Arco Vara AS

INTERIM REPORT FOR THE FOURTH QUARTER AND TWELVE MONTHS 2015

ARCO VARA

INTERIM REPORT FOR THE FOURTH QUARTER AND TWELVE MONTHS ENDED 31 DECEMBER 2015 (UNAUDITED)

Company name:	Arco Vara AS
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Corporate website:	www.arcorealestate.com
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Core activities:	Real estate development Renting and operating of real estate (EMTAK 6820) Activities of real estate agencies (EMTAK 6831) Real estate management (EMTAK 6832)
Financial year:	1 January 2015 – 31 December 2015
Reporting period:	1 January 2015 – 31 December 2015
Supervisory board:	Hillar-Peeter Luitsalu, Rain Lõhmus, Allar Niinepuu, Kert Keskpaik, Steven Yaroslav Gorelik
Chief executive:	Tarmo Sild
Auditor:	AS PricewaterhouseCoopers

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Directors' report for Q4 and 12 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 real estate development: on purchase of land plots, planning and designing, pricing end products also on timing the start of construction.

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

As at 31 12 2015: the group comprised 25 companies, this is one more than at the end of year 2014. On 31 July 2015, was registered a real estate fund in Bulgaria named Arco Real Estate Fund REIT, with starting capital of 256 thousand euros. The group holds 70% interest in the fund.

Goals and core values

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

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

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

Partnership – our client is our partner

Reliability – we are reliable, open and honest

Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

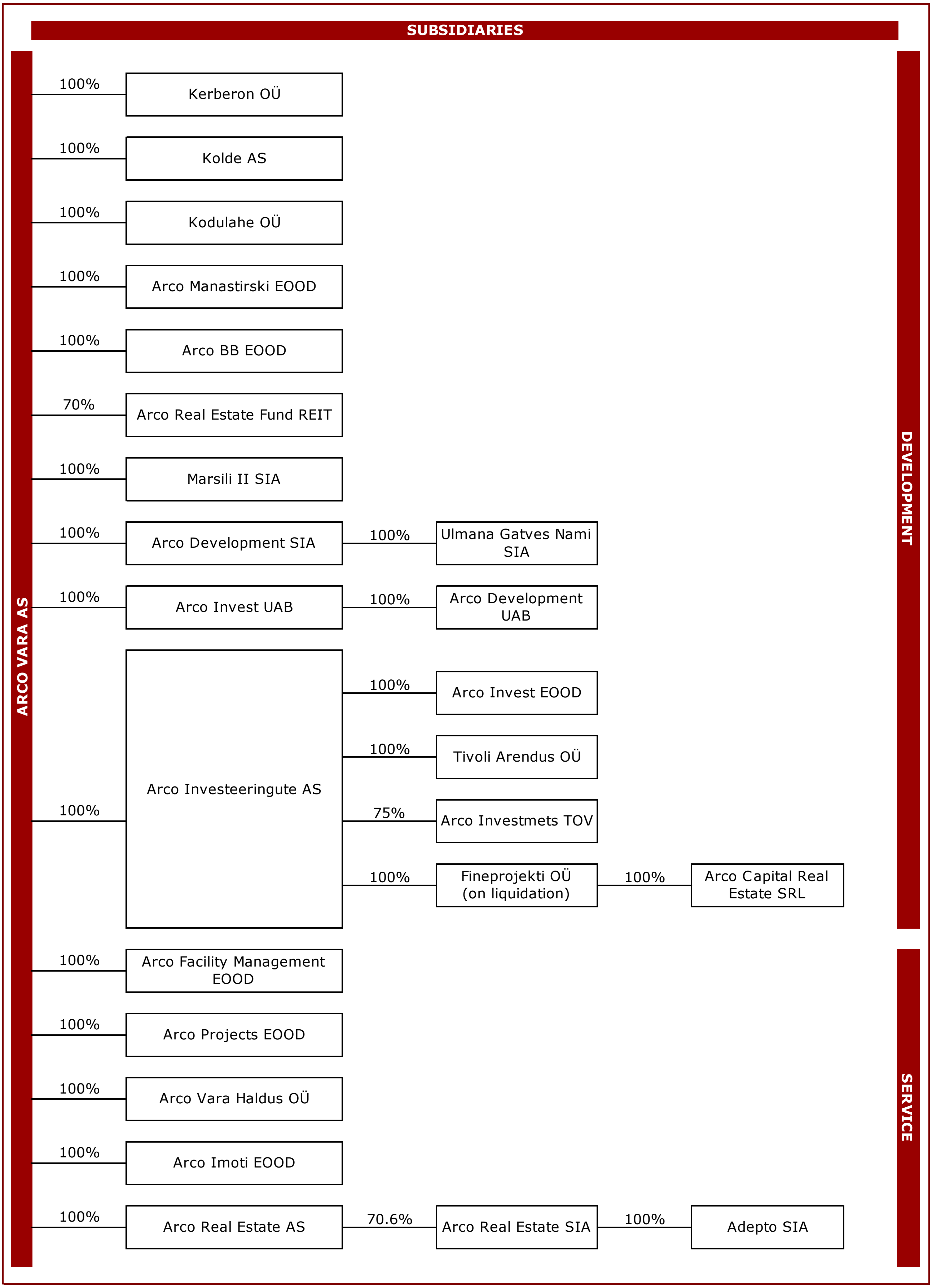
Significant subsidiaries

Company name	Location	Segment	Share capital (nominal value)	Equity balance at 31 Dec 2015	The group's interest
In thousands of euros					
Arco Manastirski EOOD	Bulgaria	Development	2,676	3,679	100%
Arco Invest EOOD	Bulgaria	Development	26,826	-106	100%
Arco Real Estate Fund REIT [1]	Bulgaria	Development	256	256	70%
Kodulahe OÜ	Estonia	Development	3	-115	100%
Kerberon OÜ	Estonia	Development	5	1,280	100%
Marsili II SIA	Latvia	Development	1,524	934	100%
Arco Real Estate AS	Estonia	Service	42	-855	100%
Arco Real Estate SIA [1]	Latvia	Service	1,905	49	70.6%
Arco Imoti EOOD	Bulgaria	Service	444	290	100%

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

GROUP STRUCTURE

As at 31 December 2015



Key Performance Indicators

- In 12 months 2015, the group's revenue was 10.7 million euros, exceeding by 16% the revenue of 12 months 2014, when revenue amounted to 9.1 million euros. In Q4, revenue was 2.1 million euros (in Q4 2014: 5.8 million euros). The increase of the group's annual revenue comes from Development division, where revenue amounted to 7.9 million euros in 12 months 2015 (in 12 months 2014: 6.5 million euros). Though, revenue of Development division amounted to 1.4 million euros in Q4 2015, 3.8 million euros less than Q4 2014. The revenue of Service division amounted 3.3 million euros in 12 months 2014, increased by 4% compared to 12 months 2014. In Q4 2015, revenue of Service division increased by 10% compared to Q4 of previous year. The sales figures of brokerage and valuation services shows growth third quarter in a row, after the falling trend in second half of year 2014 and in the beginning of year 2015.
- In 12 months 2015, the group's operating profit (=EBIT) was 1.3 million euros and net profit 0.5 million euros, a year ago the same figures were 2.2 million euros and 1.0 million euros respectively. The result of 2014 was impacted by two single events with total effect of 1.2 million euros on profit: gain from the sale of a subsidiary and reversal of inventory write-down. In Q4, operating loss was 0.2 million euros and net loss amounted to 0.4 million euros. In Q4 2014, the group had operating profit of 1.2 million euros and net profit of 0.8 million euros.
- The group's net loans have decreased by 1.3 million euros in 12 months 2015, down to the level of 12.0 million euros as at 31 December 2015. Total loans and borrowings amounted 12.8 million euros at 31 December 2015, decreased by 2.2 million euros through a year. As at 31 December 2015, the weighted average annual interest rate of loans was 5.0%. This is a decrease by 0.8 percentage points compared to 31 December 2015.
- In 12 months 2015, were sold 96 apartments and commercial spaces and four residential plots (of which 17 apartments and three plots in Q4) in projects developed in the group. In 12 months 2014, were sold 77 apartments and commercial spaces and 4 plots (of which 73 apartments and commercial spaces in Q4).

	12 months 2015	12 months 2014	**Q4 2015**	Q4 2014
In millions of euros				
Revenue				
Development	7.9	6.5	1.4	5.2
Service	3.3	3.1	0.8	0.7
Eliminations	-0.5	-0.5	-0.1	-0.1
Total revenue	**10.7**	**9.1**	**2.1**	**5.8**
Operating profit (EBIT)				
Development	1.8	1.9	0.2	1.2
Service	-0.1	0.2	-0.2	0.1
Unallocated income and expenses	0.1	0.0	0.1	-0.3
Eliminations	-0.5	0.1	-0.3	0.1
Total operating profit (EBIT)	**1.3**	**2.2**	**-0.2**	**1.1**
Finance income and expense	-0.7	-1.1	-0.1	-0.4
Income tax	-0.1	-0.1	-0.1	0.0
Net profit	**0.5**	**1.0**	**-0.4**	**0.7**
Main ratios				
Earnings per share, EPS (in euros)	0.08	0.15	-0.07	0.07
Diluted earnings per share (in euros)	0.07	0.14	-0.07	0.07
ROIC (rolling, four quarters)	2.0%	3.4%		
ROE (rolling, four quarters)	4.6%	10.7%		
ROA (rolling, four quarters)	1.8%	3.1%		

In millions of euros	**31 Dec 2015**	31 Dec 2014
Total assets	24.5	27.0
Invested capital	22.4	24.1
Net loans	12.0	13.3
Equity	9.6	9.1
Current ratio	3.22	2.43
Quick ratio	0.32	0.47
Financial leverage	2.54	2.98
Average loan term (in years)	1.7	2.3
Average annual interest rate of loans	5.0%	5.8%
Number of staff, at period end	178	189

Cash flows

In millions of euros	**12 months 2015**	12 months 2014	**Q4 2015**	Q4 2014
Cash flows from/used in operating activities	2.4	0.4	-0.6	3.7
Cash flows from/used in investing activities	-0.2	0.2	-0.1	0.0
Cash flows from/used in financing activities	-3.2	0.3	0.2	-3.4
Net cash flows	**-1.0**	**0.9**	**-0.5**	**0.3**
Cash and cash equivalents at beginning of period	1.7	0.8	1.2	1.4
Cash and cash equivalents at end of period	0.7	1.7	0.7	1.7

Revenue and net profit/loss from continuing operations

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

FORMULAS USED

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

Group Chief Executive's review

One should start the year's end with a resume. The resume is as follows: we were profitable and grew. Yet the fourth quarter and full year results turned out weaker than we expected. We expected the group's revenue to be at least 11 million euros and net profit at least 1 million euros. Actually we achieved 10.7 million euros revenue and only 0.5 million euros profit. The management is not proud at all. We need to improve our results. The following part of comments sums up, what has been done and what exactly should be improved in order to keep the group moving forward with necessary speed.

Service division

The equity in service division companies is negative and during 2015 we did not invest additional equity into them. The division as a whole operates on the edge of profitability, although countrywise the results are different. We are pleased with profitable results and cash earned during 2015 by our Bulgarian unit. Considering the Latvian real estate market's prolonged weakness, the Latvian unit's results were satisfactory. The single outstanding lossmaking unit of the group is in Estonia. The reasons of loss lie within the company itself and the solutions are in the hands of management. We have started rearrangements within the service division to improve the work processes and along with rearrangements, executed also replacements in the middle management.

The objective of 2016 is to achieve the profitability of services division as a whole and also increase its usability factor for Arco's development projects – both in preparatory and in sales phase.

In the big picture the group's results are determined by development division, where 100% of the group's equity is allocated to. Development division's results in turn are determined overwhelmingly by three pillars within it: (i) Madrid Blvd cash flow property in Sofia, (ii) Manastirski residential development in Sofia (and its possible successor project Izstok Parkside) and (iii) Kodulahe residential development in Tallinn.

Madrid Blvd property

By publication date of this report, the renovation works of 1st and 2nd floor office space and restructuration of it into seven autonomous lettable office units has been completed. There are ongoing negotiations with potential tenants. The post-restructuration gross lettable area (GLA) of the office space is ca 4,700 sqm, in addition to 113 underground parking places, that are rented out by piece.

Since there was no rent income from the offices during their renovation in Q4, it affected negatively both the Q4 and full year's revenue and profit. The loss of income from rents and maintenance fees amounted to more than 150 thousand euros. The impact to net profitability is approximately the same amount. It is one of the reasons, why we did not achieve our annual revenue and net profit target.

Our objective is 100% coverage of the office spaces with long-term lease contracts during Q3 of 2016 at the latest.

In other parts of the property we continue profitable operation of the lettable premises (incl. Shopping area GLA ca 2,200 sqm and short-term rental apartments ca 1,500 sqm GLA) and sale of remaining apartments (GSA ca 1,700 sqm). In Q4, pre-sale agreements were concluded for two apartments, revenue will be recognized in 2016. The remaining balance of Piraeus bank loan on the property is below 10.5 million euros.

Manastirski Livadi

Construction of Block D was complete in November and the permission of usage was issued on 22 December, ie more than 2 weeks later than we forecasted. Due to this delay we had to suspend also execution of many apartments' sales agreements and accounting of respective revenue in our books into Q1 2016. Q4 revenue from Manastirski Block D amounted to 628 thousand euros. The negative impact of the delay on targeted Q4 and full year results amounted to 800 thousand euros in revenue and over 300 thousand euros in net profit. The good news is that the missed revenue and profit is carried over into Q1 2016 revenue and net profit. However, the delay is also a live demonstration, how exposed the group's results and key parameters such as ROE and ROA are to loss of time, even only for two weeks.

By end of Q4, 95% of apartments in Block D were presold. As at the publication date of this report, the whole Manastirski Livadi project is completed and the outstanding bank loan to UniCredit Bulbank repaid in full. Expected free cashflow from Block D alone is expected to exceed 2 million euros.

Since the beginning of Q1 2016 we can concentrate only to selling out the last remaining products in Manastirski. Our objective is full sale of outstanding inventory by end of 2016 at the latest. However the main focus from now on is on commencement of successor project in Sofia during Q1. At the moment the selected sucessor project is Izstok Parkside. By end of Q4, the preconditions of closing the purchase contract were not yet fulfilled by the Seller.

Kodulahe

Our long term efforts eventually bore fruit by end of Q4 and we could select amongst competing offers both the best bidder of project finance, and construction works. Simultaneously to drafting this report, we are busy with execution of finance and construction contracts that are necessary to complete the first phase of the project. We will make formal announcement on launch of Kodulahe separately, once the execution is completed.

Kodulahe first phase volume is 130 apartments and shops (GSA ca 8,700 sqm), and in addition to it respective number of parking places and storages. Gross build-up area (GBA) exceeds 15,000 sqm. Expected sale revenue of first phase exceeds 15 million euros and first presale contract was signed on February 9, 2016.

In summary, Arco Vara is back on Tallinn residential development market with Kodulahe project. Comparing with Sofia, Tallinn residential market is less stormy waters and has tighter competition, but it is possible to make money here, too.

Other directions of development

Besides the three development pillars described above we have undertaken two additional directions: A. to sell off all assets, that are not production-ready immediately or where the development volume is too small. Selling off the land bank that the group has historically accumulated allows us to concentrate our forces for developments that really matter; and B. launch Arco Real Estate Investment Trust (Arco REIT) in Sofia. We want to engage external capital under our management and continue in Bulgaria with targeting and implementation of new development projects, utilizing the knowhow and reputation of Arco's team.

In terms of selling off the assets, Q4 was successful. We sold profitably two development projects: Instituudi road properties in Harku paris and Suur-Sepa properties in Pärnu. It's worth noting that it took only three weeks from the moment of communicating the sales team the order to commence the sale, until the moment of receiving sale price to the account. It gives credibility to our own conservative valuation of our assets in our books. We will continue selling off other properties and adding maximum value before that, for example by achieving construction rights through a detail plan or otherwise. For example, the detail plan allowing 8-floor office building onto Liimi 1b, Tallinn, entered into force in Q4.

ARCO REIT project has progressed as anticipated. As of the publication date of this report, ARCO REIT is listed on Sofia stock exchange where Arco Vara is the sole shareholder (by end of Q4 the shareholding was 70%). We have placed 332 thousand euros into its share capital. The next and crucial step ahead is issue of additional shares and raising external capital into the fund during 2016, in order to commence effective business operations by end of the year.

Summary

To sum up with what I began with: 2015 profit of 0.5 million euros does not meet management's expectations (1 million euros).

In addition to already described reasons of smaller profit (suspended Manastirski D sale: negative effect of ca 300 thousand euros; and dropping rent income from Madrid Blvd offices in Q4: negative effect of ca 150 thousand euros) there is one more accounting factor that killed part of the profit. It is the accounting effect of share option issued to the management in 2013, what entitled the option holder to subscribe 390,000 Arco Vara shares at 70 cents per share during 2016.

According to IFRS regulations, the company must account in the profit statement also the effect of share option issued to the management board. According to the prescribed methodology, the effect has to be measured as difference between the nominal acquisition price (70 cents) and the measurement price determined according to the rules (1.46 cents). Respective provision into equity reserve had to be established. The cost of establishing the provision is distributed between 2.5 years since issue of the share option in July 2013 until January 1 2016 (first possible date for using the option). Respective cost for 2015 year is 119 thousand euros. The 2013 share option will not impact in any way the profit statement of 2016 or following years.

While being the stakeholder and cause of the additional 119 thousand euros accounting loss, the management board would still like to point out that there is no effective damage to the company. In order to effectuate the option, one has to pay into the company share capital 273 thousand euros and to improve the cash position of the company. The option does not give any right to cash out from the company.

Now, having covered important issues of Q4 and full year 2015, we sum up our expectations for 2016.

The company's target revenue for 2016 is 10.3 million euros and net profit 0.8 million euros. Year 2016 should be distinct from 2015 with one big feature: instead of one development under construction with revenue potential of ca 4...5 million euros (Manastirski D construction in Sofia), there should be two developments under construction with revenue potential of ca 20 million euros (Kodulahe 1st phase in Tallinn and Manastirski successor project in Sofia). That positive dynamics should reflect strongly in 2017 results.

SERVICE DIVISION

In Q4 2015, revenue of service division was 814 thousand euros (in Q4 2014: 738 thousand euros), that included intra-group revenue of 100 thousand euros (in Q4 2014: 130 thousand euros). Revenue of service division from main services (real estate brokerage and valuation services) was 2,926 thousand euros increased by 2% compared to previous year. In fourth quarter, revenue from main services increased by 9% compared to Q4 2014. Revenue continues to increase in Bulgaria, seeing 39% annual increase and 35% increase if fourth quarters are compared. In Q4, revenue increased also in Estonian agency, exceeding by 33% the figures of Q4 2014. The revenue from main services is strongly decreasing in Latvian real estate agency: by 23% if compared 12 months periods and by 25% if fourth quarters are compared.

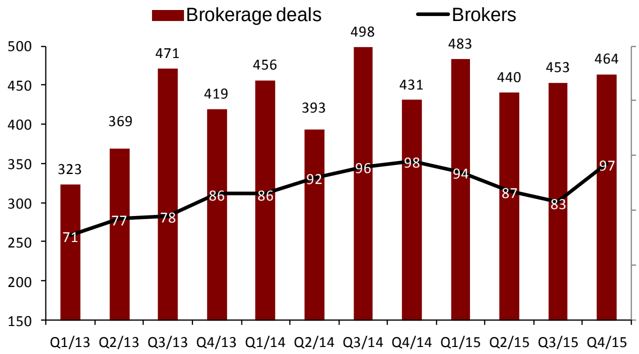
Revenue of real estate agencies from brokerage and valuation

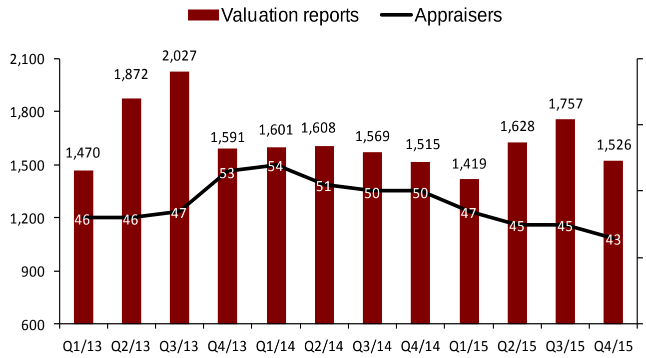
In thousands of euros	**12 months 2015**	12 months 2014	Change, %	**Q4 2015**	Q4 2014	Change, %
Estonia	1,282	1,166	10%	319	239	33%
Latvia	898	1,170	-23%	219	291	-25%
Bulgaria	746	536	39%	208	154	35%
Total	**2,926**	**2,872**	**2%**	**746**	**684**	**9%**

During 12 months 2015, the Estonian and Latvian agencies have operated on a loss: 209 thousand and 73 thousand euros, respectively. In 12 months 2014, Estonian and Latvian agencies had net profit of 48 thousand euros and 65 thousand euros, respectively. In Q4, Estonian and Latvian agencies ended also with the loss, 141 thousand euros and 22 thousand euros respectively (in Q4 2014: loss of 17 thousand in Estonia and profit of 3 thousand euros in Latvia). The decrease in profitability of Estonian agency is caused by significant increase of marketing and IT expenses: the goal is set to reach higher level in revenues and accordingly growth of profit. Revenues will increase with the help of wider reputation and bigger number of contacts, customer oriented data processing and smarter work environment. Bulgarian agency's net profit was 109 thousand euros in 12 months 2015 (in 12 months 2014: 90 thousand euros). In Q4 2015, Bulgarian agency accumulated a loss of 29 thousand euros (in Q4 2014: 9 thousand euros profit was earned).

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 141 thousand euros in 12 months 2015, 105 thousand euros of which was intra-group revenue (in 12 months 2014: 148 thousand and 105 thousand euros, respectively). Revenue from accommodation services amounted to 132 thousand euros in 12 months of 2015, of which 27 thousand euros in Q4 (in 12 months and Q4 2014: 74 thousand and 19 thousand euros, respectively). In 2015, the sales of accommodation service have shown a nice 78% growth.

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 down to 165 employees as at 31 December 2015, which is 11 people less compared to year end 2014. The number of staff is decreased in Estonia and Latvia and increased in Bulgaria.

DEVELOPMENT DIVISION

In 12 months 2015, revenue of development division totalled 7,947 thousand euros (in 12 months 2014: 6,503 thousand euros), of which 1,403 thousand euros in Q4 2015 (in Q4 2014: 5,214 thousand euros). The leap in revenues comes from the sale of properties in the group's own development projects, amounting to 7,019 thousand euros in 12 months 2015 (5,414 thousand euros in 12 months 2014).

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 77 thousand euros in Q4 2015 and 838 thousand euros in 12 months (in Q4 2014: 236 thousand euros and 12 months 2014: 953 thousand euros). In Q4, rental income has decreased due to conclusion of rental agreements and the rental spaces were renovated. In first half of 2016, the search of new tenants is in pipeline. The rental income is planned to recover on the previous level in Q3 2016 at latest.

In 12 months 2015, operating profit of development division was 1,790 thousand euros, of which 192 thousand euros in Q4. In 12 months 2014, was earned 1,942 thousand euros of operating profit, of which 1,246 thousand euros in Q4.

In Q4, the apartment building of third stage in Manastirski Livadi project was completed and permit of use was obtained on 22 December. In 2015, 13 apartments were handed over, which corresponds to revenue of 628 thousand euros. As at 31 December 2015, 76 apartments out of 80 and one commercial space out of 8 have been sold or presold.

In Bulgaria, has been continued the apartment sales of first two stages in Manastirski Livadi project. In Q4 2015, were sold 3 last apartments from second stage. At 31 December 2015, two commercial spaces and some parking places remained in stock from first two stages of the project (blocks C and AB).

26 apartments and 113 parking places remained unsold in Madrid Blvd complex in Sofia. Two apartments were presold in Q4, final sales will be concluded in 2016. 16 apartments, out of all Madrid Blvd unsold apartments, are rented out as accommodation service. Unsold parking places are also rented out.

In 12 months 2015, 92 apartments and commercial spaces were sold in the group's Bulgarian projects (in 12 months 2014: 63 apartments and commercial spaces).

In Q4, the last apartment in Bishumuiza-1 project was sold in Latvia. That means the whole project could be considered as closed for the group. There remains 14 residential plots in Marsili to be sold in from the group's stock in Latvia. A presale agreement was concluded for one of these plots in Q4.

In Estonia, there were concluded design works of the first stage apartment building (with 125 apartments and 5 commercial spaces) in Kodulahe project. Permit for construction of apartment building was obtained at the end of September. At the publishing date of the interim report, the construction and financing contracts have been signed as well as the first apartment presale agreement. The construction of the apartment building starts in February 2016.

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 apartment building. After preparing preliminary design the plot was sold profitably at the beginning of October. Also at the beginning of October, the group sold another smaller development: Instituudi road residential development project, acquired in February 2014. The latter project was also up-valued with the preliminary design. Selling smaller projects bears the goal of focusing on most important projects in Estonia and Bulgaria.

At 31 December 2015, 5 people were employed in development division, the same number as at the end of year 2014.

SUMMARY TABLE OF ARCO VARA'S ACTIVE PROJECTS AS AT 31 DECEMBER 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	-	140	2
Manastirski D	Manastirski, Sofia	Apartments	S5	-	5,832	75
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	12/8
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	3,216	12/16
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	25,389	14
Marsili residential plots	Marsili, near Riga	Residential plots	S2	120,220	<120,220>	<68>
Kodulahe, stage 1	Lahepea 7, Tallinn	Apartments	S3	6,102	8,732	130
Kodulahe, stages 2-5	Lahepea, Soodi, Pagi streets, Tallinn	Apartments	S2	22,396	<13,300>	<200>
Lehiku carpet building	Lehiku 21,23 Tallinn	Apartments	S2	5,915	<1,100>	<5>
Liimi	Liimi 1b, Tallinn	Lease: Office	S2/S5	2,463	<6,500>	1
Viimsiranna	Haabneeme, Viimsi vald	Office/Mix	S3/S5	14,174	500	1

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

Description of stages

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

PEOPLE

As at 31 December 2015, 178 people worked for the group (189 as at 31 December 2014). Employee remuneration expenses in 12 months 2015 amounted to 2.7 million euros (in 12 months 2014: 2.5 million euros), including 0.8 million euros in Q4 2015 (0.7 million euros in Q4 2014).

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 12 months 2015 amounted to 108 thousand euros (102 thousand euros in 12 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. The mandate of the chief executive was prolonged by 3 years (until October 2018) on the supervisory board meeting held in September 2015.

At 30 September 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 Keskpaik (newly elected to the new board). The members of previous supervisory board Toomas Tool, Arvo Nõges, Aivar Pilv and Stephan David Balikn 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

Strategic risk

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

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

Credit risk

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

Liquidity and interest rate risks

The base currency of all of the group's loan agreements is euro and the base interest rate is 3 or 6 months EURIBOR. As a result, the group is exposed to developments on the international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In 12 months 2015, the group's interest-bearing liabilities have decreased by 2.2 million euros and at 31 December 2015 amounted to 12.8 million euros, of which 2.3 million euros is due within next 12 months. At the same time, the group's cash and cash equivalents totalled 0.7 million euros as at 31 December 2015 (at 31 December 2014: 1.7 million euros). In 12 months 2015, interest payments on interest-bearing liabilities totalled 0.8 million euros (in 12 months 2014: 1.1 million euros). The group's weighted average loan interest rate was 5.0% as at 31 December 2015. This is a decrease by 0.8 percentage points in 12 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 the decrease of EURIBOR rates even below zero-level.

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

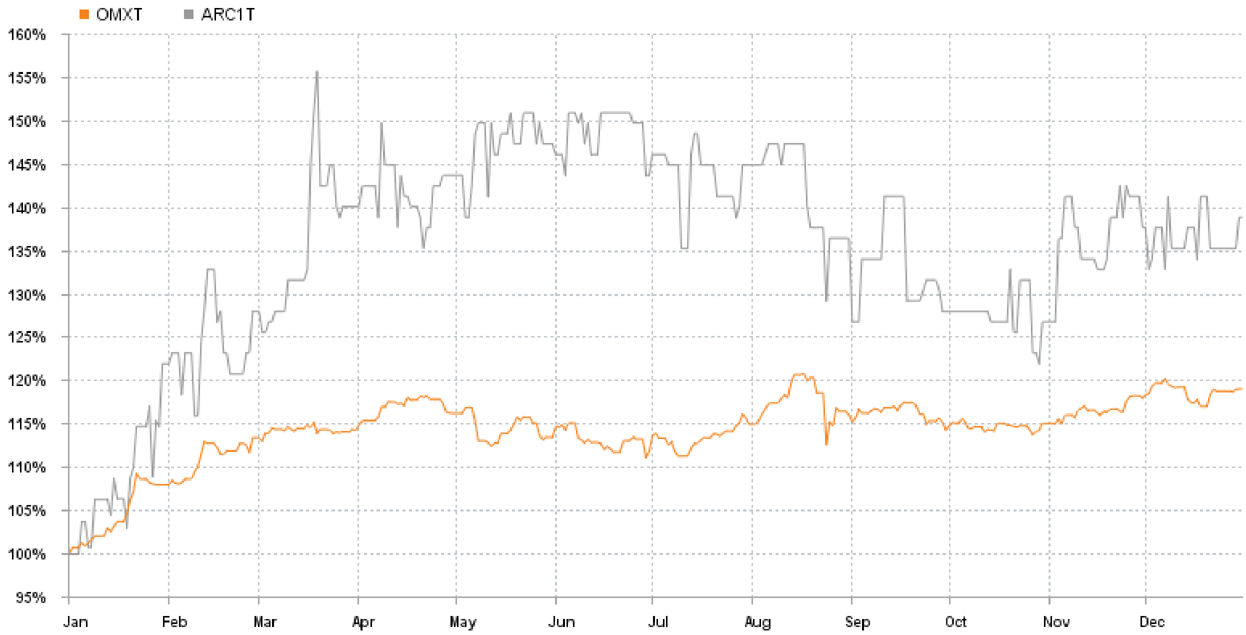
Arco Vara AS has issued a total of 6,117,012 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ OMX Tallinn stock exchange. As at 31 December 2015, the company had 1,600 shareholders (at 31 December 2014: 1,668) including 1,381 individuals as shareholders (at 31 December 2014: 1,441 individuals). The share price closed at 1.15 euros. The price has increased by 39% within 12 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 31 December 2015, market capitalization of shares amounted to 7,035 thousand euros and P/E ratio of the share was 15.8 (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 last three years: for the period from 1 January 2013 to 31 December 2015.

In 12 months 2015

In the period from 1 January 2013 to 31 December 2015

Changes in Arco Vara share (ARC1T) price compared with the benchmark index OMX Tallinn in 12 months 2015.



Index/equity	31 Dec 2014	31 Dec 2015	+/-%
OMX Tallinn	755.05	898.99	+19.06
ARC1T	0.828 EUR	1.15 EUR	+38.89

Major shareholders at 31 December 2015	No of shares	Interest %
NORDEA BANK FINLAND PLC client	862,820	14.1%
AS Lõhmus Holdings	602,378	9.8%
Gamma Holding Investment OÜ	565,356	9.2%
Alarmo Kapital OÜ	489,188	8.0%
LHV PENSIONIFOND L	389,765	6.4%
FIREBIRD REPUBLICS FUND LTD	356,428	5.8%
OÜ HM Investeeringud	325,505	5.3%
FIREBIRD AVRORA FUND, LTD.	185,800	3.0%
LHV PENSIONIFOND XL	173,583	2.8%
FIREBIRD FUND L.P.	150,522	2.5%
Other shareholders	2,015,667	33.0%
Total	**6,117,012**	**100.0%**

Holdings of members of the management and supervisory boards at 31 December 2015	Position	No of shares	Interest %
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	602,378	9.8%
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	489,188	8.0%
Hillar-Peeter Luitsalu (OÜ HM Investeeringud, related persons)	chairman of supervisory board	428,649	7.0%
Kert Keskpaik (privately and through K Vara OÜ)	member of supervisory board	194,633	3.2%
Steven Yaroslav Gorelik [1]	member of supervisory board	3,150	0.1%
Total		**1,717,998**	**28.1%**

[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 fourth quarter and 12 months ended 31 December 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 11 February 2016

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	**12 months 2015**	12 months 2014	**Q4 2015**	Q4 2014
In thousands of euros					
Continuing operations					
Revenue from sale of own real estate		7,019	5,414	1,306	4,929
Revenue from rendering of services		3,633	3,744	791	883
Total revenue	2, 3	**10,652**	**9,158**	**2,097**	**5,812**
Cost of sales	4	-6,865	-5,902	-1,432	-4,004
Gross profit		**3,787**	**3,256**	**665**	**1,808**
Other income		80	37	10	16
Marketing and distribution expenses	5	-530	-324	-170	-84
Administrative expenses	6	-2,020	-1,811	-648	-602
Other expenses		-151	-82	-119	-48
Gain on revaluation of investment property	11	95	0	95	0
Gain on reversal of inventory write-down	10	0	572	0	0
Gain on transactions involving joint ventures		0	-27	0	-27
Gain on sale of subsidiary		0	662	0	0
Operating profit/loss		**1,261**	**2,283**	**-167**	**1,063**
Finance income and costs	7	-666	-1,062	-128	-368
Profit/loss before tax		**595**	**1,221**	**-295**	**695**
Income tax		-135	-75	-135	-75
Net profit/loss from continuing operations		**460**	**1,146**	**-430**	**620**
Discontinued operations					
Loss from discontinued operations		-15	-324	-2	-196
Net profit/loss for the period		**445**	**822**	**-432**	**424**
attributable to owners of the parent		*467*	*803*	*-425*	*423*
attributable to non-controlling interests		*-22*	*19*	*-7*	*1*
Total comprehensive income/expense for the period		**445**	**822**	**-432**	**424**
attributable to owners of the parent		*467*	*803*	*-425*	*423*
attributable to non-controlling interests		*-22*	*19*	*-7*	*1*
Earnings per share (in euros)	8				
- basic		**0.08**	0.15	**-0.07**	0.07
- diluted		**0.07**	0.14	**-0.07**	0.07

Consolidated statement of financial position

	Note	**31 December 2015**	31 December 2014
In thousands of euros			
Cash and cash equivalents		745	1,691
Receivables and prepayments	9	679	1,205
Inventories	10	12,818	11,970
Total current assets		**14,242**	**14,866**
Receivables and prepayments	9	0	5
Investment property	11	9,513	11,585
Property, plant and equipment		489	434
Intangible assets		229	113
Total non-current assets		**10,231**	**12,137**
TOTAL ASSETS		**24,473**	**27,003**
Loans and borrowings	12	2,345	3,194
Payables and deferred income	13	1,935	2,659
Provisions		146	274
Total current liabilities		**4,426**	**6,127**
Loans and borrowings	12	10,417	11,826
Total non-current liabilities		**10,417**	**11,826**
TOTAL LIABILITIES		**14,843**	**17,953**
Share capital		4,282	4,282
Share premium		292	292
Statutory capital reserve		2,011	2,011
Other reserves	8	298	179
Retained earnings		2,656	2,250
Total equity attributable to owners of the parent		**9,539**	**9,014**
Equity attributable to non-controlling interests		91	36
TOTAL EQUITY		**9,630**	**9,050**
TOTAL LIABILITIES AND EQUITY		**24,473**	**27,003**

Consolidated statement of cash flows

	Note	**12 months 2015**	12 months 2014	**Q4 2015**	Q4 2014
In thousands of euros					
Cash receipts from customers		13,770	10,812	2,825	5,745
Cash paid to suppliers		-7,679	-8,945	-2,926	-1,775
Income tax paid from profits		-197	-4	-24	0
Other taxes paid and recovered (net)		-2,399	-341	-267	-32
Cash paid to employees		-1,015	-866	-249	-249
Other cash payments and receipts related to operating activities (net)		9	-41	-15	-7
Net cash flow of discontinued operations		-15	-250	-2	-2
NET CASH FROM/USED IN OPERATING ACTIVITIES		**2,474**	**365**	**-658**	**3,680**
Payments made on purchase of tangible and intangible assets		-196	-71	-59	-39
Proceeds from sale of a subsidiary		0	10	0	0
Proceeds from sale of an associated company		0	1	0	0
Loans provided		0	-3	0	0
Placement of security deposits		0	-438	0	0
Release of security deposits		0	701	0	0
Interest received		4	5	0	2
NET CASH FROM/USED IN INVESTING ACTIVITIES		**-192**	**205**	**-59**	**-37**
Proceeds from loans received	12	2,734	4,885	1,349	832
Settlement of loans and borrowings	12	-5,025	-4,800	-916	-3,608
Interest paid		-788	-1,091	-200	-576
Dividends paid		-61	0	0	0
Proceeds from share capital issue		0	1,375	0	0
Other payments related to financing activities		-88	-76	-6	-25
NET CASH FROM/USED IN FINANCING ACTIVITIES		**-3,228**	**293**	**227**	**-3,377**
NET CASH FLOW		**-946**	**863**	**-490**	**266**
Cash and cash equivalents at beginning of period		1,691	818	1,235	1,415
Increase or decrease in cash and cash equivalents		**-946**	**863**	**-490**	**266**
Increase in cash and cash equivalents through purchase of a subsidiary		0	10	0	10
Cash and cash equivalents at end of period		745	1,691	745	1,691

Consolidated statement of changes in equity

	Equity attributable to owners of the parent							
	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	**Total equity**
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**
Increase of share capital	963	292	0	0	0	1,255	0	**1,255**
Formation of equity reserve	0	0	0	119	0	119	0	**119**
Total comprehensive income for the period	0	0	0	0	803	803	19	**822**
Balance as at 31 December 2014	**4,282**	**292**	**2,011**	**179**	**2,250**	**9,014**	36	**9,050**
Balance as at 31 December 2014	**4,282**	**292**	**2,011**	**179**	**2,250**	**9,014**	**36**	**9,050**
Profit distribution	0	0	0	0	-61	-61	0	**-61**
Change in non-controlling interest	0	0	0	0	0	0	77	**77**
Formation of equity reserve	0	0	0	119	0	119	0	**119**
Total comprehensive income for the period	0	0	0	0	467	467	-22	**445**
Balance as at 31 December 2015	**4,282**	**292**	**2,011**	**298**	**2,656**	**9,539**	**91**	**9,630**

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 fourth quarter and 12 months ended 31 December 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	
	12M 2015	12M 2014	12M 2015	12M 2014	12M 2015	12M 2014	12M 2015	12M 2014	12M 2015	12M 2014
In thousands of euros										
External revenue	7, 861	6,466	2,787	2,688	4	4			10,652	9,158
Annual change	*22%*	*-20%*	*4%*	*1%*					*16%*	*-15%*
Inter-segment revenue	86	37	467	451			-553	-488	0	0
Total revenue	**7,947**	**6,503**	**3,254**	**3,139**	**4**	**4**	**-553**	**-488**	**10,652**	**9,158**
Operating profit	**1,790**	**1,942**	**-94**	**246**	**73**	**-25**	**-508**	**120**	**1,261**	**2,283**
Incl. reversal of inventory write-down	*0*	*572*	*0*	*0*	*0*	*0*			0	572
Gain from revaluation of investment property	*95*	*0*	*0*	*0*	*0*	*0*			*95*	*0*
Gain on sale of a subsidiary	*0*	*0*	*0*	*0*	*0*	*662*			*0*	*662*

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	Q4 2015	Q4 2014	Q4 2015	Q4 2014	Q4 2015	Q4 2014	Q4 2015	Q4 2014	Q4 2015	Q4 2014
In thousands of euros										
External revenue	1,382	5,203	714	608	1	1			2,097	5,812
Annual change	*-73%*	*307%*	*17%*	*-13%*					*-64%*	*193%*
Inter-segment revenue	21	11	100	130			-121	-141	0	0
Total revenue	**1,403**	**5,214**	**814**	**738**	**1**	**1**	**-121**	**-141**	**2, 097**	**5,812**
Operating profit	**192**	**1,246**	**-174**	**58**	**63**	**-330**	**-248**	**89**	**-167**	**1,063**
Gain from revaluation of investment property	*95*	*0*	*0*	*0*	*0*	*0*			95	0

Assets and liabilities by operating segment

Segment	Development		Service		Unallocated		Consolidated	
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
in thousands of euros								
Assets	23,318	25,602	505	668	650	733	24,473	27,003
Liabilities	14,060	16,265	518	499	265	1,189	14,843	17,953

3. Revenue

	12 months 2015	12 months 2014	**Q4 2015**	Q4 2014
In thousands of euros				
Sale of own real estate	7,019	5,414	1,306	4,929
Real estate brokerage and valuation	2,505	2,520	642	588
Rental of real estate	913	1,029	100	255
Property management services	95	128	10	30
Other revenue	120	67	39	10
Total revenue	**10,652**	**9,158**	**2,097**	**5,812**

4. Cost of sales

	12 months 2015	12 months 2014	**Q4 2015**	Q4 2014
In thousands of euros				
Cost of real estate sold	-4,883	-3,918	-889	-3,490
Personnel expenses	-1,497	-1,528	-388	-357
Property management costs	-314	-311	-102	-122
Vehicle expenses	-22	-18	-6	-5
Depreciation, amortisation and impairment losses	-12	-11	-4	-2
Other costs	-137	-116	-43	-28
Total cost of sales	**-6,865**	**-5,902**	**-1,432**	**-4,004**

5. Marketing and distribution expenses

	12 months 2015	12 months 2014	**Q4 2015**	Q4 2014
In thousands of euros				
Advertising expenses	-285	-179	-83	-50
Personnel expenses	-123	-61	-32	-16
Market research	-9	-7	-2	-1
Other marketing and distribution expenses	-113	-77	-53	-17
Total marketing and distribution expenses	**-530**	**-324**	**-170**	**-84**

6. Administrative expenses

In thousands of euros	**12 months 2015**	12 months 2014	**Q4 2015**	Q4 2014
Personnel expenses	-1,126	-929	-416	-371
Office expenses	-446	-362	-114	-101
Services purchased	-157	-217	-43	-54
IT expenses	-138	-140	-32	-31
Depreciation, amortisation and impairment losses	-44	-34	-14	-7
Legal service fees	-42	-62	-10	-15
Vehicle expenses	-33	-38	-9	-9
Other expenses	-34	-29	-10	-14
Total administrative expenses	**-2,020**	**-1,811**	**-648**	**-602**

7. Finance income and costs

In thousands of euros	**12 months 2015**	12 months 2014	**Q4 2015**	Q4 2014
Interest expenses	-600	-975	-125	-331
Interest income	4	5	1	2
Other finance income and costs	-70	-92	-4	-39
Total finance income and costs	**-666**	**-1 062**	**-128**	**-368**

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.

	12 months 2015	12 months 2014	**Q4 2015**	Q4 2014
Weighted average number of ordinary shares outstanding during the period	6,117,012	5,186,326	6,117,012	6,117,012
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)	467	803	-425	423
Earnings per share (in euros)	**0.08**	0.15	**-0.07**	0.07
Diluted earnings per share (in euros)	**0.07**	0.14	**-0.07**	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 31 December 2015, an equity reserve is formed in amount of 298 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

In thousands of euros	**31 December 2015**	31 December 2014
Trade receivables		
Receivables from customers	235	989
Allowance for doubtful trade receivables	-12	-22
Total trade receivables	**223**	**967**

Other receivables		
Loans provided	6	6
Miscellaneous receivables	119	154
Total other receivables	**125**	**160**
Accrued income		
Prepaid and recoverable taxes	75	22
Other accrued income	3	4
Total accrued income	**78**	**26**
Prepayments	**253**	**52**
Total short-term receivables and prepayments	**679**	**1,205**

Long-term receivables

	31 December 2015	31 December 2014
In thousands of euros		
Prepayments	0	5
Total long-term receivables and prepayments	**0**	**5**

10. Inventories

	31 December 2015	31 December 2014
In thousands of euros		
Properties purchased and being developed for resale	12,580	11,942
Materials and finished goods	12	12
Prepayments for inventories	226	16
Total inventories	**12,818**	**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	2,464	4,236
Capitalized borrowing costs	127	233
Reversal of inventory write-down	0	572
Other capitalized costs	583	345
Reclassification from/to investment property (note 11)	2,277	-408
Cost of sold properties (note 4)	-4,883	-3,918
Balance at the end of period, 31 December	**12,580**	**11,942**

11. Investment property

	2015	2014
In thousands of euros		
Balance at the beginning of period, 1 January	**11,585**	**11,331**
Net loss on changes in fair value	95	-160
Capitalised development costs	110	6
Reclassification from/to inventories (note 10)	-2,277	408
Balance at the end of period, 31 December	**9,513**	**11,585**

12. Loans and borrowings

	As at 31 December 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	12,585	2,179	10,406	14,081	3,010	11,071
Bonds	151	150	1	911	160	751
Finance lease liabilities	26	16	10	28	24	4
Total	**12,762**	**2,345**	**10,417**	**15,020**	**3,194**	**11,826**

In 12 months 2015, the group settled loans and borrowings in amount of 5,025 thousand euros (in 12 months 2014: 4,800 thousand euros) through cash transactions. New loans in amount of 2,734 thousand euros (in 12 months 2014: 4,885 thousand euros) were raised.

In 12 months 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.

- 1,428 thousand euros of Madrid Blvd project loan principal was repaid to Piraeus bank in Bulgaria. The amount includes a principal repayment in amount of 950 thousand euros from 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.

In April 2015, was signed new loan agreement for financing construction of third stage apartment building in Manastirski Livadi project in Bulgaria. As at 31 December 2015, loan limit in amount of 2,734 thousand euros was used, of which 1,199 thousand euros was repaid already. In December 2015, after getting permit of use for the apartment building, the final sale of apartments and simultaneous loan repayments were started. Just before the publication date of the interim report, the whole loan amount has been repaid to the bank.

13. Payables and deferred income

Short-term payables and deferred income

	31 December 2015	31 December 2014
In thousands of euros		
Trade payables	**296**	**208**
Miscellaneous payables	**172**	**91**
Taxes payable		
Corporate income tax	114	125
Value added tax	47	820
Social security tax	40	33
Personal income tax	31	19
Other taxes	336	343
Total taxes payable	**568**	**1,340**
Accrued expenses		
Payables to employees	174	144
Interest payable	8	100
Other accrued expenses	11	19

Total accrued expenses	**193**	**263**
Deferred income		
Prepayments received on sale of real estate	704	757
Other deferred income	2	0
Total deferred income	**706**	**757**
Total short-term payables and deferred income	**1,935**	**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

	12 months 2015	12 months 2014
In thousands of euros		
Joint ventures and associate		
Services sold	-	0
Services purchased	-	26
Provision of loans	-	3
Companies that have a significant interest in the group's parent company		
Services purchased	32	239
Bonds issued	0	150
Redemption of bonds	500	0
Paid interest	92	81
Other related parties		
Services sold	2	4
Services purchased	0	4
Redemption of bonds	260	0
Paid interest	40	35

Balances with related parties

	31 December 2015	31 December 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	1	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: 20 December 2015. At 31 December 2015, 150,000 euros was not redeemed from the bond issue. After the balance sheet date, in the beginning of January 2016, all bonds were redeemed. See also note 12.

In 12 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 108 thousand euros (in 12 months 2014: 102 thousand euros). The remuneration provided to the chief executive/member of the management board is based on his service contract. The termination benefits agreed with Tarmo Sild, who was appointed chief executive officer/member of the management board of Arco Vara AS in October 2012, amount to up to five months' basic board member remuneration. The mandate of the chief executive was prolonged by 3 years (until October 2018) on the supervisory board meeting held in September 2015.The basis for the remuneration provided to the members of the supervisory board was changed in July 2013 and were slightly amended in February 2015. According to the resolutions of the general meeting of Arco Vara AS, the members of the supervisory board will get paid 500 euros (net amount) for every participated meeting but not more than 1,000 euros (net amount) per month. The payment of the remuneration is made dependent on the signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating on the board meetings are also compensated to the members of the supervisory board. The group's key management personnel was not provided or paid any other remuneration or benefits (bonuses, termination benefits, etc) in 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. On issuing the bond, the fair value of the option was measured in amount of 298 thousand euros and has been recognized as payroll expense distributed to the period from July 2013 until December 2015. At 31 December 2015, equity reserve has been formed for the whole value of the option. See also note 8.

15. Events after the reporting date

On 7 January 2016, Arco Vara AS issued bonds in total amount of 1 120 thousand euros. The bonds are unsecured with annual interest rate of 12% and redemption date on 6 January 2018. The funds raised from bond issue will be used mainly in residential development in Estonia.

On 9 February 2016, the group's Bulgarian subsidiary Arco Manastirski EOOD carried out last repayment on investment loan that was concluded in April 2015 for construction of third stage apartment building (Block D) of Manastirksi Livadi project. 2 734 thousand euros was the total loan amount used.

On 11 February 2016, on the publication date of interim report, the group's Estonian subsidiary Kodulahe OÜ and main constructor RAMM Ehituse OÜ concluded a contract for construction of first stage apartment building of Kodulahe residential development project in Tallinn. The contract price exceeds 10 million euros. The construction starts at the end of February 2016 and apartment building should be ready in July 2017. At the beginning of February, Kodulahe OÜ and Nordea Bank AB Estonia Branch concluded loan contract with total loan limit of 9 350 thousand euros for financing the construction of apartment building. There is also started with the conclusion of the apartment presale agreements.

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 fourth quarter and 12 months ended 31 December 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 11 February 2016