 apartments and two commercial spaces have been concluded. The construction of the apartment building should be finished by summer 2017.

In Q1 2017, preparatory works in the second stage of Kodulahe project started, where a building with ca 70 apartments and commercial spaces is planned. Preparatory works also started for Oa street properties in Tartu, where 4 smaller apartment buildings are planned. Both of these projects are expected to be finalised by mid-2019.

In Q1 2017, one apartment was sold in Madrid Blvd complex in Sofia. As of 31 March 2017, 4 apartments remained unsold. Additional 15 apartments are furnished and are being rented out as accommodation service. Unsold parking places are also being rented out.

In Q1 2017, delays emerged in the development of Iztok Parkside project in Sofia, Bulgaria. The problem lies in obtaining construction permit for the construction of access road, which is located on state-owned land. By the publication date of interim report, presale agreements for 18 apartments have been concluded, but presale has been stopped by now until

the construction permit issue will be cleared out. Iztok project consists of three apartment buildings with 68 apartments (7,070 square meters of apartments' sellable area).

As of 31 March 2017, 9 Marsili residential plots remained unsold in Latvia, out of which a presale agreement for one had been concluded in December 2016. In Q1 2017, one plot was sold in the project. Additionally, the sale of Baltezers-3 project (68 undeveloped land plots as a whole) was finished in Latvia in January.

As of 31 March 2017, 5 people were employed in the Development Division, the same number as at the end of 2016.

Summary table of Arco Vara's active projects as of 31 March 2017

Project name	Address	Product main type	Stage	Area of plot(s) (m ²)	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	21
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	1,874	19
Iztok Parkside	Iztok, Sofia	Apartments	S3	2,470	7,070	68
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	15,839	9
Kodulahe, stage 1	Lahepea 7, Tallinn	Apartments	S4/S5	6,102	8,732	130
Kodulahe, stage 2	Lahepea 9, Tallinn	Apartments	S3	3,686	<4,850>	<70>
Kodulahe, stages 3-5	Soodi 4, Pagi 3, 5, Tallinn	Apartments	S2	10,578	<8,100>	<120>
Oa street apartments	Oa street 37,39,41, Tartu	Apartments	S3	4,146	<2,300>	<40>
Lehiku carpet building	Lehiku 21,23 Tallinn	Apartments	S2	5,915	<1,100>	<5>

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

Description of stages

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

PEOPLE

Remuneration

As of 31 March 2017, 120 people worked for the group (110 as of 31 December 2016). Employee remuneration expenses in Q1 2017 amounted to 0.6 million euros (Q1 2016: 0.7 million euros).

The remuneration of the member of the management board / CEO, and the members of the supervisory board of the group's parent company including social security charges amounted to 31 thousand euros in Q1 2017 (28 thousand euros in Q1 2016).

Management board and supervisory board

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

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

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

SHARES AND SHAREHOLDERS

Share price

Arco Vara AS has issued a total of 6,507,012 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.24 euros on 31 March 2017 2016, the same price as on 31 December 2016. During the period, the highest traded price per share was 1.39 euros and the lowest price 1.15 euros. As of 31 March 2017, market capitalization of shares amounted to 8,069 thousand euros and

P/B ratio was 0.93 (31 December 2016: 8,069 thousand euros and 0.90, respectively). P/E ratio of the share was negative on 31 March 2017 and also on 31 December 2016.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in Q1 2017 and during the last three years.

Performance of Arco Vara's shares in Q1 2017



Performance of Arco Vara's shares from 31 March 2014 until 31 March 2017



Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in Q1 2017

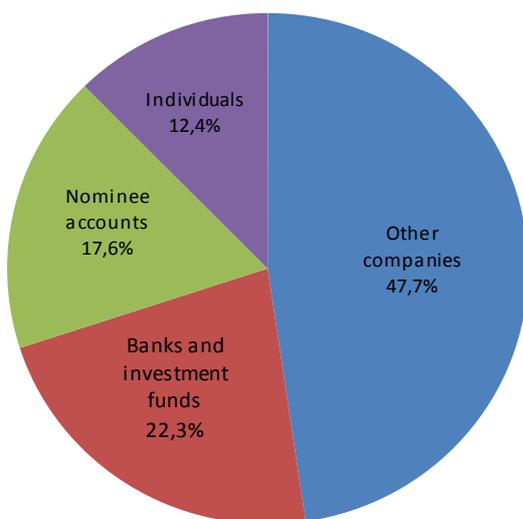


Index/equity	31 Dec 2016	31 March 2017	+/-%
OMX Tallinn	1,075.50	1,122.20	+4.34
ARC1T	1.24 EUR	1.24 EUR	0

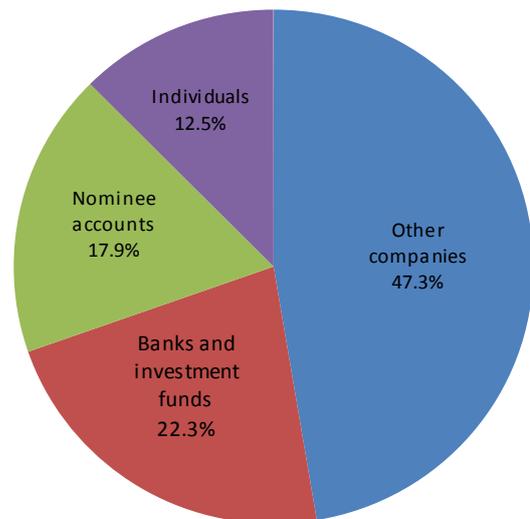
Shareholder structure

As of 31 March 2017, Arco Vara had 1,453 shareholders (on 31 December 2016: 1,502) including 1,256 individuals as shareholders (on 31 December 2016: 1,297 individuals) who jointly owned 12.4% (on 31 December 2016: 12.5%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams:

Ownership structure as of 31 March 2017



Ownership structure as of 31 December 2016



Major shareholders on 31 March 2017

Name	No of shares	Share, %
Alarmo Kapital OÜ	920,646	14.1%
NORDEA BANK FINLAND PLC client	862,820	13.3%
AS Lõhmus Holdings	602,378	9.3%
Gamma Holding Investment OÜ	553,975	8.5%
LHV PENSIONIFOND L	389,765	6.0%
FIREBIRD REPUBLICS FUND LTD	356,428	5.5%
HM Investeeringud OÜ	330,505	5.1%
FIREBIRD AVRORA FUND, LTD.	185,800	2.9%
LHV PENSIONIFOND XL	173,583	2.7%
FIREBIRD FUND L.P.	150,522	2.3%
Other shareholders	1,980,590	30.4%
Total	6,507,012	100.0%

Holdings of management and supervisory board members on 31 March 2017

Name	Position	No of shares	Share, %
armo Sild ja Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	920,646	14.1%
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	602,378	9.3%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	chairman of supervisory board	369,259	5.7%
Kert Keskaik (privately and through K Vara OÜ)	member of supervisory board	202,623	3.1%
Steven Yaroslav Gorelik ¹	member of supervisory board	0	-
Total		2,094,906	32.2%

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 10.6% interest).

CEO'S CONFIRMATION ON DIRECTORS' REPORT

The CEO and member of the management board of Arco Vara AS confirms that the directors' report of Arco Vara for the first quarter ended on 31 March 2017 provides a true and fair view of business developments, financial performance and financial position of the group as well as a description of the main risks and uncertainties.



Tarmo Sild
Chief Executive and Member of the Management Board of Arco Vara AS
On 11 May 2017

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Q1 2017	Q1 2016
In thousands of euros			
Revenue from sale of own real estate		938	4,305
Revenue from rendering of services		662	752
Total revenue	2, 3	1,600	5,057
Cost of sales	4	-1,251	-3,179
Gross profit		349	1,878
Other income		10	1
Marketing and distribution expenses	5	-109	-142
Administrative expenses	6	-412	-499
Other expenses		-8	-6
Operating profit/loss		-170	1,232
Finance income and costs	7	-115	-172
Profit/loss before tax		-285	1,060
Income tax		0	0
Net profit/loss		-285	1,060
Net profit/loss for the period		-285	1,060
<i>attributable to owners of the parent</i>		-285	1,060
<i>attributable to non-controlling interests</i>		0	0
Total comprehensive income/expense for the period		-285	1,060
<i>attributable to owners of the parent</i>		-285	1,060
<i>attributable to non-controlling interests</i>		0	0
Earnings per share (in euros)	8		
- basic		-0.04	0.17
- diluted		-0.04	0.16

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 March 2017	31 December 2016
In thousands of euros			
Cash and cash equivalents		1,133	845
Receivables and prepayments	9	676	470
Inventories	10	16,093	14,593
Total current assets		17,902	15,908
Receivables and prepayments	9	11	11
Investment property	11	11,153	10,835
Property, plant and equipment		716	718
Intangible assets		253	248
Total non-current assets		12,133	11,812
TOTAL ASSETS		30,035	27,720
Loans and borrowings	12	14,690	9,372
Payables and deferred income	13	5,550	4,369
Provisions		44	108
Total current liabilities		20,284	13,849
Loans and borrowings	12	1,051	4,886
Total non-current liabilities		1,051	4,886
TOTAL LIABILITIES		21,335	18,735
Share capital		4,555	4,555
Share premium		292	292
Statutory capital reserve		2,011	2,011
Other reserves	8	52	52
Retained earnings		1,790	2,075
Total equity attributable to owners of the parent		8,700	8,985
Equity attributable to non-controlling interests		0	0
TOTAL EQUITY		8,700	8,985
TOTAL LIABILITIES AND EQUITY		30,035	27,720

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Q1 2017	Q1 2016
In thousands of euros			
Cash receipts from customers		2,039	5,826
Cash paid to suppliers		-2,362	-1,764
Other taxes paid and recovered (net)		-79	-771
Cash paid to employees		-212	-324
Other cash payments and receipts related to operating activities (net)		-10	-47
NET CASH FROM/USED IN OPERATING ACTIVITIES		-624	2,920
Payments made on purchase of tangible and intangible assets		-15	-39
Payments made on purchase and development of investment property	11	-318	-18
Loans provided		-5	0
Other payments related to investing activities		0	-3
NET CASH USED IN INVESTING ACTIVITIES		-338	-60
Proceeds from loans received	12	1,654	1,020
Settlement of loans and borrowings	12	-171	-2,418
Interest paid		-233	-202
Other payments related to financing activities		0	-128
NET CASH FROM/USED IN FINANCING ACTIVITIES		1,250	-1,728
NET CASH FLOW		288	1,132
Cash and cash equivalents at beginning of period		845	745
Increase in cash and cash equivalents		288	1,132
Cash and cash equivalents at end of period		1,133	1,877

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 of 31 December 2015	4,282	292	2,011	298	2,656	9,539	91	9,630
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 of 31 March 2016	4,282	292	2,011	298	3,716	10,599	14	10,613
Balance as of 31 December 2016	4,555	292	2,011	52	2,075	8,985	0	8,985
Total comprehensive income for the period	0	0	0	0	-285	-285	0	-285
Balance as of 31 March 2017	4,555	292	2,011	52	1,790	8,700	0	8,700

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the first quarter ended on 31 March 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements for the year ended on 31 December 2016, 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 investments 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 providing real estate brokerage services to the development segment. Unallocated items include primarily income, expenses, assets and liabilities of the group's parent company.

Revenue and operating profit by operating segment

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016
in thousands of euros										
External revenue	1,039	4,386	560	671	1	0			1,600	5,057
Annual change	-76.3%		-16.5%						-68.4%	
Inter-segment revenue	24	26	120	77			-144	-103	0	0
Total revenue	1,063	4,412	680	748	1	0	-144	-103	1,600	5,057
Annual change	-75.9%		-9.1%							
Operating profit/loss	-14	1,386	-12	-73	-146	-164	2	83	-170	1,232

Assets and liabilities by operating segment

Segment	Development		Service		Unallocated		Consolidated	
	31 March 2017	31 Dec 2016						
in thousands of euros								
Assets	28,692	26,892	545	385	798	443	30,035	27,720
Liabilities	19,393	16,816	392	344	1,550	1,575	21,335	18,735

3. Revenue

	Q1 2017	Q1 2016
In thousands of euros		
Sale of own real estate	938	4,305
Real estate brokerage and valuation	487	620
Rental of real estate	131	105
Property management services	14	9
Other revenue	30	18
Total revenue	1,600	5,057

4. Cost of sales

	Q1 2017	Q1 2016
In thousands of euros		
Cost of real estate sold (note 10)	-827	-2,707
Personnel expenses	-324	-383
Property management costs	-60	-59
Vehicle expenses	-12	-6
Depreciation, amortisation and impairment losses	-2	-3
Other costs	-26	-21
Total cost of sales	-1,251	-3,179

5. Marketing and distribution expenses

	Q1 2017	Q1 2016
In thousands of euros		
Advertising expenses	-44	-80
Personnel expenses	-24	-34
Brokerage fees	-5	-3
Market research	0	-4
Other marketing and distribution expenses	-36	-21
Total marketing and distribution expenses	-109	-142

6. Administrative expenses

	Q1 2017	Q1 2016
In thousands of euros		
Personnel expenses	-210	-250
Office expenses	-66	-97
Services purchased	-47	-69
IT expenses	-44	-42
Depreciation, amortisation and impairment losses	-22	-23
Legal service fees	-7	-4
Vehicle expenses	-6	-8
Other expenses	-10	-6
Total administrative expenses	-412	-499

7. Financial income and expenses

	Q1 2017	Q1 2016
In thousands of euros		
Interest expenses	-115	-164
Other finance income and costs	0	-8
Total finance income and costs	-115	-172

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 2017	Q1 2016
Weighted average number of ordinary shares outstanding during the period	6,507,012	6,117,012
Number of ordinary shares potentially to be issued (at period end)	390,000	390,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	-285	1,060
Earnings per share (in euros)	-0.04	0.17
Diluted earnings per share (in euros)	-0.04	0.16

According to the decision of the annual general meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the CEO of the group's parent company the right to subscribe additionally up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. An equity reserve in the amount of 52 thousand euros has been formed for the option associated with the bond. See also note 14.

9. Receivables and prepayments

Short-term receivables and prepayments

	31 March 2017	31 December 2016
In thousands of euros		
Trade receivables		
Receivables from customers	152	193
Total trade receivables	152	193
Other receivables		
Loans provided	4	0
Miscellaneous receivables	22	10
Total other receivables	26	10
Accrued income		
Prepaid and recoverable taxes	211	107
Other accrued income	113	5
Total accrued income	324	112
Prepayments	174	155
Total short-term receivables and prepayments	676	470

Long-term receivables

	31 March 2017	31 December 2016
In thousands of euros		
Prepayments	11	11
Total long-term receivables and prepayments	11	11

10. Inventories

	31 March 2017	31 December 2016
In thousands of euros		
Properties purchased and being developed for resale	16,071	14,571
Materials and finished goods	6	6
Prepayments for inventories	16	16
Total inventories	16,093	14,593

Properties purchased and being developed for resale

	2017	2016
In thousands of euros		
Balance at the beginning of period, 1 January	14,571	12,580
Properties purchased for development	12	70
Construction costs of apartment buildings	2,124	840
Capitalized borrowing costs	103	165
Other capitalized costs	88	6
Cost of sold properties (note 4)	-827	-2,707
Balance at the end of period, 31 March	16,071	10,954

11. Investment property

	2017	2016
In thousands of euros		
Balance at the beginning of period, 1 January	10,835	9,513
Capitalised development costs	18	18
Purchase of land plots	300	0
Balance at the end of period, 31 March	11,153	9,531

12. Loans and borrowings

	As of 31 March 2017			As of 31 December 2016		
	Total	of which current portion	of which non-current portion	Total	of which current portion	of which non-current portion
In thousands of euros						
Bank loans	14,312	13,262	1,050	12,827	9,063	3,764
Bonds	1,121	1,120	1	1,121	0	1,121
Other loans	300	300	0	300	300	0
Finance lease liabilities	8	8	0	10	9	1
Total	15,741	14,690	1,051	14,258	9,372	4,886

In Q1 2017, the group settled loans and borrowings in the amount of 171 thousand euros (in Q1 2016: 2,418 thousand euros) through cash transactions and raised new loans in the amount of 1,654 thousand euros (in Q1 2016: 1,020 thousand euros).

In Q1 2017, the following major loan obligations were settled:

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

In Q1 2017, the group raised the following new loans:

- 1,654 thousand euros of bank loan for financing construction of first stage apartment building in Kodulahe project.

13. Payables and deferred income

Short-term payables and deferred income

	31 March 2017	31 December 2016
In thousands of euros		
Trade payables	1,450	800
Miscellaneous payables	30	21
Taxes payable		
Value added tax	47	66
Corporate income tax	40	53
Social security tax	37	47
Personal income tax	24	27
Other taxes	160	173
Total taxes payable	308	366
Accrued expenses		
Payables to employees	144	117
Interest payable	61	76
Other accrued expenses	4	5
Total accrued expenses	209	198
Deferred income		
Prepayments received on sale of real estate	3,527	2,958
Other deferred income	26	26
Total deferred income	3,553	2,984
Total short-term payables and deferred income	5,550	4,369

14. Related party disclosures

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

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

Transactions with related parties

	Q1 2017	Q1 2016
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Services purchased	16	7
Bonds issued	0	100
Redemption of bonds	0	150
Paid interest	6	3
Other related parties		
Services sold	2	0

Balances with related parties

	31 March 2017	31 December 2016
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Bonds issued	100	100
Other related parties		
Trade receivables	1	0
Deferred income	6	6
Bonds issued	1	1

In Q1 2017, the remuneration provided to the group's key management personnel, i.e. the CEO / member of the management board and the members of the supervisory board of the group's parent company, including social security charges, amounted to 31 thousand euros (in Q1 2016: 28 thousand euros). The remuneration provided to the CEO / member of the management board is based on his service contract. The termination benefits agreed with Tarmo Sild, who was appointed the CEO / member of the management board of Arco Vara AS in October 2012, amount to up to five months' base remuneration. The mandate of the CEO was extended by 3 years (until October 2018) on the supervisory board meeting held in September 2015. The basis for the remuneration provided to the members of the supervisory board was changed in July 2013 and was slightly amended in February 2015. According to the resolutions of the general meeting of Arco Vara AS, the members of the supervisory board will receive 500 euros (net amount) for every meeting where they have participated, but not more than 1,000 euros (net amount) per month. The payment of the remuneration is dependent on the signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating on the board meetings are also compensated to the members of the supervisory board. The group's key management personnel have not been granted or received any other remuneration or benefits (bonuses, termination benefits, etc) in the reporting period.

According to the decision of the annual general shareholders' meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the CEO of the group's parent company the right to subscribe for additional 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. An equity reserve in the amount of 52 thousand euros has been formed for the option associated with the bond. See also note 8.

STATEMENT BY THE CEO / MEMBER OF THE MANAGEMENT BOARD

The CEO / member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the first quarter ended on 31 March 2017.

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 11 May 2017