



**INTERIM REPORT FOR THE  
II QUARTER AND SIX MONTHS OF 2017  
(UNAUDITED)**

 ARCOVARA

## INTERIM REPORT FOR THE SECOND QUARTER AND SIX MONTHS OF 2017 (UNAUDITED)

Company name: Arco Vara AS

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Corporate website: [www.arcorealestate.com](http://www.arcorealestate.com)

Regional websites: [www.arcovara.ee](http://www.arcovara.ee)  
[www.arcoreal.bg](http://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 2017 – 31 December 2017

Reporting period: 1 January 2017 – 30 June 2017

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

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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## DIRECTORS' REPORT FOR Q2 AND 6 MONTHS 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.

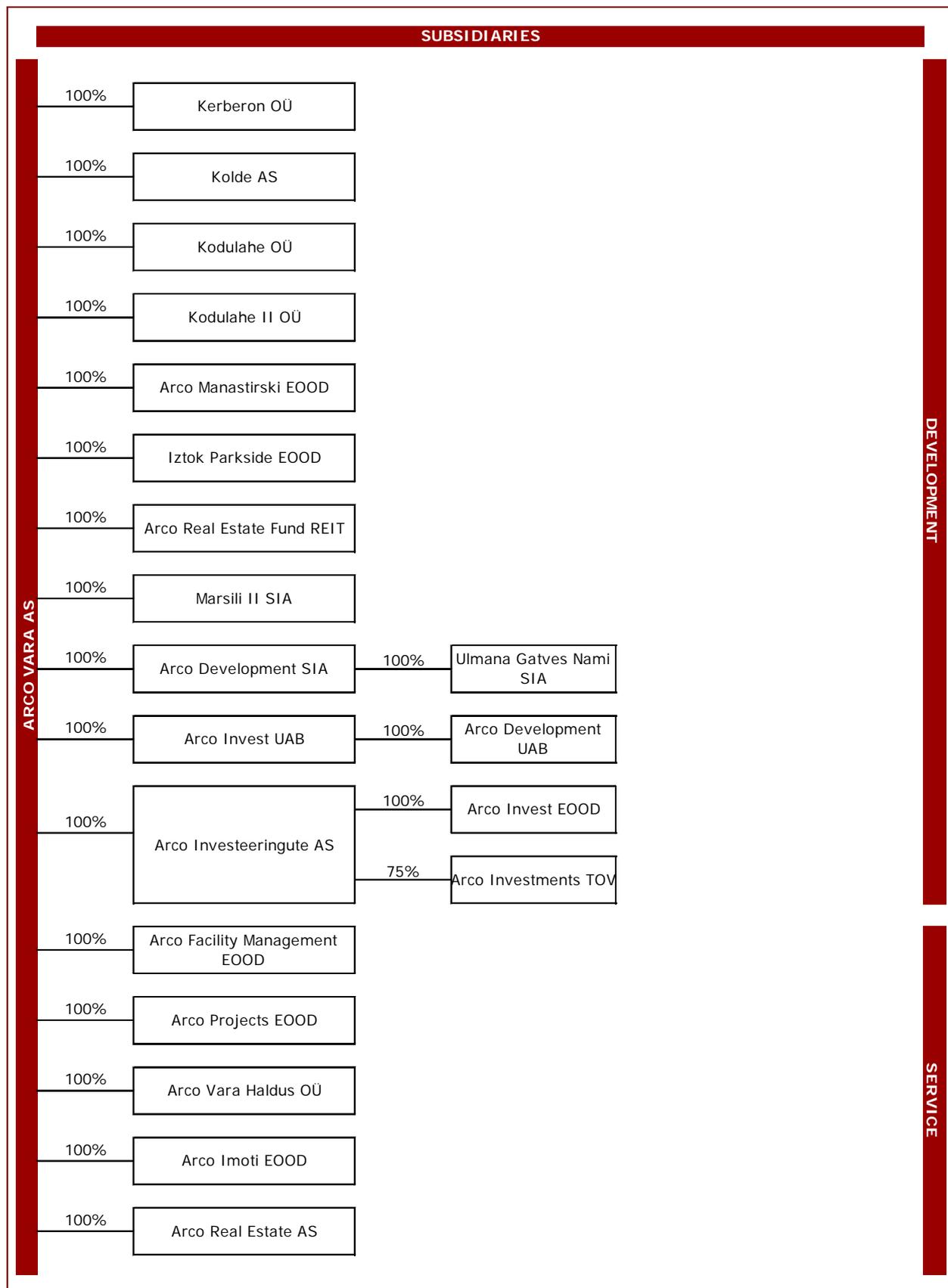
#### Group structure

As of 30 June 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 30 June 2017

Company name	Location	Segment	Share capital (nominal value)	Equity balance on 30 June 2017	The group's interest
In thousands of euros					
Arco Invest EOOD	Bulgaria	Development	26,826	-1,587	100%
Iztok Parkside EOOD	Bulgaria	Development	1,433	1,096	100%
Arco Real Estate Fund REIT	Bulgaria	Development	332	313	100%
Kodulahe OÜ	Estonia	Development	3	-424	100%
Kerberon OÜ	Estonia	Development	5	1,412	100%
Marsili II SIA	Latvia	Development	1,524	727	100%
Arco Real Estate AS	Estonia	Service	42	-78	100%
Arco Imoti EOOD	Bulgaria	Service	444	213	100%

Group structure as of 30 June 2017



DEVELOPMENT

SERVICE

## KEY PERFORMANCE INDICATORS

- In Q2 2017, the group's revenue was 1.0 million euros, which is 52% less compared to the revenue of 2.1 million euros in Q2 2016. In 6 months 2017, the group's revenue was 2.6 million euros, which is 63.5% less compared to the revenue of 7.2 million euros in 6 months 2016. The revenue of the Development Division amounted to 0.4 million euros in Q2 2017 and 1.5 million euros in 6 months 2017 (2016: 1.4 million euros in Q2 and 5.8 million euros in 6 months) and revenue of the Service Division amounted to 0.7 million euros in Q2 and 1.4 million euros in 6 months (in 2016: 0.8 million euros in Q2 and 1.6 million euros in 6 months).
- In Q2 2017, the group's operating loss (=EBIT) was 0.2 million euros and net loss 0.4 million euros (in 6 months 2017: operating loss of 0.4 million euros and net loss of 0.6 million euros). In Q2 2016, the group had operating loss of 0.1 million euros and net loss of 0.2 million euros. In 6 months 2016, the group earned operating profit of 1.2 million euros and net profit of 0.9 million euros. In Q2 and 6 months 2017, both the Development Division and the Service Division had a small loss (below 0.1 million euros). In Q2 and 6 months 2016, the Development Division earned operating profit of 0.1 million euros and 1.5 million euros, respectively. The Service Division had operating loss of 0.1 million euros in 6 months 2016.
- In Q2 2017, 1 apartment and 3 land plots were sold in projects developed by the group (in 6 months 2017: 2 apartments and 6 land plots). In 2016, 5 apartments, 3 commercial spaces and 4 land plots in Q2 (73 apartments, 5 commercial spaces and 4 land plots in 6 months) were sold. The number of sold properties explains the large differences in revenue and operating profit figures of the Development Division. In the first half of 2016, active sale was ongoing in Manastirski project in Bulgaria, but no development projects have been completed yet in 2017.
- In the first 6 months of 2017, the group's debt burden (net loans) increased by 5.1 million euros up to the level of 18.5 million euros as of 30 June 2017. As of 30 June 2017, the weighted average annual interest rate of interest bearing liabilities was 5.0%. This is a decrease of 0.3 percentage points compared to 31 December 2016.

### Main financial figures

	6 months 2017	6 months 2016	Q2 2017	Q2 2016
In millions of euros				
<b>Revenue</b>				
Development	1.5	5.8	0.4	1.4
Service	1.4	1.6	0.7	0.9
Eliminations	-0.3	-0.2	-0.1	-0.2
<b>Total revenue</b>	<b>2.6</b>	<b>7.2</b>	<b>1.0</b>	<b>2.1</b>
<b>Operating profit (EBIT)</b>				
Development	0.0	1.5	0.0	0.1
Service	-0.1	-0.1	0.0	0.0
Unallocated income and expenses	-0.3	-0.3	-0.2	-0.2
Eliminations	0.0	0.1	0.0	0.0
<b>Total operating profit/loss (EBIT)</b>	<b>-0.4</b>	<b>1.2</b>	<b>-0.2</b>	<b>-0.1</b>
Finance income and expense	-0.2	-0.3	-0.2	-0.1
<b>Net profit/loss</b>	<b>-0.6</b>	<b>0.9</b>	<b>-0.4</b>	<b>-0.2</b>
Cash flows from/used in operating activities	-3.0	3.6	-2.3	0.7
Cash flows used in investing activities	-0.4	-0.9	-0.1	-0.9
Cash flows from/used in financing activities	3.3	-2.5	2.0	-0.8
<b>Net cash flows</b>	<b>-0.1</b>	<b>0.2</b>	<b>-0.4</b>	<b>-1.0</b>
Cash and cash equivalents at beginning of period	0.8	0.7	1.1	1.9
Cash and cash equivalents at end of period	0.7	0.9	0.7	0.9
Total assets, at period end	31.7	25.6		
Invested capital, at period end	27.5	21.2		
Net loans, at period end	18.5	9.9		
Equity, at period end	8.3	10.4		

**Key ratios**

EPS (in euros)	-0.10	0.14	-0.05	-0.03
Diluted EPS (in euros)	-0.09	0.13	-0.05	-0.03
ROIC (rolling, four quarters)	-9.9%	6.3%		
ROE (rolling, four quarters)	-25.3%	17.1%		
ROA (rolling, four quarters)	-8.3%	5.7%		
Current ratio	0.87	3.49		
Quick ratio	0.06	0.36		
Financial leverage	3.83	2.47		
Average loan term (in years)	0.7	1.5		
Average annual interest rate of loans	5.0%	5.7%		
Number of staff, at period end	131	185		

**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	Q1 2017	6M 2017
In millions of euros																		
Revenue	1.1	1.1	1.2	5.8	<b>9.2</b>	4.4	2.1	2.1	2.1	<b>10.7</b>	5.1	2.1	1.2	1.3	<b>9.7</b>	1.6	1.0	<b>2.6</b>
Net profit/loss	0.4	-0.3	0.4	0.6	<b>1.1</b>	0.7	0.0	0.2	-0.4	<b>0.5</b>	1.1	-0.2	-0.4	-1.3	<b>-0.8</b>	-0.3	-0.3	<b>-0.6</b>

**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

Q2 was the last quarter providing modest results. This was an end to our journey through a desert, which required a strong cash management. Unfortunately, we could not outperform ourselves and did not start the final sales of Kodulahe apartments in Q2, because the construction period was extended by more than four weeks due to circumstances not controlled by Arco Vara.

We made revenues only through brokerage, evaluations and renting out properties, in a total amount of 1 mln euros in 3 months. During this period, we helped nearly 2200 people, out of those 1500 in Estonia and the rest in Bulgaria. A good sign is that brokerage and appraisal revenues have increased both in Estonia and in Bulgaria in the last 24 months (2016 figures included the Latvian subsidiary, which was sold in the autumn of 2016), and the rental income from Madrid Blvd building has increased as well. Unfortunately, this growth has not been sufficient to cover the overhead and interest costs of the group.

In the ongoing 3rd quarter, we have started the transfer and final sales of Kodulahe 1. stage apartments. The expected revenue of the 1. stage exceeds 16 mln euros. We stick to our plan to complete the sale of the 1. stage by the end of this year, after which we can allocate the cash into new developments.

In the Iztok Parkside project, we are still applying for construction permit. We have made some progress in various aspects of this procedure, but have not achieved a breakthrough. Until the construction and presale of this project will start, Iztok Parkside will remain a cost item in our P/L statement.

In the Oa street development in Tartu, as well as in Kodulahe 2. stage, design works are in progress. Our aim is to start construction of both projects in this year.

We continue our efforts to find tenants for the remaining rental areas in the Madrid Blvd building, as well as to find new land plots suitable for development in Sofia.

To summarize, we can see from ongoing work that the second half of 2017 will provide both more news and profits.

The ambitions of Arco Vara as the most people-oriented real estate company still remain higher than its 2017 results.

## SERVICE DIVISION

In Q2 2017, revenue of the Service Division amounted to 682 thousand euros (Q2 2016: 850 thousand euros), which included intra-group revenue of 56 thousand euros (Q2 2016: 126 thousand euros). In 6 months 2017, the revenue of 1,362 thousand euros decreased by 14.8% compared to the revenue of 1,598 thousand euros in 6 months 2016. In 6 months 2017, revenue of the Service Division from main services (real estate brokerage and valuation services) decreased by 18% compared to 6 months 2016. The main reason is the fact that the revenue in the amount of 468 thousand euros from the Latvian agency (which was sold in Q4 2016) was included in the group revenue in 6 months 2016. It is good to see from the table below that the revenue from main services increased significantly in the Estonian agency (compared to the Q2 and 6 months 2016, respective increases were 28% and 23%).

### Revenue of real estate agencies from brokerage and valuation

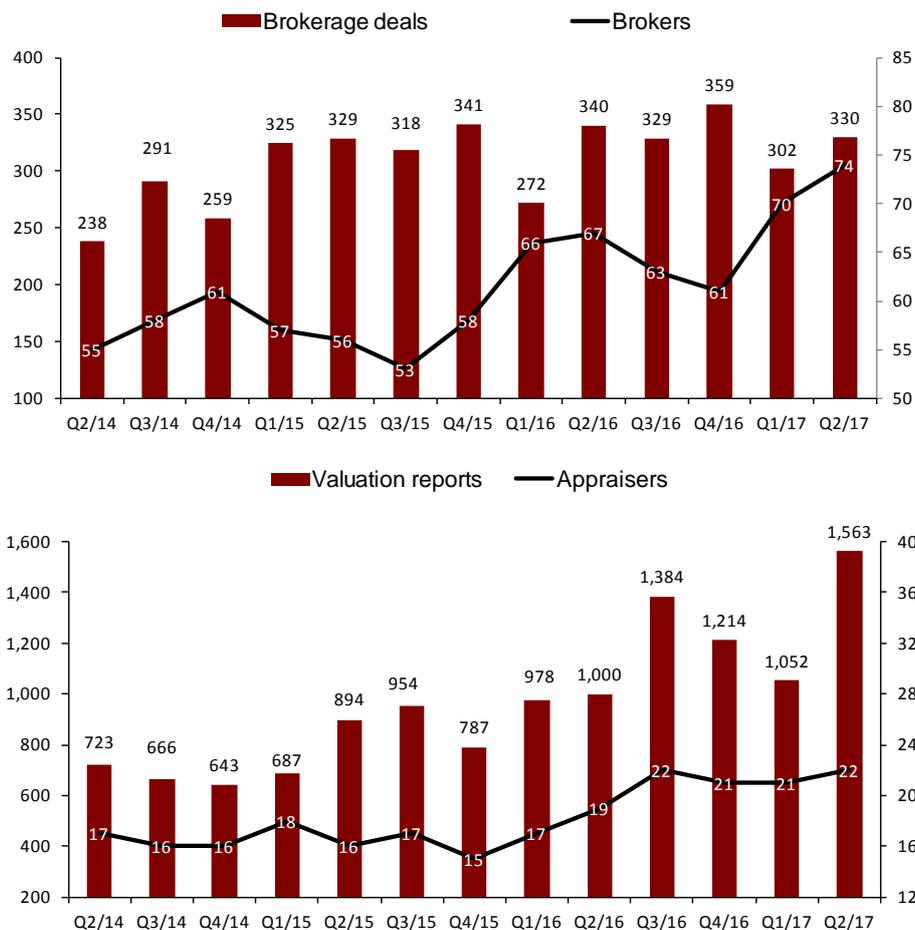
	6 months 2017	6 months 2016	Change, %	Q2 2017	Q2 2016	Change, %
In thousands of euros						
Estonia	841	655	28%	435	355	23%
Bulgaria	354	329	8%	157	186	-16%
Latvia	-	468	-	-	233	-
<b>Total</b>	<b>1,195</b>	<b>1,452</b>	<b>-18%</b>	<b>592</b>	<b>774</b>	<b>-24%</b>

In Q2 and 6 months 2017, Estonian agency had net loss of 46 thousand euros and 108 thousand euros, respectively (in 2016: net loss of 46 thousand euros in Q2 and 119 thousand euros in 6 months). Bulgarian agency earned net profit of 6 thousand euros in Q2 2017 and 41 thousand euros in 6 months 2017. (2016: net profit of 7 thousand euros in Q2 and net loss of 2 thousand euros in 6 months).

In addition to brokerage and valuation services, the Service Division also provides real estate management and accommodation services in Bulgaria. The revenue from real estate management was 63 thousand euros in 6 months 2017, 52 thousand euros of which was intra-group revenue (6 months 2016: 56 thousand and 47 thousand euros, respectively). Revenue from accommodation services amounted to 86 thousand euros in 6 months 2017, of which 47 thousand euros was made in Q2 (2016: 64 thousand euros in 6 months and 34 thousand euros in Q2).

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 30 June 2017, the number of staff in the Service Division was 118 (on 31.12.2016: 97).

### DEVELOPMENT DIVISION

The revenue of the Development Division totalled 406 thousand euros in Q2 2017 (in Q2 2016: 1,403 thousand euros) and 1,469 thousand euros in 6 months 2017 (in 6 months 2016: 5,815 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 248 thousand euros in Q2 and 1,186 thousand euros in 6 months (2016: 1,277 thousand euros in Q2 and 5,582 thousand euros in 6 months).

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 120 thousand euros in Q2 2017 and 212 thousand euros in 6 months 2017 (2016: 88 thousand euros in Q2 and 163 thousand euros in 6 months). By the publishing date of the interim report, last two office spaces remained vacant. The group expects to rent out all vacant spaces during Q3 2017.

In Q2 and 6 months 2017, the Development Division had operating loss of 29 thousand euros and 43 thousand euros, respectively. In 2016, the Development Division earned operating profit of 105 thousand euros in Q2 and 1,491 thousand euros in 6 months. Revenue and profitability figures were significantly higher in first half 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).

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 100 apartments and two commercial spaces have been concluded. The construction of the apartment building will be finished in Q3 2017.

In Q2 2017, preparatory works in the second stage of Kodulahe project continued, where a building with ca 70 apartments and commercial spaces is planned. Preparatory works also continued 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 Q2 2017, one apartment was sold in Madrid Blvd complex in Sofia. As of 30 June 2017, 3 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 Q2 2017, the delay that had emerged during Q1 in the development of Iztok Parkside project in Sofia continued. 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 15 apartments remained in force, but further 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 30 June 2017, 6 Marsili residential plots remained unsold in Latvia. In Q2 2017, three plots were sold in the project.

As of 30 June 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 30 June 2017

Project name	Address	Product main type	Stage	Area of plot(s) (m <sup>2</sup> )	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	23
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	1,759	18
Iztok Parkside	Iztok, Sofia	Apartments	S3	2,470	7,070	68
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	10,831	6
Kodulahe, stage 1	Lahepea 7, Tallinn	Apartments	S4/S5	6,102	8,732	130
Kodulahe, stage 2	Lahepea 9, Tallinn	Apartments	S3	3,686	<5,200>	<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 30 June 2017, 131 people worked for the group (110 as of 31 December 2016). Employee remuneration expenses in 6 months 2017 amounted to 1.1 million euros, out of which 0.6 million euros in Q2 2017 (2016 same periods: 1.4 million euros and 0.7 million euros respectively).

The remuneration of the member of the management board / CEO, and the members of the supervisory board of the group's parent company including social security charges amounted to 62 thousand euros in 6 months 2017, out of which 31 thousand euros in Q2 2017 (in 6 months and Q2 2016: 57 thousand euros and 28 thousand euros respectively).

### Management board and supervisory board

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

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

Additional information on key persons of Arco Vara is presented on company's corporate web page [www.arcorealestate.com](http://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 1.27 euros on 30 June 2017 (at 1.24 euros on 31 December 2016). During the period, the highest traded price per share was 1.45 euros and the lowest price 1.15

euros. As of 30 June 2017, market capitalization of shares amounted to 8,264 thousand euros and P/B ratio was 1.00 (31 December 2016: 8,069 thousand euros and 0.90, respectively). P/E ratio of the share was negative on 30 June 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 6 months 2017 and during the last three years.

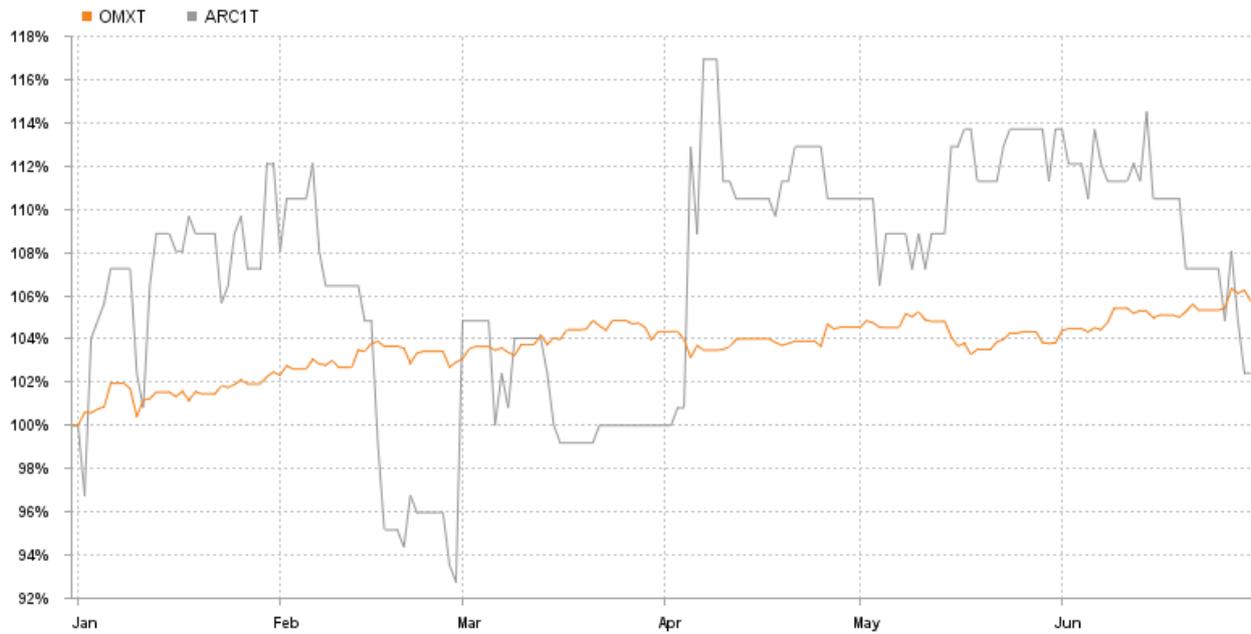
**Performance of Arco Vara's shares in 6 months 2017**



**Performance of Arco Vara's shares from 30 June 2014 until 30 June 2017**



**Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 6 months 2017**

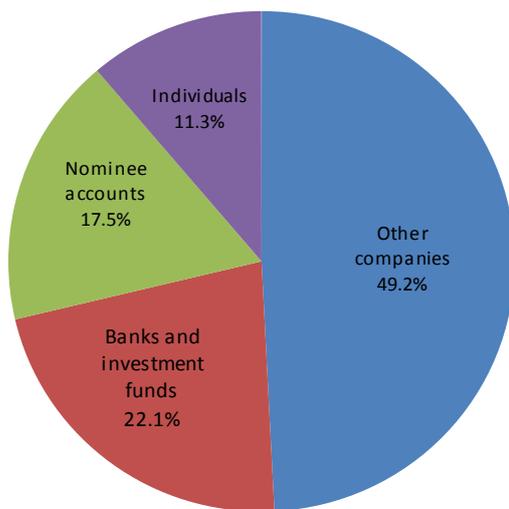


Index/equity	31 Dec 2016	30 June 2017	+/-%
—OMX Tallinn	1,075.50	1,137.08	+5.73
—ARC1T	1.24 EUR	1.27 EUR	+2.42

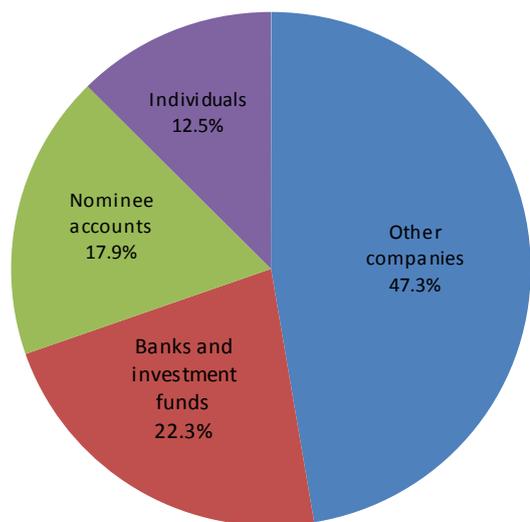
**Shareholder structure**

As of 30 June 2017, Arco Vara had 1,416 shareholders (on 31 December 2016: 1,502), including 1,227 individuals as shareholders (on 31 December 2016: 1,297 individuals) who jointly owned 11.3% (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 30 June 2017



Ownership structure as of 31 December 2016



**Major shareholders on 30 June 2017**

<b>Name</b>	<b>No of shares</b>	<b>Share, %</b>
Alarmo Kapital OÜ	1,015,805	15.6%
NORDEA BANK FINLAND PLC client	862,820	13.3%
AS Lõhmus Holdings	602,378	9.3%
Gamma Holding Investment OÜ	562,893	8.7%
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	1,876,513	28.8%
<b>Total</b>	<b>6,507,012</b>	<b>100.0%</b>

**Holdings of management and supervisory board members on 30 June 2017**

<b>Name</b>	<b>Position</b>	<b>No of shares</b>	<b>Share, %</b>
armo Sild ja Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	1,015,805	15.6%
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	602,378	9.3%
Hillar-Peeter Luutsalu (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	204,771	3.1%
Steven Yaroslav Gorelik <sup>1</sup>	member of supervisory board	0	-
<b>Total</b>		<b>2,192,213</b>	<b>33.7%</b>

<sup>1</sup> - 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 second quarter and 6 months ended on 30 June 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 10 August 2017

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6 months 2017	6 months 2016	Q2 2017	Q2 2016
In thousands of euros					
Revenue from sale of own real estate		1,186	5,582	248	1,277
Revenue from rendering of services		1,422	1,569	760	817
<b>Total revenue</b>	2, 3	<b>2,608</b>	<b>7,151</b>	<b>1,008</b>	<b>2,094</b>
Cost of sales	4	-1,933	-4,692	-682	-1,513
<b>Gross profit</b>		<b>675</b>	<b>2,459</b>	<b>326</b>	<b>581</b>
Other income		19	28	9	27
Marketing and distribution expenses	5	-214	-280	-105	-138
Administrative expenses	6	-824	-1,021	-412	-522
Other expenses		-26	-18	-18	-12
Gain on sale of subsidiaries		0	1	0	1
<b>Operating profit/loss</b>		<b>-370</b>	<b>1,169</b>	<b>-200</b>	<b>-63</b>
Finance income and costs	7	-272	-296	-157	-124
<b>Net profit/loss</b>		<b>-642</b>	<b>873</b>	<b>-357</b>	<b>-187</b>
<b>Net profit/loss for the period</b>		<b>-642</b>	<b>873</b>	<b>-357</b>	<b>-187</b>
<i>attributable to owners of the parent</i>		<i>-642</i>	<i>878</i>	<i>-357</i>	<i>-182</i>
<i>attributable to non-controlling interests</i>		<i>0</i>	<i>-5</i>	<i>0</i>	<i>-5</i>
<b>Total comprehensive income/expense for the period</b>		<b>-642</b>	<b>873</b>	<b>-357</b>	<b>-187</b>
<i>attributable to owners of the parent</i>		<i>-642</i>	<i>878</i>	<i>-357</i>	<i>-182</i>
<i>attributable to non-controlling interests</i>		<i>0</i>	<i>-5</i>	<i>0</i>	<i>-5</i>
<b>Earnings per share (in euros)</b>	8				
- basic		<b>-0.10</b>	0.14	<b>-0.05</b>	-0.03
- diluted		<b>-0.09</b>	0.13	<b>-0.05</b>	-0.03

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	30 June 2017	31 December 2016
In thousands of euros			
Cash and cash equivalents		752	845
Receivables and prepayments	9	501	470
Inventories	10	18,296	14,593
<b>Total current assets</b>		<b>19,549</b>	<b>15,908</b>
Receivables and prepayments	9	11	11
Investments		8	0
Investment property	11	11,155	10,835
Property, plant and equipment		707	718
Intangible assets		265	248
<b>Total non-current assets</b>		<b>12,146</b>	<b>11,812</b>
<b>TOTAL ASSETS</b>		<b>31,695</b>	<b>27,720</b>
Loans and borrowings	12	17,044	9,372
Payables and deferred income	13	5,279	4,369
Provisions		43	108
<b>Total current liabilities</b>		<b>22,366</b>	<b>13,849</b>
Loans and borrowings	12	1,051	4,886
<b>Total non-current liabilities</b>		<b>1,051</b>	<b>4,886</b>
<b>TOTAL LIABILITIES</b>		<b>23,417</b>	<b>18,735</b>
Share capital		4,555	4,555
Share premium		292	292
Statutory capital reserve		2,011	2,011
Other reserves	8	52	52
Retained earnings		1,368	2,075
<b>Total equity attributable to owners of the parent</b>		<b>8,278</b>	<b>8,985</b>
Equity attributable to non-controlling interests		0	0
<b>TOTAL EQUITY</b>		<b>8,278</b>	<b>8,985</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>31,695</b>	<b>27,720</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	6 months 2017	6 months 2016	Q2 2017	Q2 2016
In thousands of euros					
Cash receipts from customers		3,641	9,635	1,602	3,809
Cash paid to suppliers		-6,272	-4,156	-3,909	-2,392
Other taxes paid and recovered (net)		102	-1,149	181	-378
Cash paid to employees		-460	-636	-248	-312
Other cash payments and receipts related to operating activities (net)		12	-62	22	-15
<b>NET CASH FROM/USED IN OPERATING ACTIVITIES</b>		<b>-2,977</b>	<b>3,632</b>	<b>-2,352</b>	<b>712</b>
Payments made on purchase of tangible and intangible assets		-48	-74	-33	-35
Payments made on purchase and development of investment property	11	-330	-29	-13	-11
Proceeds from sale of a subsidiary		0	1	0	1
Payments made on purchase of a subsidiary		0	-840	0	-840
Loans provided		-7	0	-2	0
Other payments related to investing activities		-8	-3	-8	0
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>-393</b>	<b>-945</b>	<b>-56</b>	<b>-885</b>
Proceeds from loans received	12	4,176	1,071	2,522	51
Settlement of loans and borrowings	12	-339	-2,998	-168	-580
Interest paid		-451	-391	-218	-189
Dividends paid		-65	-61	-65	-61
Other payments related to financing activities		-44	-128	-44	0
<b>NET CASH FROM/USED IN FINANCING ACTIVITIES</b>		<b>3,277</b>	<b>-2,507</b>	<b>2,027</b>	<b>-779</b>
<b>NET CASH FLOW</b>		<b>-93</b>	<b>180</b>	<b>-381</b>	<b>-952</b>
Cash and cash equivalents at beginning of period		845	745	1,133	1,877
<b>Increase in cash and cash equivalents</b>		<b>-93</b>	<b>180</b>	<b>-381</b>	<b>-952</b>
Cash and cash equivalents at the end of period		752	925	752	925

**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								
<b>Balance as of 31 December 2015</b>	<b>4,282</b>	<b>292</b>	<b>2,011</b>	<b>298</b>	<b>2,656</b>	<b>9,539</b>	<b>91</b>	<b>9,630</b>
Dividends paid	0	0	0	0	-61	-61	0	-61
Change in non-controlling interest	0	0	0	0	0	0	-77	-77
Total comprehensive income for the period	0	0	0	0	878	878	-5	873
<b>Balance as of 30 June 2016</b>	<b>4,282</b>	<b>292</b>	<b>2,011</b>	<b>298</b>	<b>3,473</b>	<b>10,356</b>	<b>9</b>	<b>10,365</b>
<b>Balance as of 31 December 2016</b>	<b>4,555</b>	<b>292</b>	<b>2,011</b>	<b>52</b>	<b>2,075</b>	<b>8,985</b>	<b>0</b>	<b>8,985</b>
Dividends paid	0	0	0	0	-65	-65	0	-65
Total comprehensive income for the period	0	0	0	0	-642	-642	0	-642
<b>Balance as of 30 June 2017</b>	<b>4,555</b>	<b>292</b>	<b>2,011</b>	<b>52</b>	<b>1,368</b>	<b>8,278</b>	<b>0</b>	<b>8,278</b>

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

### 1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the second quarter and 6 months ended on 30 June 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	
	6M 2017	6M 2016	6M 2017	6M 2016	6M 2017	6M 2016	6M 2017	6M 2016	6M 2017	6M 2016
in thousands of euros										
External revenue	1,420	5,759	1,186	1,392	2	0			2,608	7,151
<i>Annual change</i>	-75.3%		-14.8%						-63.5%	
Inter-segment revenue	49	56	176	206			-225	-262	0	0
<b>Total revenue</b>	<b>1,469</b>	<b>5,815</b>	<b>1,362</b>	<b>1,598</b>	<b>2</b>	<b>0</b>	<b>-225</b>	<b>-262</b>	<b>2,608</b>	<b>7,151</b>
<i>Annual change</i>	-74.7%		-14.8%							
<b>Operating profit/loss</b>	<b>-43</b>	<b>1,491</b>	<b>-57</b>	<b>-177</b>	<b>-270</b>	<b>-322</b>	<b>0</b>	<b>117</b>	<b>-370</b>	<b>1,169</b>

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	Q2 2017	Q2 2016	Q2 2017	Q2 2016	Q2 2017	Q2 2016	Q2 2017	Q2 2016	Q2 2017	Q2 2016
in thousands of euros										
External revenue	381	1,373	626	721	1	0			1,008	2,094
<i>Annual change</i>	-72.3%		-13.2%						-51.9%	
Inter-segment revenue	25	30	56	129			-81	-159	0	0
<b>Total revenue</b>	<b>406</b>	<b>1,403</b>	<b>682</b>	<b>850</b>	<b>1</b>	<b>0</b>	<b>-81</b>	<b>-159</b>	<b>1,008</b>	<b>2,094</b>
<i>Annual change</i>	-71.1%		-19.8%							
<b>Operating profit/loss</b>	<b>-29</b>	<b>105</b>	<b>-45</b>	<b>-44</b>	<b>-124</b>	<b>-158</b>	<b>-2</b>	<b>34</b>	<b>-200</b>	<b>-63</b>

#### Assets and liabilities by operating segment

Segment	Development		Service		Unallocated		Consolidated	
	30 June 2017	31 Dec 2016						
in thousands of euros								
Assets	30,607	26,892	489	385	599	443	31,695	27,720
Liabilities	21,586	16,816	351	344	1,480	1,575	23,417	18,735

### 3. Revenue

	6 months 2017	6 months 2016	Q2 2017	Q2 2016
In thousands of euros				
Sale of own real estate	1,186	5,582	248	1,277
Real estate brokerage and valuation	1,029	1,277	543	657
Rental of real estate	299	227	167	122
Property management services	33	21	19	12
Other revenue	61	44	31	26
<b>Total revenue</b>	<b>2,608</b>	<b>7,151</b>	<b>1,008</b>	<b>2,094</b>

### 4. Cost of sales

	6 months 2017	6 months 2016	Q2 2017	Q2 2016
In thousands of euros				
Cost of real estate sold (note 10)	-1,067	-3,676	-240	-969
Personnel expenses	-665	-812	-341	-429
Property management costs	-133	-129	-73	-70
Vehicle expenses	-22	-12	-10	-6
Depreciation, amortisation and impairment losses	-5	-6	-3	-3
Other costs	-41	-57	-15	-36
<b>Total cost of sales</b>	<b>-1,933</b>	<b>-4,692</b>	<b>-682</b>	<b>-1,513</b>

### 5. Marketing and distribution expenses

	6 months 2017	6 months 2016	Q2 2017	Q2 2016
In thousands of euros				
Advertising expenses	-88	-151	-44	-71
Personnel expenses	-49	-63	-25	-29
Brokerage fees	-16	-3	-11	0
Market research	0	-5	0	-1
Other marketing and distribution expenses	-61	-58	-25	-37
<b>Total marketing and distribution expenses</b>	<b>-214</b>	<b>-280</b>	<b>-105</b>	<b>-138</b>

### 6. Administrative expenses

	6 months 2017	6 months 2016	Q2 2017	Q2 2016
In thousands of euros				
Personnel expenses	-432	-547	-222	-297
Office expenses	-127	-189	-61	-92
IT expenses	-90	-80	-47	-38
Services purchased	-83	-109	-36	-40
Depreciation, amortisation and impairment losses	-46	-46	-23	-23
Legal service fees	-16	-15	-10	-11
Vehicle expenses	-13	-16	-6	-8
Other expenses	-17	-19	-7	-13
<b>Total administrative expenses</b>	<b>-824</b>	<b>-1,021</b>	<b>-412</b>	<b>-522</b>

## 7. Financial income and expenses

	6 months 2017	6 months 2016	Q2 2017	Q2 2016
In thousands of euros				
Interest expenses	-228	-286	-113	-122
Other financial income and costs	-44	-10	-44	-2
<b>Total financial income and costs</b>	<b>-272</b>	<b>-296</b>	<b>-157</b>	<b>-124</b>

## 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.

	6 months 2017	6 months 2016	Q2 2017	Q2 2016
Weighted average number of ordinary shares outstanding during the period	6,507,012	6,117,012	6,507,012	6,117,012
Number of ordinary shares potentially to be issued (at period end)	390,000	390,000	390,000	390,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	-642	878	-357	-182
<b>Earnings per share (in euros)</b>	<b>-0.10</b>	0.14	<b>-0.05</b>	-0.03
<b>Diluted earnings per share (in euros)</b>	<b>-0.09</b>	0.13	<b>-0.05</b>	-0.03

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

	30 June 2017	31 December 2016
In thousands of euros		
<b>Trade receivables</b>		
Receivables from customers	120	193
Allowance for doubtful trade receivables	0	0
<b>Total trade receivables</b>	<b>120</b>	<b>193</b>
<b>Other receivables</b>		
Loans provided	6	0
Miscellaneous receivables	23	10
<b>Total other receivables</b>	<b>29</b>	<b>10</b>
<b>Accrued income</b>		
Prepaid and recoverable taxes	167	107
Other accrued income	12	5
<b>Total accrued income</b>	<b>179</b>	<b>112</b>
<b>Prepayments</b>	<b>173</b>	<b>155</b>
<b>Total short-term receivables and prepayments</b>	<b>501</b>	<b>470</b>

### Long-term receivables and prepayments

	30 June 2017	31 December 2016
In thousands of euros		
Prepayments	11	11
<b>Total long-term receivables and prepayments</b>	<b>11</b>	<b>11</b>

## 10. Inventories

	30 June 2017	31 December 2016
In thousands of euros		
Properties purchased and being developed for resale	18,272	14,571
Materials and finished goods	8	6
Prepayments for inventories	16	16
<b>Total inventories</b>	<b>18,296</b>	<b>14,593</b>

### Properties purchased and being developed for resale

	2017	2016
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>14,571</b>	<b>12,580</b>
Properties purchased for development	12	2,102
Construction costs of apartment buildings	4,351	2,382
Capitalized borrowing costs	229	234
Other capitalized costs	166	14
Reclassification to/from investment property (note 11)	10	431
Cost of sold properties (note 4)	-1,067	-3,676
<b>Balance at the end of period, 30 June</b>	<b>18,272</b>	<b>14,067</b>

## 11. Investment property

	2017	2016
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>10,835</b>	<b>9,513</b>
Capitalised development costs	30	29
Reclassification to/from inventories (note 10)	-10	-431
Purchase of land plots	300	0
<b>Balance at the end of period, 30 June</b>	<b>11,155</b>	<b>9,111</b>

## 12. Loans and borrowings

	As of 30 June 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	16,697	15,647	1,050	12,827	9,063	3,764
Bonds	1,121	1,120	1	1,121	0	1,121
Finance lease liabilities	5	5	0	10	9	1
Other loans	272	272	0	300	300	0
<b>Total</b>	<b>18,095</b>	<b>17,044</b>	<b>1,051</b>	<b>14,258</b>	<b>9,372</b>	<b>4,886</b>

In 6 months 2017, the group settled loans and borrowings in the amount of 339 thousand euros (in 6 months 2016: 2,998 thousand euros) through cash transactions and raised new loans in the amount of 4,176 thousand euros (in 6 months 2016: 1,071 thousand euros).

In 6 months 2017, the following major loan obligations were settled:

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

In 6 months 2017, the group raised the following new loans:

- 4,176 thousand euros of bank loan for financing construction of the first stage apartment building in Kodulahe project.

### 13. Payables and deferred income

#### Short-term payables and deferred income

	30 June 2017	31 December 2016
In thousands of euros		
<b>Trade payables</b>	<b>1,001</b>	<b>800</b>
<b>Miscellaneous payables</b>	<b>133</b>	<b>21</b>
<b>Taxes payable</b>		
Value added tax	12	66
Corporate income tax	3	53
Social security tax	40	47
Personal income tax	23	27
Other taxes	191	173
<b>Total taxes payable</b>	<b>269</b>	<b>366</b>
<b>Accrued expenses</b>		
Payables to employees	124	117
Interest payable	82	76
Other accrued expenses	59	5
<b>Total accrued expenses</b>	<b>265</b>	<b>198</b>
<b>Deferred income</b>		
Prepayments received on sale of real estate	3,588	2,958
Other deferred income	23	26
<b>Total deferred income</b>	<b>3,611</b>	<b>2,984</b>
<b>Total short-term payables and deferred income</b>	<b>5,279</b>	<b>4,369</b>

### 14. Related party disclosures

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

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

#### Transactions with related parties

	6 months 2017	6 months 2016
In thousands of euros		
<b>Companies that have a significant interest in the group's parent company</b>		
Services purchased	41	20
Bonds issued	0	100
Redemption of bonds	0	150
Paid interest	9	6
<b>Other related parties</b>		
Services sold	2	0

**Balances with related parties**

	30 June 2017	31 December 2016
In thousands of euros		
<b>Companies that have a significant interest in the group's parent company</b>		
Bonds issued	100	100
<b>Other related parties</b>		
Deferred income	6	6
Bonds issued	1	1

In 6 months 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 62 thousand euros, of which 31 thousand euros in Q2 (in 6 months and Q2 2016: 57 thousand euros and 29 thousand euros respectively). The remuneration provided to the CEO / member of the management board is based on his service contract. The termination benefits agreed with Tarmo Sild, who was appointed the CEO / member of the management board of Arco Vara AS in October 2012, amount to up to five months' base remuneration. The mandate of the CEO was extended by 3 years (until October 2018) on the supervisory board meeting held in September 2015. The basis for the remuneration provided to the members of the supervisory board was changed in July 2013 and was slightly amended in February 2015. According to the resolutions of the general meeting of Arco Vara AS, the members of the supervisory board will receive 500 euros (net amount) for every meeting where they have participated, but not more than 1,000 euros (net amount) per month. The payment of the remuneration is dependent on the signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating on the board meetings are also compensated to the members of the supervisory board. The group's key management personnel have not been granted or received any other remuneration or benefits (bonuses, termination benefits, etc) in the reporting period.

According to the decision of the annual general 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 second quarter and 6 months ended on 30 June 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 10 August 2017