



Arco Vara AS

INTERIM REPORT FOR THE SECOND
QUARTER AND SIX MONTHS 2015



ARCO VARA

**INTERIM REPORT FOR THE
SECOND QUARTER AND SIX MONTHS
ENDED 30 JUNE 2015
(UNAUDITED)**

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Core activities: Renting and operating of real estate (EMTAK 6820)

Activities of real estate agencies (EMTAK 6831)

Real estate management (EMTAK 6832)

Financial year: 1 January 2015 – 31 December 2015

Reporting period: 1 January 2015 – 30 June 2015

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

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

CONTENTS

DIRECTORS' REPORT FOR SECOND QUARTER AND SIX MONTHS 2015.....	4
GENERAL INFORMATION.....	4
KEY PERFORMANCE INDICATORS	6
GROUP CHIEF EXECUTIVE'S REVIEW	8
SHARE AND SHAREHOLDERS.....	12
CHIEF EXECUTIVE'S CONFIRMATION ON DIRECTOR'S REPORT	14
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	15
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	15
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	16
CONSOLIDATED STATEMENT OF CASH FLOWS.....	17
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	18
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	19
1. <i>Significant accounting policies</i>	19
2. <i>Segment information</i>	19
3. <i>Revenue</i>	20
4. <i>Cost of sales</i>	20
5. <i>Marketing and distribution expenses</i>	20
6. <i>Administrative expenses</i>	20
7. <i>Finance income and costs</i>	21
8. <i>Earnings per share</i>	21
9. <i>Receivables and prepayments</i>	21
10. <i>Inventories</i>	22
11. <i>Investment property</i>	22
12. <i>Loans and borrowings</i>	22
13. <i>Payables and deferred income</i>	23
14. <i>Related party disclosures</i>	23
15. <i>Events after the reporting date</i>	25
STATEMENT BY THE CHIEF EXECUTIVE/MEMBER OF THE MANAGEMENT BOARD	26

Directors' report for second quarter and six months 2015

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 purchase of land plots, planning and designing, 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.

During the first six months 2015, there were no changes in the group structure. At 30 June 2015, the group comprises of 24 companies.

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

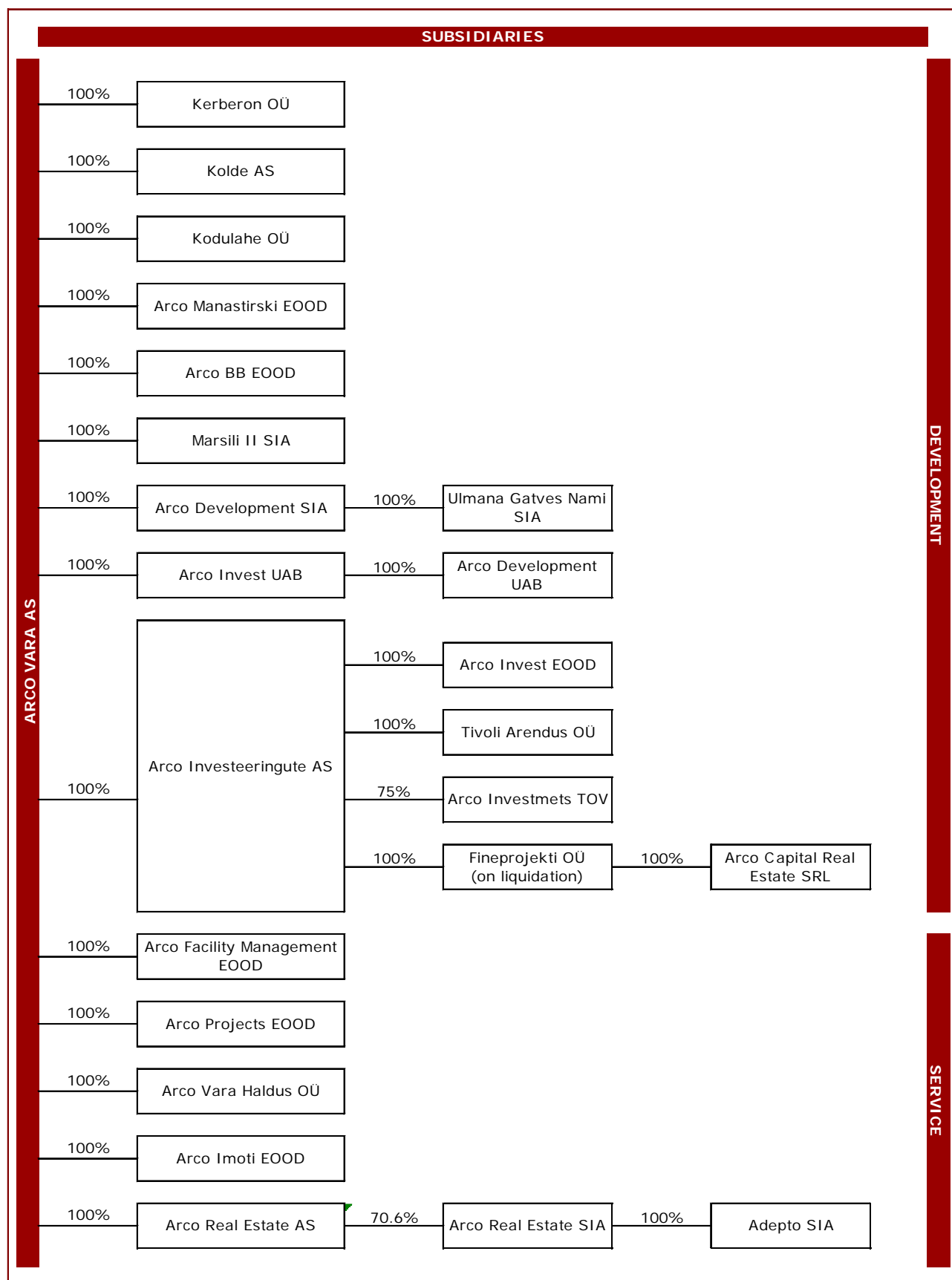
Significant subsidiaries

Company name	Location	Segment	Share capital (nominal value)	Equity balance at 30 June 2015	The group's interest
In thousands of euros					
Arco Manastirski EOOD	Bulgaria	development	2,676	3,513	100%
Arco Invest EOOD	Bulgaria	development	25,976	-766	100%
Kolde AS	Estonia	development	28	-266	100%
Kerberon OÜ	Estonia	development	5	1,189	100%
Marsili II SIA	Latvia	development	1,524	936	100%
Arco Development SIA	Latvia	development	6,473	-1,987	100%
Arco Real Estate AS	Estonia	service	42	-686	100%
Arco Real Estate SIA ¹	Latvia	service	1,905	74	70.6%
Arco Imoti EOOD	Bulgaria	service	444	189	100%

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

GROUP STRUCTURE

As at 30 June 2015



Key Performance Indicators

- In first six months 2015, the group's revenue was 6.5 million euros, exceeding almost three times the revenue of first half of 2014, when revenue amounted to 2.2 million euros. In Q2, revenue was 2.1 million euros (in Q2 2014: 1.1 million euros). The increase of the group's revenue comes from Development division, where revenue amounted to 5.2 million euros in six months 2015 (in 6 months 2014: 0.8 million euros), of which 4.6 million euros from the sale of apartments in the group's development projects in Bulgaria. The revenue of service division has remained basically in the same level decreased by 1% compared to six months of previous year. Q2 2015 revenue of services division increased by 6% compared to Q2 of previous year.
- In six months 2015, operating profit (=EBIT) was 1.1 million euros and net profit 0.7 million euros, a year ago the same figures were 0.4 million euros and 29 thousand euros respectively. Moreover, the result of 2014 was impacted by gain from the sale of a subsidiary in amount of more than 0.6 million euros. In Q2 this year, operating profit was 0.2 million euros and net loss amounted to 12 thousand euros. In Q2 2014, the group had operating loss of 0.1 million euros and net loss of 0.4 million euros.
- Equity to assets ratio arose up to 40.9% at 30 June 2015. At 31 December 2014, the figure was 33.5%.
- The group's net loans have decreased by 2.4 million euros in six months 2015. As at 30 June 2015, the weighted average annual interest rate of loans was 5.1%. This is a decrease by 0.4 percentage points compared to 31 December 2014.
- In six months 2015, were sold 61 apartments (of which 13 were sold in Q2) and 5 commercial spaces in projects developed in the group. In six months 2014, were sold only 3 apartments (of which one in Q2).

	6 months 2015	6 months 2014	Q2 2015	Q2 2014
In millions of euros				
Revenue				
Development	5.2	0.8	1.4	0.4
Service	1.6	1.6	0.8	0.8
Eliminations	-0.3	-0.2	-0.1	-0.1
Total revenue	6.5	2.2	2.1	1.1
Operating profit (EBIT)				
Development	1.2	0.1	0.3	0.0
Service	0.1	0.1	0.0	0.1
Unallocated income and expenses	0.0	0.4	-0.2	-0.1
Eliminations	-0.2	-0.2	0.1	-0.1
Total operating profit (EBIT)	1.1	0.4	0.2	-0.1
Finance income and expense	-0.4	-0.4	-0.2	-0.2
Net profit	0.7	0.0	0.0	-0.3

Main ratios				
EPS (in euros)	0.12	0.00	0.00	-0.08
ROIC (rolling, four quarters)	6.3%	8.5%		
ROE (rolling, four quarters)	17.1%	29.0%		
ROA (rolling, four quarters)	5.7%	7.4%		

	30 June 2015	31 Dec 2014
In millions of euros		
Total assets, at period end	23.7	27.0
Invested capital, at period end	21.7	24.1
Net loans, at period end	10.9	13.3
Equity, at period end	9.7	9.1
Average loan term (in years)	2.3	2.3
Average annual interest rate of loans	5.1%	5.8%
Number of staff, at period end	173	189

Cash flows

	6 months 2015	6 months 2014	Q2 2015	Q2 2014
In millions of euros				
Cash flows from/used in operating activities	3.2	-1.9	0.2	-0.7
Cash flows from/used in investing activities	-0.1	0.1	0.0	0.1
Cash flows from/used in financing activities	-3.7	1.6	-0.9	0.5
Net cash flows	-0.6	-0.2	-0.7	-0.1
Cash and cash equivalents at beginning of period	1.7	0.8	1.8	0.7
Cash and cash equivalents at end of period	1.1	0.6	1.1	0.6

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

Number of staff at period-end = number of people working for the group under employment or authorization (service) contracts

Revenue and net profit/loss from continuing operations

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Total 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Total 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Total 2014	Q1 2015	Q2 2015
In millions of euros																	
Revenue	1.3	3.7	2.4	3.5	10.9	1.7	3.5	3.5	2.0	10.7	1.1	1.1	1.2	5.8	9.2	4.4	2.1
Net profit/loss	-1.2	-0.3	0.3	-16.5	-17.7	0.0	1.4	0.1	2.0	3.5	0.4	-0.3	0.4	0.6	1.1	0.7	0.0

In Q4 2012, financial results were negatively affected by recognition of provisions and revaluation of assets and liabilities in total amount of 15.6 million euros.

Group Chief Executive's review

The second quarter and also the third quarter are the most modest quarters for Arco Vara in 2015, as expected. Revenue of 2 million euros and net loss of 12 thousand for the second quarter mean that we are levelling out the income and waiting for the next moment of growth and profit. Until the fourth quarter, revenue is limited to:

- 1) selling out existing apartments in Sofia and Riga, where the total remaining number of apartments to be sold is less than 40 (in addition to business premises and parking spaces to be sold),
- 2) gaining maximum revenue from providing brokerage and valuation services in Estonia, Latvia and Bulgaria, and
- 3) continuing to earn rental income in Madrid Blvd building in Sofia.

However, the second and third quarter only look sleepy from the accounting perspective, because the company is already involved in purchasing new apartment developments, preparation, and construction and preliminary sales of Manastirski block D. Therefore, I would like to use the chance to comment mainly on the part of our activities and future which is not reflected in our accounting reports.

The ongoing construction of Manastirski block D is currently the only development of the group where the cranes are up. Over 65% of sellable area is covered with preliminary sales contracts by the reporting date. Manastirski block D will increase revenue and profit of the group in the fourth quarter of 2015. The part which we cannot manage to hand over to clients in the fourth quarter (sell in the accounting sense) remains on sale and will be reflected in the income statement during 2016.

In order to avoid the stoppage of development processes in Sofia in 2016, the group has concluded a contract for the purchase of the next potential real estate property for development in the Iztok district, on which we published a notice on 9 July 2015. The construction volume of the project is approximately the same as Manastirski block D, but the expected sales revenue is higher due to the advantages of the region. At present, the detailed plan of the land plots is being amended to better suit the needs of the clients of Arco Vara. Amending the detailed plan is also a prerequisite for completing the purchase transaction of the property. If everything goes according to plans, we will acquire the property at the end of this year and begin construction in the second half of 2016.

In parallel, we continue searching for other properties suitable for development and preliminary negotiations. However, it should be noted that in order to increase development volumes in Sofia, in addition to the Iztok development project mentioned above, we must also find additional funding and we are also working towards that. The balance sheet of the group and the structure of its assets and liabilities are suitable for conducting two larger development projects simultaneously (e.g. in Tallinn and Sofia) but they may not be sufficient for a third or fourth large development.

There are fairly extensive renovation and reconstruction works going on in Madrid Blvd building in Sofia, which will get ready by the end of the year in various stages. The objective of the works is to make office and business premises more attractive, add a currently absent restaurant area to the shopping street, increase the number of apartments to be rented out to 16 in total and add the opportunity of using solar power to the penthouse apartments on sale. In the fourth quarter, one challenge is renting out office spaces (GLA over 5,000 m²) after the rental contract of the existing key tenant expires. The annual rental income generated in the Madrid Blvd building is planned to keep at the level of over 1 million euros. The loan balance of Piraeus Bank on the building has decreased to 10.4 million euros and for this, the group owns 115 underground parking spaces, 28 apartments (3,216 m²), 14 of which have been let out, and a total of over 7,000 m² of business and office premises.

In Tallinn, the technical project of the first stage of Kodulahe development project has been completed and the subsidiary of the group Kodulahe OÜ is applying for a building permit to the local municipality. In the third quarter, we are hoping to obtain the building permit as well as conduct a construction tender, which will also finalize the prices of products to be sold and allow us to begin marketing the products. The sales volume of apartments to be sold in the first stage exceeds 8,000 m². The group also decreased the loan liability on the Kodulahe development project land plots by 900 thousand euros.

We also continued the proceedings on detailed plans for various real estate properties we own in Tallinn (Lehiku tee 21-23, Liimi 1B, etc.) and hope to obtain building rights by 2016 at the latest. The group also acquired a land plot suitable for development in the Pärnu city centre next to the central market on Suur-Sepa Street.

The sale of development products in Riga (apartments at Bisumuisa-1 and residential plots in Marsili) is still dwindling. In July, after the reporting date, one apartment and one plot were sold. The only good aspect there is still that the number of development products in stock in Riga is small and there is little money attached to it. The group does not plan any new developments in 2015 there.

To sum up, it can be said that the group has achieved the goals set by the management earlier and we continue preparations for the next big leaps in sales revenue as well as profit. The annual forecast of the group's profit is still 1 million euros and revenue is predicted to be 11 million euros.

SERVICE DIVISION

In Q2 2015, revenue of service division was 802 thousand euros (in Q2 2014: 765 thousand euros), that included intra-group revenue of 117 thousand euros (in Q2 2014: 101 thousand euros). Revenue of service division from main services (real estate brokerage and valuation services) was 1,409 thousand euros decreased by 4% compared to the same period of previous year. At the same time, second quarter revenue from main services increased by 2% compared to Q2 2014. Revenue increased substantially in Bulgaria, seeing a 43% increase if compared 6 months of both years and even 68% increase if compared second quarters. In Q2, second quarter result of previous year was exceeded also in Estonia. In Latvian real estate agency, the revenue from main services has strongly decreased: by 23% if compared 6 months periods and by 30% if compared second quarters. Revenue trends of real estate agencies are good indicators to estimate the market activity. For example, in the first half of 2015 the number of real estate transactions in Sofia has increased more than a third, compared to the same period of previous year. As we have predicted in our recent interim reports, Latvian real estate market activity has fallen this year. This is the main reason for the drop in sales figures of our Latvian agency.

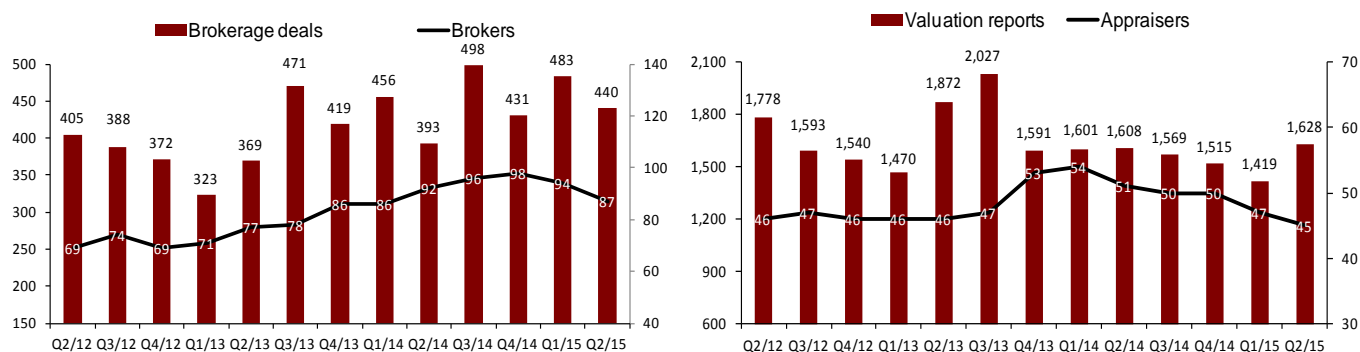
Revenue of real estate agencies from brokerage and valuation

	6 months 2015	6 months 2014	Change, %	Q2 2015	Q2 2014	Change, %
In thousands of euros						
Estonia	595	634	-6%	317	300	6%
Latvia	436	567	-23%	193	274	-30%
Bulgaria	378	264	43%	198	118	68%
Total	1,409	1,465	-4%	708	692	2%

In six months 2015, the Estonian and Latvian agencies have operated on a loss: 40 thousand and 48 thousand euros, respectively. In first half of 2014, Estonian and Latvian agencies had net profit of 14 thousand euros and 26 thousand euros, respectively. Bulgarian agency's net profit was 111 thousand euros in first six months 2015 (in 6 months 2014: 67 thousand euros) and 59 thousand euros in Q2 2015 (in Q2 2014: 25 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 82 thousand euros in 6 months 2015, 57 thousand euros of which was intra-group revenue (in 6 months 2014: 90 thousand and 63 thousand euros, respectively). Revenue from accommodation services amounted to 55 thousand euros in first six months of 2015 (in 6 months 2014: 35 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 decreased to 160 employees as at 30 June 2015, which is 16 people less compared to year end 2014.

DEVELOPMENT DIVISION

In 6 months 2015, revenue of development division totalled 5,170 thousand euros (in 6 months 2014: 802 thousand euros), of which 1,388 thousand euros in Q2 2015 (in Q2 2014: 405 thousand euros). The big leap in revenues comes from the sale of properties in the group's own development projects, amounting to 4,616 thousand euros in first half of 2015 (compared to only 263 thousand euros in 6 months 2014). In Q2 2015, were sold 10 apartments in Manastirski Livadi project II stage and three apartments in Madrid Blvd project in Bulgaria. In six months, has been sold total of 61 apartments and 5 commercial spaces in Bulgaria. In first six months 2014, were sold only three apartments in Bisumuiza-1 project in Riga.

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 237 thousand euros in Q2 2015 and 474 thousand euros in 6 months (in Q2 2014: 257 thousand euros and 6 months 2014: 520 thousand euros).

In six months 2015, operating profit of development division was 1,221 thousand euros, of which 255 thousand euros in Q2. In six months 2014, was earned 64 thousand euros of operating profit, of which 20 thousand euros in Q2.

In Q2 2015, has been continued the apartment sales on second stage of Manastirski Livadi project. As at 30 June 2015, 6 apartments and 3 commercial spaces remained in stock, out of 135 in total. Also, 4 presold apartments waited for the finalisation of sale transaction. In Bulgaria, final sale of two last apartments in Manastirski Livadi I stage (block C) apartment building were not concluded yet, revenue will be accrued in third quarter.

As at 30 June 2015, 60 apartments out of 80 have been presold in third stage of Manastirski Livadi project, construction of the building is ongoing. In addition to the 20 apartments, there remained unsold yet 8 smaller commercial spaces and part of parking spaces.

28 apartments remained unsold in Madrid Blvd complex. 14 apartments and all parking places, out of all Madrid Blvd unsold assets, are rented out. As at reporting date, two more apartments are prepared for letting out. Current key tenant on office space in Madrid building is moving out in August. Therefore, the commercial and offices spaces will be renovated and new tenants will be searched for in second half of the year.

In Latvia, there remain 4 last apartments unsold in Bisumuiza-1 project in Riga as well as 15 residential plots in Marsili near Riga. In first six months 2015, there were no sales in Latvia. After the reporting date, one apartment in Bisumuiza-1 project and one plot in Marsili have been sold.

In Estonia, there was concluded design contract in February for the first stage apartment building (more than 120 apartments) in Kodulahe project. At the reporting date, the construction permit was proceeding in local municipality. The construction of the apartment building should start in fourth quarter of 2015, after the construction and financing tenders will succeed.

In June 2015, a smaller land plot in Suur-Sepa street, in centre town of Pärnu, was acquired as an addition to the group's land bank. The plot is suitable for residential building.

As at 30 June 2015, 5 people were employed in development division, the same as at the end of year 2014.

SUMMARY TABLE OF ARCO VARA'S PROJECTS AS AT 30 JUNE 2015

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	-	1,300	13
Manastirski C	Manastirski, Sofia	Apartments	S5	-	204	2
Manastirski D	Manastirski, Sofia	Apartments	S4	2,223	6,672	88
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	16
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	3,216	28
Bisumuiza-1	Kometas 2, Riga	Apartments	S5	-	105	1
Bisumuiza-1	Kometas 4, Riga	Apartments	S5	-	278	3
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	27,545	15
Marsili residential plots	Marsili, near Riga	Residential plots	S2	120,220	<120,220>	<68>
Instituudi 7, 9	Instituudi tee 7,9 Harku	Apartments	S3/S5	5,003	2,035	32
PM 70C	Paldiski road 70C, Tallinn	Apartments	S3	28,498	21,420	334
Lehiku carpet building	Lehiku 21,23 Tallinn	Apartments	S2	5,915	<1,100>	<5>
Liimi	Liimi 1b, Tallinn	Lease: Office	S2	2,463	<6,500>	<1>
Suur-Sepa 20	Suur-Sepa 20, Pärnu	Apartments	S1	1,711	<800>	<14>
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.

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 30 June 2015, 173 people worked for the group (189 at the end of 2014). Employee remuneration expenses in six months 2015 amounted to 1.3 million euros (in 6 months 2014: 1.2 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 first six months 2015 amounted to 54 thousand euros, the same 54 thousand euros in 6 months 2014.

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.

At 30 June 2015, the supervisory board of Arco Vara AS has 5 members. As at the end of 2014, the supervisory board had 7 members. On 10 February 2015, extraordinary shareholders meeting recalled previous supervisory board and elected new supervisory board with 5 members: Hillar-Peeter Luitsalu, Allar Niinepuu and Rain Lõhmus (re-elected from the previous board), and Steven Yaroslav Gorelik and Kert Kesksaik (newly elected to the new board). The members of previous supervisory board Toomas Tool, Arvo Nõges, Aivar Pilv and Stephan David Balikh will not continue in new board.

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

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 six months 2015, the group's interest-bearing liabilities have decreased by 3.1 million euros and at 30 June 2015 amounted to 12.0 million euros, of which 1.3 million euros is due within next 12 months. At the same time, the group's cash and cash equivalents totalled 1.1 million euros as at 30 June 2015. In 6 months 2015, interest payments on interest-bearing liabilities totalled 0.5 million euros. The group's weighted average loan interest rate is 5.1% as at 30 June 2015. This is a decrease by 0.7 percentage points in six months 2015. The main reason for the decrease of average interest rate is the premature redemption of bonds in February 2015. The bonds bore higher than average interest rate. Marginal effect had also continuing decrease of EURIBOR rates.

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 OMX Tallinn stock exchange. As at 30 June 2015, the company had 1,639 shareholders (at 31 December 2014: 1,668 shareholders) and the share price closed at 1.19 euros. The price has increased by 43.7% within six months 2015 (closing price at the end of 2014 was 0.828 euros). During the period, the highest price per share was 1.29 euros and lowest price 0.83 euros. As at 30 June 2015, market capitalization of shares amounted to 7,279 thousand euros and P/E ratio of the share was 4.6 (at 31 December 2014: 5,065 thousand euros and 5.5, respectively).

The following charts reflect movements in the price and daily turnover of Arco Vara share in three years: for the period from 30 June 2012 to 30 June 2015.

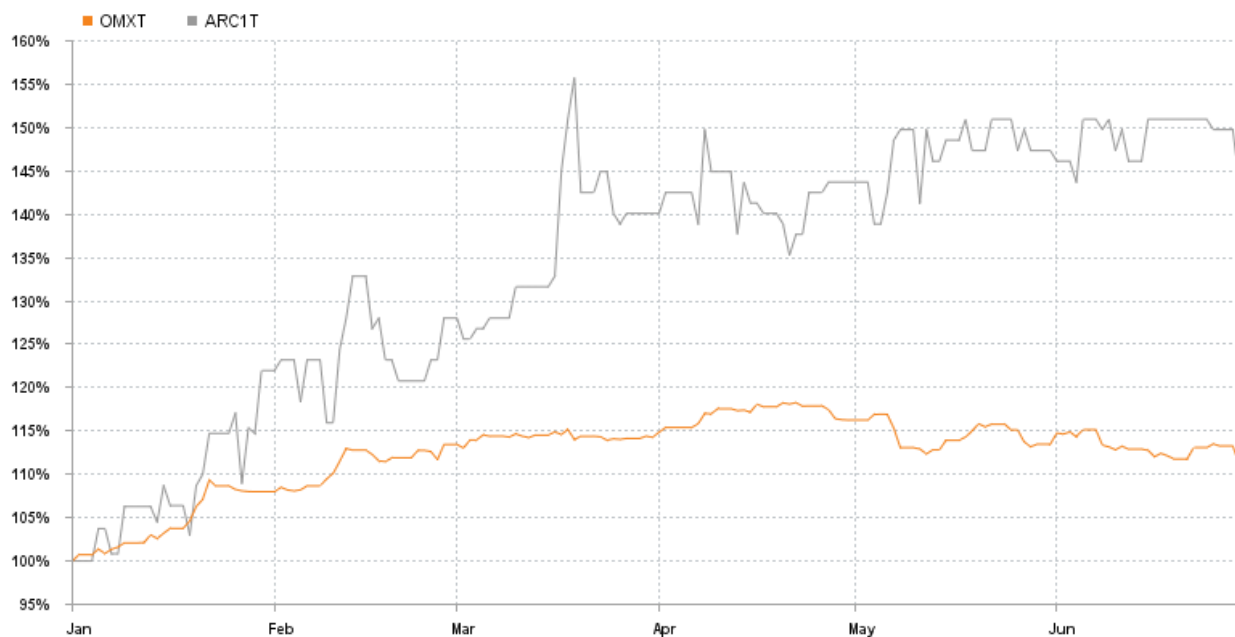
In 6 months 2015



In the period from 30 June 2012 to 30 June 2015



Changes in Arco Vara share (ARC1T) price compared with the benchmark index OMX Tallinn in first 6 months 2015.



Index/equity	31 Dec 2014	30 June 2015	+/-%
OMX Tallinn	755.05	844.70	+11.87
ARC1T	0.828 EUR	1.19 EUR	+43.72

Major shareholders at 30 June 2015	No of shares	Interest %
NORDEA BANK FINLAND PLC, CLIENTS	862,820	14.1%
AS Lõhmus Holdings	602,378	9.8%
Gamma Holding Investment OÜ	549,000	9.0%
Alarmo Kapital OÜ	489,188	8.0%
HM Investeeringud OÜ	460,000	7.5%
LHV PENSIONIFOND L	378,765	6.2%
FIREBIRD REPUBLICS FUND LTD	356,428	5.8%
FIREBIRD AVRORA FUND, LTD.	185,800	3.0%
LHV PENSIONIFOND XL	169,583	2.8%
FIREBIRD FUND L.P.	150,522	2.5%
Other shareholders	1,912,528	31.3%
Total	6,117,012	100.0%

Holdings of members of the management and supervisory boards at 30 June 2015	Position	No of shares	Interest %
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	602,378	9.8%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	chairman of supervisory board	498,884	8.2%
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	489,188	8.0%
Kert Keskaik (privately and through K Vara OÜ)	member of supervisory board	191,787	3.1%
Steven Yaroslav Gorelik ¹	member of supervisory board	3,150	0.1%
Total		1,785,387	29.2%

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 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 second quarter and six months ended 30 June 2015 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 6 August 2015

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	6 months 2015	6 months 2014	Q2 2015	Q2 2014
In thousands of euros					
Continuing operations					
Revenue from sale of own real estate		4,616	263	1,111	135
Revenue from rendering of services		1,841	1,908	949	923
Total revenue	2, 3	6,457	2,171	2,060	1,058
Cost of sales	4	-4,169	-1,249	-1,269	-631
Gross profit		2,288	922	791	427
Other income		23	19	6	3
Marketing and distribution expenses	5	-234	-174	-125	-74
Administrative expenses	6	-945	-915	-470	-462
Other expenses		-26	-37	-14	-29
Gain on sale of subsidiary		0	662	0	0
Operating profit/loss		1,106	477	188	-135
Finance income and costs	7	-388	-435	-198	-228
Net profit/loss from continuing operations		718	42	-10	-363
Discontinued operations					
Profit/loss from discontinued operations		-13	-13	-2	0
Net profit/loss for the period		705	29	-12	-363
<i>attributable to owners of the parent</i>		719	22	-3	-365
<i>attributable to non-controlling interests</i>		-14	7	-9	2
Total comprehensive income/expense for the period		705	29	-12	-363
<i>attributable to owners of the parent</i>		719	22	-3	-365
<i>attributable to non-controlling interests</i>		-14	7	-9	2
Earnings per share (in euros)	8				
- basic		0.12	0.00	0.00	-0.08
- diluted		0.11	0.00	0.00	-0.07

Consolidated statement of financial position

	Note	30 June 2015	31 December 2014
In thousands of euros			
Cash and cash equivalents		1,078	1,691
Receivables and prepayments	9	545	1,205
Inventories	10	9,903	11,970
Total current assets		11,526	14,866
Receivables and prepayments	9	8	5
Investment property	11	11,529	11,585
Property, plant and equipment		487	434
Intangible assets		145	113
Total non-current assets		12,169	12,137
TOTAL ASSETS		23,695	27,003
Loans and borrowings	12	1,341	3,194
Payables and deferred income	13	1,817	2,659
Provisions		228	274
Total current liabilities		3,386	6,127
Loans and borrowings	12	10,615	11,826
Total non-current liabilities		10,615	11,826
TOTAL LIABILITIES		14,001	17,953
Share capital		4,282	4,282
Share premium		292	292
Statutory capital reserve		2,011	2,011
Other reserves		179	179
Retained earnings		2,908	2,250
Total equity attributable to owners of the parent		9,672	9,014
Equity attributable to non-controlling interests		22	36
TOTAL EQUITY		9,694	9,050
TOTAL LIABILITIES AND EQUITY		23,695	27,003

Consolidated statement of cash flows

	Note	6 months 2015	6 months 2014	Q2 2015	Q2 2014
In thousands of euros					
Cash receipts from customers		8,695	3,259	2,802	1,568
Cash paid to suppliers		-2,958	-4,483	-1,673	-2,079
Taxes paid		-2,040	-536	-532	-251
Taxes recovered		5	349	0	227
Cash paid to employees		-539	-427	-304	-203
Other cash payments and receipts related to operating activities		33	-46	-94	-32
NET CASH FROM/USED IN OPERATING ACTIVITIES		3,196	-1,884	199	-770
Purchase of property, plant and equipment		-99	-15	-43	-7
Proceeds from sale of property, plant and equipment		0	0	0	0
Proceeds from sale of investment property		0	0	0	0
Proceeds from sale of a subsidiary		0	10	0	0
Loans provided		0	-3	0	0
Placement of security deposits		0	-327	0	-69
Release of security deposits		0	452	0	189
Interest received		3	2	2	1
NET CASH FROM/USED IN INVESTING ACTIVITIES		-96	119	-41	114
Proceeds from loans received	12	870	2,581	870	1,236
Settlement of loans and finance lease liabilities	12	-3,965	-545	-1,432	-474
Interest paid		-475	-426	-172	-212
Dividends paid		-61	0	-61	0
Other payments related to financing activities		-82	-23	-82	-18
NET CASH FROM/USED IN FINANCING ACTIVITIES		-3,713	1,587	-877	532
NET CASH FLOW		-613	-178	-719	-124
Cash and cash equivalents at beginning of period		1,691	818	1,797	764
Decrease in cash and cash equivalents		-613	-178	-719	-124
Cash and cash equivalents at end of period		1,078	640	1,078	640

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 2013	3,319	0	2,011	60	1,452	6,842	12	6,854
Change in non-controlling interests	0	0	0	0	-5	-5	5	0
Total comprehensive income for the period	0	0	0	0	22	22	7	29
Balance as at 30 June 2014	3,319	0	2,011	60	1,469	6,859	24	6,883
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	719	719	-14	705
Profit distribution	0	0	0	0	-61	-61	0	-61
Balance as at 30 June 2015	4,282	292	2,011	179	2,908	9,672	22	9,694

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 second quarter and six months ended 30 June 2015 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 2014, 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	
	6M 2015	6M 2014	6M 2015	6M 2014	6M 2015	6M 2014	6M 2015	6M 2014	6M 2015	6M 2014
in thousands of euros										
External revenue	5,126	787	1,328	1,382	3	2			6,457	2,171
Annual change	551%	-80%	-4%	13%					197%	-58%
Inter-segment revenue	44	15	260	228			-304	-243	0	0
Total revenue	5,170	802	1,588	1,610	3	2	-304	-243	6,457	2,171
Operating profit/loss	1,221	64	60	132	52	359	-227	-78	1,106	477
Gain on sale of a subsidiary	0		0	0	0	662			0	662

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	Q2 2015	Q2 2014	Q2 2015	Q2 2014	Q2 2015	Q2 2014	Q2 2015	Q2 2014	Q2 2015	Q2 2014
in thousands of euros										
External revenue	1,366	393	692	664	2	1			2,060	1,058
Annual change	248%	-86%	4%	-3%					95%	-70%
Inter-segment revenue	22	12	117	101			-139	-113	0	0
Total revenue	1,388	405	809	765	2	1	-139	-113	2,060	1,058
Operating profit/loss	255	20	17	57	-195	-134	111	-78	188	-135

Assets and liabilities by operating segment

Segment	Development		Service		Unallocated		Consolidated	
	30 June 2015	31 Dec 2014	30 June 2015	31 Dec 2014	30 June 2015	31 Dec 2014	30 June 2015	31 Dec 2014
in thousands of euros								
Assets	22,184	25,602	632	668	879	733	23,695	27,003
Liabilities	13,250	16,265	484	499	267	1,189	14,001	17,953

3. Revenue

	6 months 2015	6 months 2014	Q2 2015	Q2 2014
In thousands of euros				
Sale of own real estate	4,616	263	1,111	135
Real estate brokerage and valuation	1,209	1,285	628	615
Rental of real estate	528	519	268	258
Property management services	63	66	30	33
Other revenue	41	38	23	17
Total revenue	6,457	2,171	2,060	1,058

4. Cost of sales

	6 months 2015	6 months 2014	Q2 2015	Q2 2014
In thousands of euros				
Cost of real estate sold	-3,224	-226	-791	-112
Personnel expenses	-715	-795	-371	-381
Property management costs	-157	-149	-77	-93
Vehicle expenses	-10	-9	-6	-4
Depreciation, amortisation and impairment losses	-6	-6	-3	-3
Other costs	-57	-64	-21	-38
Total cost of sales	-4,169	-1,249	-1,269	-631

5. Marketing and distribution expenses

	6 months 2015	6 months 2014	Q2 2015	Q2 2014
In thousands of euros				
Advertising expenses	-136	-93	-75	-41
Personnel expenses	-60	-34	-32	-9
Market research	-5	-6	-1	-1
Other marketing and distribution expenses	-33	-41	-17	-23
Total marketing and distribution expenses	-234	-174	-125	-74

6. Administrative expenses

	6 months 2015	6 months 2014	Q2 2015	Q2 2014
In thousands of euros				
Personnel expenses	-482	-369	-239	-177
Office expenses	-238	-177	-126	-95
Services purchased	-83	-182	-28	-90
IT expenses	-75	-79	-40	-41
Depreciation, amortisation and impairment losses	-20	-16	-11	-8
Legal service fees	-18	-62	-9	-37
Vehicle expenses	-15	-20	-9	-9
Other expenses	-14	-10	-8	-5
Total administrative expenses	-945	-915	-470	-462

7. Finance income and costs

	6 months 2015	6 months 2014	Q2 2015	Q2 2014
In thousands of euros				
Interest expenses	-327	-419	-144	-219
Interest income	2	2	1	1
Other finance income and costs	-63	-18	-55	-10
Total finance income and costs	-388	-435	-198	-228

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 2015	6 months 2014	Q2 2015	Q2 2014
Weighted average number of ordinary shares outstanding during the period	6,117,012	4,741,707	6,117,012	4,741,707
Number of ordinary shares potentially to be issued	390,000	390,000	390,000	390,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	719	22	-3	-365
Earnings per share (in euros)	0.12	0.00	0.00	-0.08
Diluted earnings per share (in euros)	0.11	0.00	0.00	-0.07

In September 2014, the share capital of Arco Vara AS was increased by issuing 1,375,305 additional ordinary shares.

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. As at 30 June 2015, an equity reserve is formed in amount of 179 thousand euros (as at 31 December 2014: 179 thousand euros) for the option associated with the bond. See also note 14.

9. Receivables and prepayments

Short-term receivables and prepayments

	30 June 2015	31 December 2014
In thousands of euros		
Trade receivables		
Receivables from customers	131	989
Allowance for doubtful trade receivables	-22	-22
Total trade receivables	109	967
Other receivables		
Loans provided	6	6
Miscellaneous receivables	49	154
Total other receivables	55	160
Accrued income		
Prepaid and recoverable taxes	33	22
Other accrued income	2	4
Total accrued income	35	26
Prepayments	346	52
Total short-term receivables and prepayments	545	1,205

Long-term receivables

	30 June 2015	31 December 2014
In thousands of euros		
Prepayments	8	5
Total long-term receivables and prepayments	8	5

10. Inventories

	30 June 2015	31 December 2014
In thousands of euros		
Properties purchased and being developed for resale	9,873	11,942
Materials and finished goods	14	12
Prepayments for inventories	16	16
Total inventories	9,903	11,970

Properties purchased and being developed for resale

	2015	2014
In thousands of euros		
Balance at the beginning of period, 1 January	11,942	10,762
Properties purchased for development	70	120
Construction costs of apartment buildings	728	2,430
Capitalized borrowing costs	81	110
Other capitalized costs	199	34
Reclassification from investment property (note 11)	77	0
Cost of sold properties (note 4)	-3,224	-226
Balance at the end of period, 30 June	9,873	13,230

11. Investment property**Investment property (changes in period)**

	2015	2014
In thousands of euros		
Balance at the beginning of period, 1 January	11,585	11,331
Capitalised development costs	21	5
Reclassification to inventories (note 10)	-77	0
Balance at the end of period, 30 June	11,529	11,336

12. Loans and borrowings

	As at 30 June 2015			As at 31 December 2014		
	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	11,757	1,159	10,598	14,081	3,010	11,071
Bonds	161	160	1	911	160	751
Finance lease liabilities	38	22	16	28	24	4
Total	11,956	1,341	10,615	15,020	3,194	11,826

In first six months 2015, the group settled loans and borrowings in amount of 3,965 thousand euros (in 6 months 2014: 545 thousand euros) through cash transactions. New loans in amount of 870 thousand euros (in 6 months 2014: 2,581 thousand euros) were raised.

In first half 2015, were settled following major loan obligations:

- In January, the group repaid last part, in amount of 606 thousand euros, loan used for financing the construction of Manastirski Livadi project II stage. Contractual repayment deadline of the loan was 30 May 2016.
- On 19 and 20 February 2015, 18 months before maturity date, Arco Vara redeemed bonds at nominal value of 750 thousand euros issued in August 2013 for restarting Manastirski Livadi development project. Redemption price of bonds was 1,155 euros per bond, consisted of bond's nominal value of 1,000 euros and accrued interest of 155 euros per bond. Redemption of bonds before the maturity date was possible due to faster than planned sales pace and unanimous consent among bondholders then accepting the proposal for earlier redemption. See also note 14.
- In six months 2015, total of 1,395 thousand euros of Madrid Blvd project loan was repaid to Piraeus bank in Bulgaria. The amount includes a principal repayment in amount of 950 thousand euros the group made on 20 February 2015. There was also agreed with the bank on amendments to loan contract what mitigate risks regarding the terms of the possible recall of the loan before maturity date by the bank.
- In June, the group repaid 900 thousand euros of bank loan, which was raised for the acquisition of Kodulahe project land plot in 2013.

13. Payables and deferred income

Short-term payables and deferred income

	30 June 2015	31 December 2014
In thousands of euros		
Trade payables	239	208
Miscellaneous payables	291	91
Taxes payable		
Social security tax	37	33
Value added tax	33	820
Personal income tax	33	19
Corporate income tax	13	125
Other taxes	347	343
Total taxes payable	463	1,340
Accrued expenses		
Payables to employees	130	144
Interest payable	3	100
Other accrued expenses	8	19
Total accrued expenses	141	263
Deferred income		
Prepayments received on sale of real estate	680	757
Other deferred income	3	0
Total deferred income	683	757
Total short-term payables and deferred income	1,817	2,659

14. Related party disclosures

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

- 1) the group's joint ventures and associates;
- 2) 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;

- 3) **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

	6 months 2015	6 months 2014
In thousands of euros		
Joint ventures and associate		
Services sold	-	0
Services purchased	-	12
Provision of loans	-	3
Companies that have a significant interest in the group's parent company		
Services purchased	14	12
Bonds issued	0	150
Redemption of bonds	750	0
Paid interest	85	39
Other related parties		
Services sold	2	2
Services purchased	0	2
Redemption of bonds	250	0
Paid interest	39	18

Balances with related parties

	30 June 2015	31 Dec 2014
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Bonds issued	150	650
Other related parties		
Bonds issued	11	251

On 19 and 20 February 2015, 18 months before maturity date, Arco Vara redeemed bonds at nominal value of 750 thousand euros issued in August 2013 for restarting Manastirski Livadi development project. The whole issue was subscribed by key management personnel and by the companies that have a significant interest in the group's parent company. Redemption price of bonds was 1,155 euros per bond, consisted of bond's nominal value of 1,000 euros and accrued interest of 155 euros per bond. Redemption of bonds before the maturity date was possible due to faster than planned sales pace and unanimous consent among bondholders then accepting the proposal for earlier redemption. See also note 12.

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 on new maturity date of bonds, which is now 20 December 2015. The issued bonds are guaranteed with mortgage on property that belongs to the subsidiary of Arco Vara AS. See also note 12.

In 6 months 2015, 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 54 thousand euros (in 6 months 2014: 54 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 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 2015.

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. See also note 8.

15. Events after the reporting date

Acquisition of land plots in Sofia

On 8 July 2015, Arco Vara AS signed a pre-purchase agreement with Ritorex EOOD, a subsidiary of a Spanish real estate group, for acquisition of a set of land plots with total area of 2,470 m² in Sofia. According to the agreement, the seller is obliged within the next 6 months to complete the agreed detail plan allowing residential construction and to secure deletion of an existing mortgage on the land plots in favour of a Spanish bank. The transaction is structured as acquisition of shares of the company Sofia Parkside EOOD which is the sole owner of the land.. The acquired project's estimated volume is 7,800 m² GSA above grade and expected pricing above the level of Manastirski Livadi development project. Estimated time for commencement of construction is Q2 2016 at the latest and completion of the project by end of 2017 at the latest.

Establishing real estate investment fund in Bulgaria

On 31 July 2015, Bulgarian Commercial Registry registered Arco Real Estate Fund REIT (hereinafter Arco REIT) with paid-up initial capital in the amount of 256 thousand euros. Arco REIT will apply for a management company licence and authorisation for listing the shares on Bulgarian Stock Exchange - Sofia from Bulgarian Financial Supervision Authority. After receiving the authorisation Arco REIT is planning to make an initial public offer in 2016. Arco Vara AS owns 70% of the shares of Arco REIT and 30% of the shares are owned by a local financial institution. The management company of Arco REIT is a 100% subsidiary of the group - Arco Invest EOOD.

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 second quarter and six months ended 30 June 2015.

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 6 August 2015