Arco Vara AS

INTERIM REPORT FOR THE SECOND
QUARTER AND SIX MONTHS 2016

ARCO VARA

INTERIM REPORT FOR THE

SECOND QUARTER AND SIX MONTHS

ENDED 30 JUNE 2016

(UNAUDITED)

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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 2016 – 31 December 2016
Reporting period:	1 January 2016 – 30 June 2016
Supervisory board:	Hillar-Peeter Luitsalu, Rain Lõhmus, Allar Niinepuu, Kert Keskpaik, Steven Yaroslav Gorelik
Chief executive:	Tarmo Sild
Auditor:	AS PricewaterhouseCoopers

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Directors' report for Q2 and 6 months 2016

General information

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

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

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

As at 30 June 2016, the group comprised 23 companies, which is two less than at the end of year 2015. On 19 February 2016, the group's subsidiary Fineprojekti OÜ was deregistered in Estonian Commercial Register, the liquidation process was started in 2014. The liquidation also resulted in derecognition of Romanian subsidiary Arco Capital Real Estate SRL from the group's structure. In Q1 2016, the group's interest in Bulgarian real estate fund Arco Real Estate Fund REIT was increased from 70% up to 100% and the share capital of the fund was additionally increased by 77 thousand euros. In April 2016, the group sold 100% subsidiary Arco BB EOOD in Bulgaria and in May 2016 the group purchased 100% subsidiary Iztok Parkside EOOD in Bulgaria. None of these transactions had significant impact on the group's net assets.

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

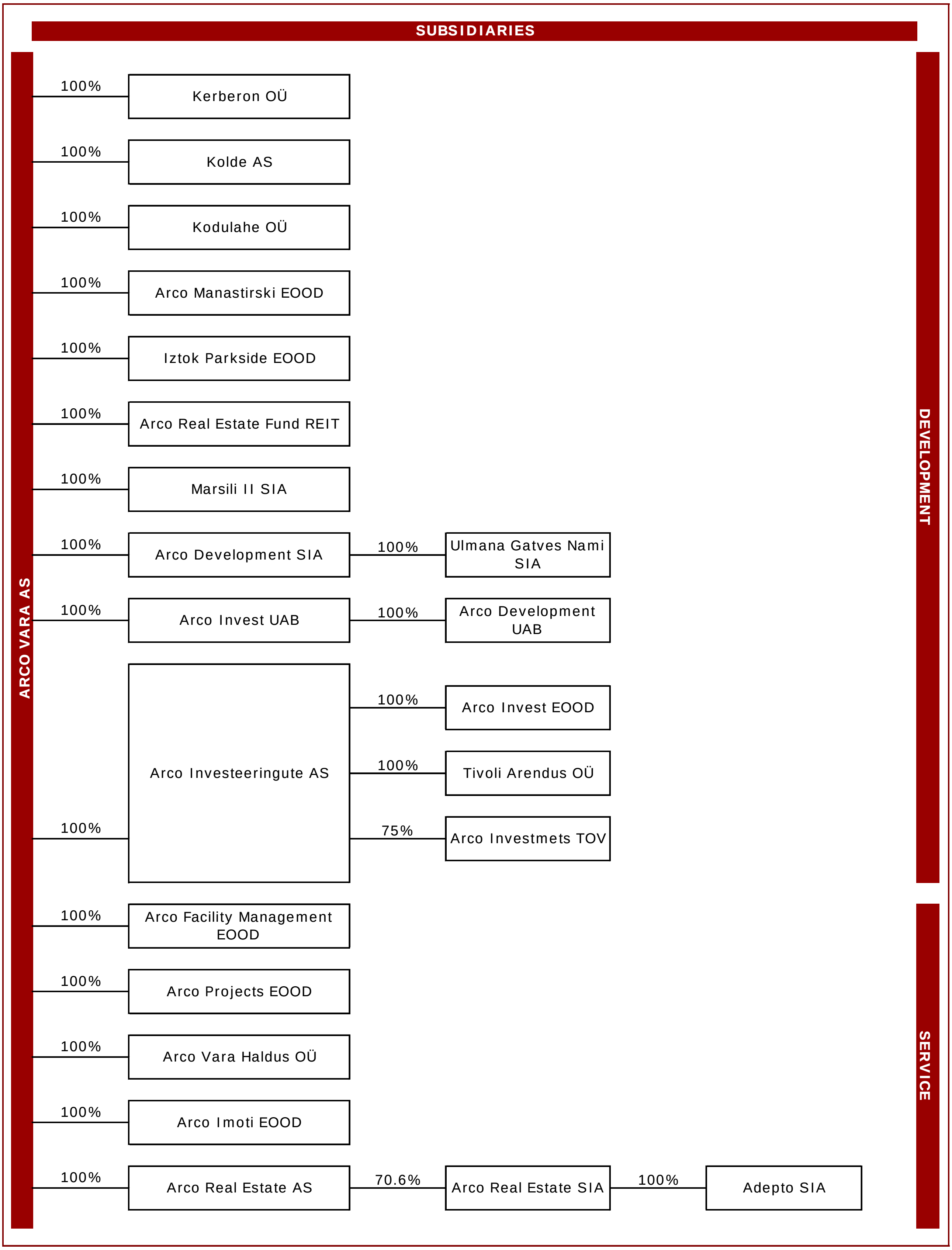
Significant subsidiaries

Company name	Location	Segment	Share capital (nominal value)	Equity balance at 30 June 2016	The group's interest
In thousands of euros					
Arco Manastirski EOOD	Bulgaria	Development	2,676	4,119	100%
Arco Invest EOOD	Bulgaria	Development	26,826	-357	100%
Iztok Parkside EOOD	Bulgaria	Development	1,433	1,255	100%
Arco Real Estate Fund REIT [1]	Bulgaria	Development	332	306	100%
Kodulahe OÜ	Estonia	Development	3	-196	100%
Kerberon OÜ	Estonia	Development	5	1,262	100%
Marsili II SIA	Latvia	Development	1,524	944	100%
Arco Real Estate AS	Estonia	Service	42	-1,025	100%
Arco Real Estate SIA [1]	Latvia	Service	1,905	31	70.6%
Arco Imoti EOOD	Bulgaria	Service	444	188	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 2016



Key Performance Indicators

- In Q2 2016, the group's revenue was 2.1 million euros, exceeding by 1.7% the revenue of Q2 2015. Revenue increased by 1.1% in Development division and by 5.1% in Service division. The group's revenue of 7.2 million euros for the 6 months 2016 exceeded by 10.7% the revenue of comparative period of year 2015. The growth of revenue comes from Development division, where revenue increased by 12.5% up to 5.8 million euros for 6 months 2016 (6 months 2015: 5.2 million euros). The revenue of Service division amounted to 1.6 million euros in 6 months 2016, increased by 0.6% compared to 6 months 2015.
- In 6 months 2016, the group's operating profit (=EBIT) was 1.2 million euros and net profit 0.9 million euros. In 6 months 2015, the same figures were 1.1 million euros and 0.7 million euros respectively. The group's operating profit comes from Development division, amounting to 1.5 million euros for 6 months 2016 (in 6 months 2015: 1.2 million euros). In second quarter 2016, the group ended with operating loss (=EBIT) of 0.1 million euros and net loss of 0.2 million euros. In Q2 2015, the group earned operating profit of 0.2 million euros and net profit figure was practically on zero level.
- The group has continued to decrease debt burden in 2016. Net loans have decreased by 2.1 million euros in first 6 months 2016 down to the level of 9.9 million euros as at 30 June 2016. Total loans and borrowings amounted 10.8 million euros at 30 June 2016, decreased by 1.9 million euros in 6 months. As at 30 June 2016, the weighted average annual interest rate of loans was 5.7%. This is an increase by 0.7 percentage points compared to 31 December 2015.
- In Q2 2016, 5 apartments, 3 commercial spaces and 4 land plots were sold in projects developed in the group (in Q2 2015, 13 apartments were sold). In 6 months 2016, 73 apartments, 5 commercial spaces and 4 land plots were sold (in 6 months 2015: 61 apartments and 5 commercial spaces).

	6 months 2016	6 months 2015	**Q2 2016**	Q1 2015
In millions of euros				
Revenue				
Development	5.8	5.2	1.4	1.4
Service	1.6	1.6	0.9	0.8
Eliminations	-0.2	-0.3	-0.2	-0.1
Total revenue	**7.2**	**6.5**	**2.1**	**2.1**
Operating profit (EBIT)				
Development	1.5	1.2	0.1	0.3
Service	-0.1	0.1	0.0	0.0
Unallocated income and expenses	-0.3	0.0	-0.2	-0.2
Eliminations	0.1	-0.2	0.0	0.1
Total operating profit/loss (EBIT)	**1.2**	**1.1**	**-0.1**	**0.2**
Finance income and expense	-0.3	-0.4	-0.1	-0.2
Net profit/loss	**0.9**	**0.7**	**-0.2**	**0.0**
Key ratios				
EPS (in euros)	0.14	0.12	-0.03	0.00
Diluted EPS (in euros)	0.13	0.11	-0.03	0.00
ROIC (rolling, four quarters)	2.8%	6.3%		
ROE (rolling, four quarters)	6.1%	17.1%		
ROA (rolling, four quarters)	2.5%	5.7%		

In millions of euros	**30 June 2016**	31 Dec 2015
Total assets, at period end	25.6	24.5
Invested capital, at period end	21.2	22.4
Net loans, at period end	9.9	12.0
Equity, at period end	10.4	9.6
Current ratio	3.49	3.22
Quick ratio	0.36	0.32
Financial leverage	2.47	2.54
Average loan term (in years)	1.5	1.7
Average annual interest rate of loans	5.7%	5.0%
Number of staff, at period end	185	178

Cash flows

In millions of euros	**6 months 2016**	6 months 2015	**Q2 2016**	Q2 2015
Cash flows from operating activities	3.6	3.2	0.7	0.2
Cash flows used in investing activities	-0.9	-0.1	-0.9	0.0
Cash flows used in financing activities	-2.5	-3.7	-0.8	-0.9
Net cash flows	**0.2**	**-0.6**	**-1.0**	**-0.7**
Cash and cash equivalents at beginning of period	0.7	1.7	1.9	1.8
Cash and cash equivalents at end of period	0.9	1.1	0.9	1.1

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**	Q1 2016	Q2 2016	**Total 2016**
Revenue	1.7	3.5	3.5	2.0	**10.7**	1.1	1.1	1.2	5.8	**9.2**	4.4	2.1	2.1	2.1	**10.7**	5.1	2.1	**7.2**
Net profit/loss	0.0	1.4	0.1	2.0	**3.5**	0.4	-0.3	0.4	0.6	**1.1**	0.7	0.0	0.2	-0.4	**0.5**	1.1	-0.2	**0.9**

FORMULAS USED

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

Group Chief Executive's review

Arco Vara completed during Q2 several steps towards achieving its short-term goal - to double its volume of operations and profit by the end of 2018. Figuratively speaking, this progress can be seen in cranes that have been or will be set up. The numbers in the second-quarter earnings report are modest and overheads mean that the bottom line is negative. As I have said earlier, the numbers are set to remain modest until the end of the third quarter 2017. It is important to look at the internal dynamics of the group that forms a foundation for the upcoming results of 2017, 2018 and subsequent years. In Q2, we moved forward with such development projects that customers want and can afford to buy.

Key developments: Kodulahe and Iztok Parkside

Construction of phase one of the Kodulahe residential development in Tallinn has progressed as planned and presales are meeting our expectations. We intend to continue at the same pace, which means that all 130 apartments and commercial spaces of the first phase become sold out by the end of 2017 or in Q1 2018. Along with the construction of the building and development of the recognizable future living environment, there has been a noticeable increase in the customers' interest.

In the Iztok Parkside project in Sofia we completed the acquisition transaction of the property. Design works are in schedule. Obtaining the detail plan from Sofia municipality has taken a little longer, but was nearing completion by end of Q2. In Q3, we expect the detail plan to enter into force. We also expect to execute financing contract with the bank and obtaining of a building permit so that both actual construction works and presales can start already by the end of the year. Sales revenue of Iztok Parkside will appear in the income statement of Q1 2018.

Expected profit margin of both projects remains unchanged. The target return on equity (ROE) is 20% per year. In the development of both projects the critical part is to find such financing solutions that will allow - when demand is sufficient - to continue uninterrupted development of the second phase of Kodulahe, as well as the development of Project X in Sofia, a successor project to Iztok Parkside.

Madrid Blvd

We were too optimistic in our forecast for new tenants for office spaces. Although the location of our building, quality of premises on offer and the rental price are competitive, the flexibility of tenants in moving from their existing space and terminating the existing contracts is more limited than we thought. The number of first time tenants entering the market in Sofia is relatively limited. Therefore, the rental income of Q2 is not satisfactory. No new rental agreements were concluded, and the vacancy rate of the building remains unchanged. Rental income earned at present from the building's commercial space, rental apartments and two office spaces is slightly lower than the interest expense of the Piraeus bank loan. However, negotiations with several tenants are at a stage where we expect a significant reduction in the vacancy by end of Q3. As at the end of the year, the building's free cash flow and impact on the income statement should be positive.

In Q2 we sold and delivered four apartments and some parking spaces in the Madrid Blvd building. Therefore, the balance of the outstanding bank loan on the building decreased to below EUR 9.5 million by the date of publication of the interim report. At the date of the interim report, the stock of vacant apartments on sale has decreased to 6 units. The remaining apartments (15) are rented out.

Other developments

In Q2 we started preparations for taking several land plots in the group's land bank into active development in order to strengthen the results in 2017 and 2018. We sold Viimsiranna properties. In addition, one property in Tartu may be exchanged with an immovable suitable for residential development in the same city. The property at Liimi 1b in Tallinn will be either sold off or we will develop it ourselves into cashflow-generating estate. The detail plan for the Lehiku tee property in Tallinn has been approved and we hope that it will enter into force by end of the year. Our land bank has some other untapped resources that could become active in the coming years in connection with the increase in Tallinn's population.

Service Division

The results of the Service Division as a whole are still not satisfactory for the Management. Our business in Bulgaria is profitable, and we opened already a second representative office in Sofia. However, in Latvia and Estonia we are losing money. The company's goal is to be the most human-focused real estate company, which requires some changes in staff thinking, especially in the thinking of brokers who are focusing narrowly on the property sales. It's "bricks versus people" change in the thinking. The positive in Estonia is that the revenues of the appraisal services have grown beyond expectations and, taken alone, are profitable. In Estonia as a whole we also see that the structure of revenues is gradually benefitting brokers and appraisers who are professionals only, and dedicated and consolidated under the Arco Vara brand. The Management Board still expects the Estonian unit to become profitable by the end of 2016 at the latest. In order to become profitable, we must increase revenues (brokerage efficiency) at the present fixed costs base.

With regard to the Latvian service unit should be noted that the group's opportunities to influence the management of that company are limited since the group is not its sole owner and several important decisions can be made with consensus only.

Forecast for the year

As at the end of the first quarter, the Management maintains its previous annual forecast: 2016 sales revenue of 10.3 million euros and net profit of 0.8 million euros. We will be driving through the whole 2016 on the results of Q1. The quarters that follow will add sales revenue, brokerage transactions, issued expert opinions and building of new apartments, but also slightly erode the profit earned during Q1, because of continuous overheads.

DEVELOPMENTS IN ARCO VARA HOME MARKETS

Sofia

In Sofia, real estate market is in stable growth phase. In first half of year 2016, 7% more (compared to the same period of year 2015) real estate transactions have been concluded. The total value of new mortgages set had increased by 19% in the same period. There have been issued more construction permits in Sofia, but also in Plovdiv, the second-largest city in Bulgaria. 5% raise in real estate prices is forecasted for the whole year 2016. The real estate market benefits also from the decrease of interest rates on mortgaged loans staying mainly between 4.25% and 5.25% during first half of 2016. Based on experience of the group's brokerage agency the typical traded one-bedroom apartment in Sofia is between 55-65 square meters in size and between 850-1,000 euros per one square meter of sellable area. The most popular two-bedroom apartment is between 85-100 square meters in size and between 800-900 euros per one square meter of sellable area.

Tallinn

In second quarter 2016, 2,261 apartment sale-purchase agreements were concluded in Tallinn. This is 9.9% more than Q1 2016 while 1.3% less than Q2 2015. In 6 months 2016, 4,318 apartment sale-purchase agreements were concluded in Tallinn, increased by 2.3% compared to the same period of last year. In Q2 2016, median price on apartment sales in Tallinn was 1,516 euros per square meter, increased by 3.1% compared to previous quarter and increased by 3.6% compared to Q2 2015. Based on transaction statistics we can consider Tallinn apartment market as stable with slightly growing trend in sale prices. In last year, transaction activity and prices have increased more in districts bordering city centre like North Tallinn, Kristiine, also Mustamäe. Apartment market is strongly impacted by new developments, which motivate people to change their living place, but on the same time increased offer makes the clients more demanding.

SERVICE DIVISION

In Q2 2016, revenue of the group's service division was 850 thousand euros (in Q2 2015: 809 thousand euros), that included intra-group revenue of 129 thousand euros (in Q2 2015: 117 thousand euros). Service division revenue was practically the same if 6 months periods were compared: 1,598 thousand euros in 6 months 2016 and 1,588 thousand euros in 6 months 2015. Revenue of service division from main services (real estate brokerage and valuation services) has increased in 2016 if compared with the same period of 2015: growing by 9% if comparing second quarters and 3% if comparing 6 months periods. Revenue from main services has increased in Estonian and Latvian brokerage agency and decreased in Bulgarian agency. The drop in the revenue of Bulgarian agency can be attributed to the decreased income from mediating the sales of the group's own properties.

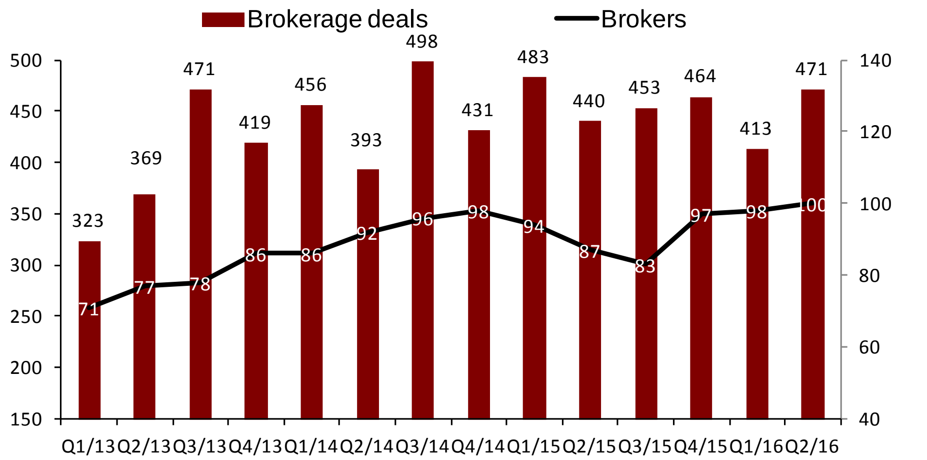
Revenue of real estate agencies from brokerage and valuation

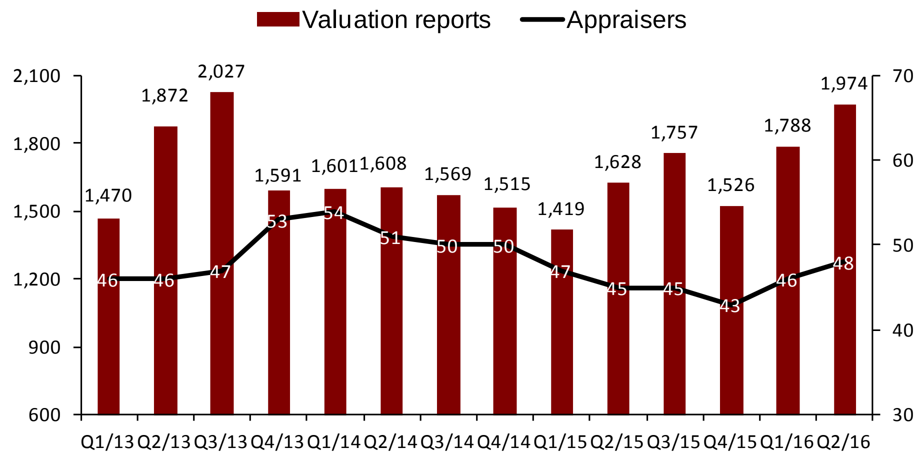
	6 months 2016	6 months 2015	Change, %	**Q2 2016**	Q2 2015	Change, %
In thousands of euros						
Estonia	655	595	10%	355	317	12%
Latvia	468	436	7%	233	193	21%
Bulgaria	329	378	-13%	186	198	-6%
Total	**1,452**	**1,409**	**3%**	**774**	**708**	**9%**

In 6 months 2016, Estonian and Latvian agencies have operated on a loss: 119 thousand euros and 18 thousand euros respectively (in 6 months 2015, had a loss of 40 thousand euros and 48 thousand euros respectively). Bulgarian agency had net loss of 2 thousand euros in 6 months 2016, but earned net profit of 111 thousand euros in 6 months 2015.

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 56 thousand euros in 6 months 2016, 48 thousand euros of which was intra-group revenue (in 6 months 2015: 82 thousand and 57 thousand euros, respectively). Revenue from accommodation services amounted to 64 thousand euros in 6 months 2016 (in 6 months 2015: 55 thousand euros).

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





The number of staff in service division has been increased to 172 employees in first six months of 2016, this is 7 people more compared to year end 2015. The number of staff is increased mainly in Bulgaria.

DEVELOPMENT DIVISION

In Q2 2016, revenue of development division totalled 1,403 thousand euros (in Q2 2015: 1,382 thousand euros) including revenue of 969 thousand euros (Q2 2015: 791 thousand euros) from the sale of properties in the group's own development projects. In 6 months 2016, development division revenue amounted to 5,815 thousand euros, which is 12.5% more compared to 6 months 2015 then revenue was 5,170 thousand euros.

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 88 thousand euros in Q2 2016 and 163 thousand euros in 6 months 2016 (in 2015: 237 thousand euros in Q2 and 474 thousand euros in 6 months). Rental income has decreased compared to previous year due to conclusion of rental agreement with anchor tenant in Q3 2015 and the renovation works of rental spaces in Q4 2015. The rental space that was previously rented out for one anchor tenant is now divided into 7 separate spaces. The search of new tenants is ongoing, the first rental agreement was concluded in Q2 2016. The rental income is planned to recover close to the previous level by the end of year 2016.

In 6 months 2016, operating profit of development division was 1,491 thousand euros, of which 105 thousand euros was earned in Q2. In 6 months 2015, the operating profit was 1,221 thousand euros, of which 255 thousand euros in Q2.

During Q2 2016, the construction of first stage apartment building (with 125 apartments and 5 commercial spaces) in the group's biggest development project Kodulahe continued in Tallinn. By the publishing date of the interim report, presale agreements for 41 apartments and one commercial space have been concluded. The construction of the apartment building should finalize at the beginning of summer 2017.

In Q2 2016, sale of last apartments and commercial spaces in Manastirski Livadi project in Sofia have been continued. During the quarter, one apartment (the last one for the whole project) and 4 commercial premises were sold. As at 30 June 2016, 4 commercial spaces and some parking places remained unsold in the project.

As at 30 June 2016, 22 apartments remained unsold in Madrid Blvd complex in Sofia. In Q2 2016, 4 apartments were sold and after the reporting period another one. 15 apartments, out of all Madrid Blvd unsold apartments, are rented out as accommodation service. Unsold 105 parking places are also rented out.

In May 2016, the group finalized the purchase of a company Iztok Parkside EOOD. As a result, the group's development portfolio has new development project in Iztok district in Sofia. By the date of publishing the interim report, detail plan for the project's property has been established. It is expected, that City Government of Sofia should adopt the plan in Q3 2016. In q2 2016, design contest was carried out, which foresees construction of three apartment buildings with 68 apartments and 7,070 square meters of apartments' sellable area. The construction should start in Q4 2016 and apartment buildings should be completed by the end of year 2017.

In second quarter, two Marsili residential plots were sold. 12 plots remained unsold, on one of which has been concluded presale agreement - the final sale should be concluded in Q3 2016.

As at 30 June 2016, 5 people were employed in development division, the same number as at the end of year 2015.

SUMMARY TABLE OF ARCO VARA'S ACTIVE PROJECTS AS AT 30 JUNE 2016

Project name	Address	Product main type	Stage	Area of plot(s) (m^2)	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Manastirski D	Manastirski, Sofia	Apartments	S5	-	372	4
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	21
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	2,408	22
Iztok Parkside	Iztok, Sofia	Apartments	S3	2,470	7,070	68
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	21,048	12
Marsili residential plots	Marsili, near Riga	Residential plots	S2/S5	120,220	<120,220>	<68>
Kodulahe, stage 1	Lahepea 7, Tallinn	Apartments	S4/S5	6,102	8,732	130
Kodulahe, stages 2-5	Lahepea, Soodi, Pagi streets, Tallinn	Apartments	S2	22,396	<13,300>	<200>
Lehiku carpet building	Lehiku 21,23 Tallinn	Apartments	S2	5,915	<1,100>	<5>
Liimi	Liimi 1b, Tallinn	Lease: Office	S2/S5	2,463	<6,500>	1

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 30 June 2016, 185 people worked for the group (178 as at 31 December 2015). Employee remuneration expenses in first 6 months 2016 amounted to 1.4 million euros (in 6 months 2015: 1.3 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 6 months 2016 amounted to 57 thousand euros (54 thousand euros in 6 months 2015).

MANAGEMENT BOARD AND SUPERVISORY COUNCIL

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

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

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

DESCRIPTION OF THE MAIN RISKS

Strategic risk

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

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

Credit risk

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

Liquidity and interest rate risks

The base currency of all of the group's loan agreements is euro and the base interest rate is 3 or 6 months EURIBOR. As a result, the group is exposed to developments on the international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In first 6 months 2016, the group's interest-bearing liabilities have decreased by 1.9 million euros and at 30 June 2016 amounted to 10.8 million euros, of which only 0.1 million euros is due within next 12 months. At the same time, the group's cash and cash equivalents totalled 0.9 million euros as at 30 June 2016 (at 31 December 2015: 0.7 million euros). In 6 months 2016, interest payments on interest-bearing liabilities totalled 0.4 million euros (in 6 months 2015: 0.5 million euros). The group's weighted average loan interest rate was 5.7% as at 30 June 2016. This is an increase by 0.7 percentage points compared to the end of year 2015. The reason for the increase is bonds issued in January 2016, the bonds bear significantly higher than average interest rate.

Currency risk

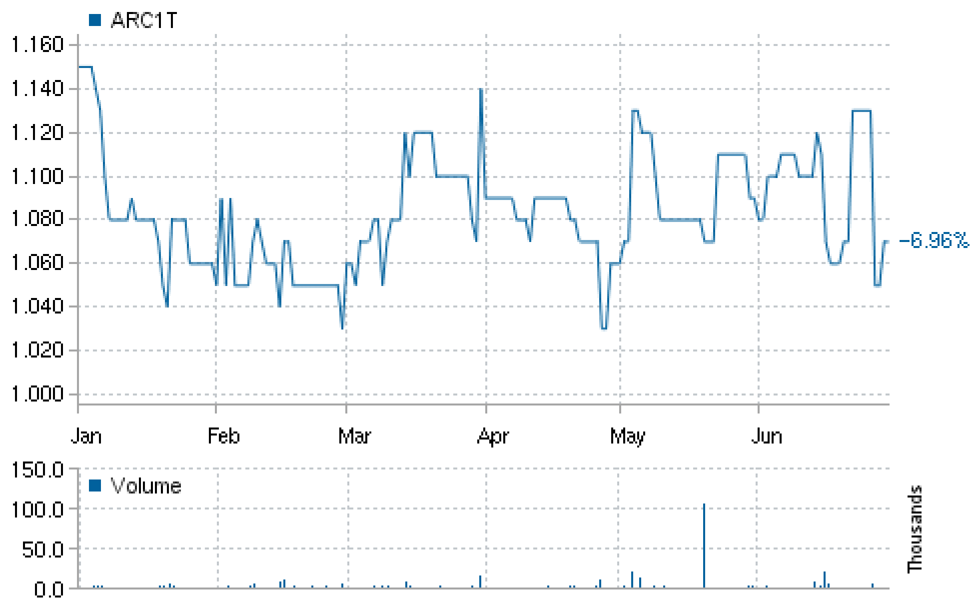
Purchase and sales contracts of provided services are mostly signed in local currencies: euros (EUR) or Bulgarian lev (BGN). Real estate sales are mostly nominated in euros, as a result of which the group's assets and liabilities structure does not denote a significant currency risk. The group is not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

Share and shareholders

Arco Vara AS has issued a total of 6,117,012 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.07 euros as at 30 June 2016. The price has decreased by 7% within 6 months 2016 (closing price at the end of 2015 was 1.15 euros). During the period, the highest traded price per share was 1.15 euros and lowest price 1.01 euros. As at 30 June 2016, market capitalization of shares amounted to 6,545 thousand euros, P/E ratio of the share was 10.7 and P/B ratio 0.63 (at 31 December 2015: 7,035 thousand euros, 15.8 and 0.73, respectively).

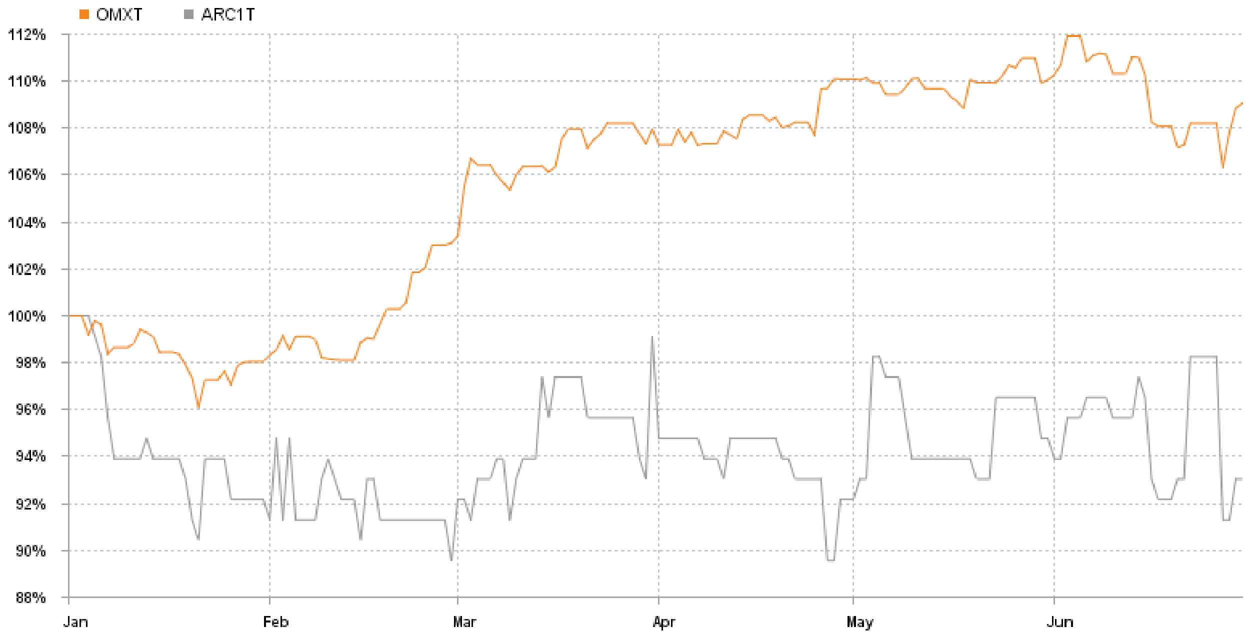
The following charts reflect movements in the price and daily turnover of Arco Vara share in last three years: for the period from 30 June 2013 until 30 June 2016.

In 6 months 2016:



In the period from 30 June 2013 until 30 June 2016:

Changes in Arco Vara share (ARC1T) price compared with the benchmark index OMX Tallinn in 6 months 2016.

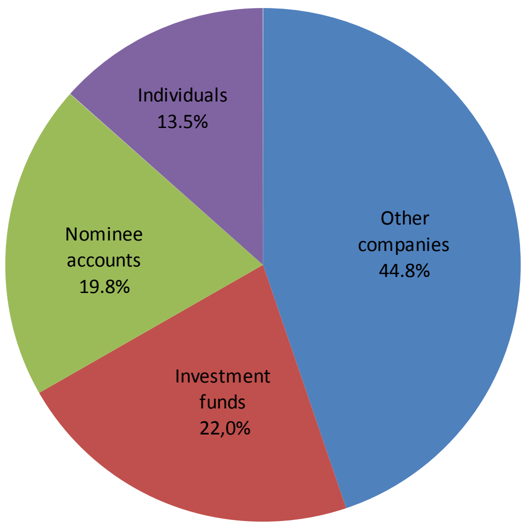


Index/equity	31 Dec 2015	30 June 2016	+/-%
OMX Tallinn	898.99	980.37	+9.05
ARC1T	1.15 EUR	1.07 EUR	-6.96

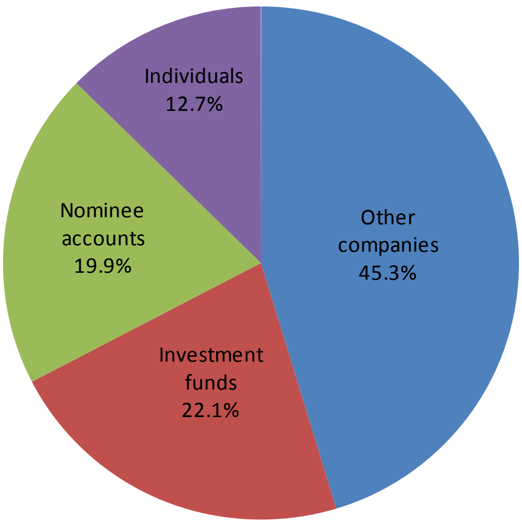
Structure of shareholders

As at 30 June 2016, Arco Vara had 1,536 shareholders (at 31 December 2015: 1,600) including 1,327 individuals as shareholders (at 31 December 2015: 1,381 individuals) who jointly owned 13.5% (at 31 December 2015: 12.7%) interest out of all Arco Vara shares. Structure of total interest by shareholder's category as at 30 June 2016 and at 31 December 2015 are presented on following diagrams:

Ownership structure as at 30 June 2016



Ownership structure as at 31 December 2015



Major shareholders at 30 June 2016	No of shares	Interest %
NORDEA BANK FINLAND PLC client	862,820	14.1%
AS Lõhmus Holdings	602,378	9.8%
Gamma Holding Investment OÜ	558,975	9.1%
Alarmo Kapital OÜ	500,188	8.2%
LHV PENSIONIFOND L	389,765	6.4%
FIREBIRD REPUBLICS FUND LTD	356,428	5.8%
HM Investeeringud OÜ	330,505	5.4%
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	2,006,048	32.8%
Total	**6,117,012**	**100.0%**

Holdings of members of the management and supervisory boards (and related persons) at 30 June 2016	Position	No of shares	Interest %
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	602,378	9.8%
Tarmo Sild ja Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	500,188	8.2%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	chairman of supervisory board	369,259	6.0%
Kert Keskpaik (privately and through K Vara OÜ)	member of supervisory board	202,171	3.3%
Steven Yaroslav Gorelik [1]	member of supervisory board	0	0.0%
Total		**1,673,996**	**27.4%**

[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 ended 30 June 2016 provides a true and fair view of the development, financial performance and financial position of the group as well as a description of the main risks and uncertainties.

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

On 11 August 2016

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	**6 months 2016**	6 months 2015	**Q2 2016**	Q2 2015
In thousands of euros					
Continuing operations					
Revenue from sale of own real estate		5,582	4,616	1,277	1,111
Revenue from rendering of services		1,569	1,841	817	949
Total revenue	2, 3	**7,151**	**6,457**	**2,094**	**2,060**
Cost of sales	4	-4,692	-4,169	-1,513	-1,269
Gross profit		**2,459**	**2,288**	**581**	**791**
Other income		28	23	27	6
Marketing and distribution expenses	5	-280	-234	-138	-125
Administrative expenses	6	-1,021	-945	-522	-470
Other expenses		-18	-26	-12	-14
Gain on sale of subsidiary		1	0	1	0
Operating profit/loss		**1,169**	**1,106**	**-63**	**188**
Finance income and costs	7	-296	-388	-124	-198
Net profit/loss from continuing operations		**873**	**718**	**-187**	**-10**
Discontinued operations					
Loss from discontinued operations		0	-13	0	-2
Net profit/loss for the period		**873**	**705**	**-187**	**-12**
attributable to owners of the parent		*878*	*719*	*-182*	*-3*
attributable to non-controlling interests		*-5*	*-14*	*-5*	*-9*
Total comprehensive income/expense for the period		**873**	**705**	**-187**	**-12**
attributable to owners of the parent		*878*	*719*	*-182*	*-3*
attributable to non-controlling interests		*-5*	*-14*	*-5*	*-9*
Earnings per share (in euros)	8				
- basic		**0.14**	0.12	**-0.03**	0.00
- diluted		**0.13**	0.11	**-0.03**	0.00

Consolidated statement of financial position

	Note	**30 June 2016**	31 December 2015
In thousands of euros			
Cash and cash equivalents		925	745
Receivables and prepayments	9	716	679
Inventories	10	14,092	12,818
Total current assets		**15,733**	**14,242**
Receivables and prepayments	9	11	0
Investment property	11	9,111	9,513
Property, plant and equipment		483	489
Intangible assets		255	229
Total non-current assets		**9,860**	**10,231**
TOTAL ASSETS		**25,593**	**24,473**
Loans and borrowings	12	118	2,345
Payables and deferred income	13	4,312	1,935
Provisions		81	146
Total current liabilities		**4,511**	**4,426**
Loans and borrowings	12	10,717	10,417
Total non-current liabilities		**10,717**	**10,417**
TOTAL LIABILITIES		**15,228**	**14,843**
Share capital		4,282	4,282
Share premium		292	292
Statutory capital reserve		2,011	2,011
Other reserves	8	298	298
Retained earnings		3,473	2,656
Total equity attributable to owners of the parent		**10,356**	**9,539**
Equity attributable to non-controlling interests		9	91
TOTAL EQUITY		**10,365**	**9,630**
TOTAL LIABILITIES AND EQUITY		**25,593**	**24,473**

Consolidated statement of cash flows

	Note	**6 months 2016**	6 months 2015	**Q2 2016**	Q2 2015
In thousands of euros					
Cash receipts from customers		9,635	8,695	3,809	2,802
Cash paid to suppliers		-4,185	-2,958	-2,403	-1,673
Taxes paid and recovered (net)		-1,149	-2,035	-378	-532
Cash paid to employees		-636	-539	-312	-304
Other cash payments and receipts related to operating activities (net)		-62	33	-15	-94
NET CASH FROM OPERATING ACTIVITIES		**3,603**	**3,196**	**701**	**199**
Payments made on purchase of tangible and intangible assets		-74	-99	-35	-43
Proceeds from sale of a subsidiary		1	0	1	0
Payments made on purchase of a subsidiary		-840	0	-840	0
Interest received		0	3	0	2
Other payments related to investing activities		-3	0	0	0
NET CASH USED IN INVESTING ACTIVITIES		**-916**	**-96**	**-874**	**-41**
Proceeds from loans received	12	1,071	870	51	870
Settlement of loans and borrowings	12	-2,998	-3,965	-580	-1,432
Interest paid		-391	-475	-189	-172
Dividends paid		-61	-61	-61	-61
Other payments related to financing activities		-128	-82	0	-82
NET CASH USED IN FINANCING ACTIVITIES		**-2,507**	**-3,713**	**-779**	**-877**
NET CASH FLOW		**180**	**-613**	**-952**	**-719**
Cash and cash equivalents at beginning of period		745	1,691	1,877	1,797
Increase in cash and cash equivalents		**180**	**-613**	**-952**	**-719**
Cash and cash equivalents at end of period		925	1,078	925	1,078

Consolidated statement of changes in equity

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands of euros								
Balance as at 31 December 2014	**4,282**	**292**	**2,011**	**179**	**2,250**	**9,014**	**36**	**9,050**
Profit distribution	0	0	0	0	-61	-61	0	**-61**
Total comprehensive income for the period	0	0	0	0	719	719	-14	**705**
Balance as at 30 June 2015	**4,282**	**292**	**2,011**	**179**	**2,908**	**9,672**	**22**	**9,694**
Balance as at 31 December 2015	**4,282**	**292**	**2,011**	**298**	**2,656**	**9,539**	**91**	**9,630**
Profit distribution	0	0	0	0	-61	-61	0	**-61**
Change in non-controlling interest	0	0	0	0	0	0	-77	**-77**
Total comprehensive income for the period	0	0	0	0	878	878	-5	**873**
Balance as at 30 June 2016	**4,282**	**292**	**2,011**	**298**	**3,473**	**10,356**	**9**	**10,365**

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 6 months ended 30 June 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

2. Segment information

The group has the following reportable operating segments:

Development - development of residential and commercial real estate environments;

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

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

Revenue and operating profit by operating segment

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	6M 2016	6M 2015	6M 2016	6M 2015	6M 2016	6M 2015	6M 2016	6M 2015	6M 2016	6M 2015
in thousands of euros										
External revenue	5,759	5,126	1,392	1,328	0	3			7,151	6,457
Annual change	*12.3%*		*4.8%*						*10.7%*	
Inter-segment revenue	56	44	206	260			-262	-304	0	0
Total revenue	**5,815**	**5,170**	**1,598**	**1,588**	**0**	**3**	**-262**	**-304**	**7,151**	**6,457**
Annual change	*12.5%*		*0.6%*							
Operating profit	**1,491**	**1,221**	**-117**	**60**	**-322**	**-368**	**117**	**193**	**1,169**	**1,106**

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	Q2 2016	Q2 2015	Q2 2016	Q2 2015	Q2 2016	Q2 2015	Q2 2016	Q2 2015	Q2 2016	Q2 2015
in thousands of euros										
External revenue	1,373	1,366	721	692	0	2			2,094	2,060
Annual change	*0.5%*		*4.2%*						*1.7%*	
Inter-segment revenue	30	22	129	117			-159	-139	0	0
Total revenue	**1,403**	**1,388**	**850**	**809**	**0**	**2**	**-159**	**-139**	**2,094**	**2,060**
Annual change	*1.1%*		*5.1%*							
Operating profit	**105**	**255**	**-44**	**17**	**-158**	**-195**	**34**	**111**	**-63**	**188**

Assets and liabilities by operating segment

Segment	Development		Service		Unallocated		Consolidated	
	30 June 2016	31 Dec 2015	30 June 2016	31 Dec 2015	30 June 2016	31 Dec 2015	30 June 2016	31 Dec 2015
in thousands of euros								
Assets	24,654	23,318	582	505	357	650	25,593	24,473
Liabilities	12,482	14,060	442	518	2,304	265	15,228	14,843

3. Revenue

In thousands of euros	**6 months 2016**	6 months 2015	**Q2 2016**	Q2 2015
Sale of own real estate	5,582	4,616	1,277	1,111
Real estate brokerage and valuation	1,277	1,209	657	628
Rental of real estate	227	528	122	268
Property management services	21	63	12	30
Other revenue	44	41	26	23
Total revenue	**7,151**	**6,457**	**2,094**	**2,060**

4. Cost of sales

In thousands of euros	**6 months 2016**	6 months 2015	**Q2 2016**	Q2 2015
Cost of real estate sold	-3,676	-3,224	-969	-791
Personnel expenses	-812	-715	-429	-371
Property management costs	-129	-157	-70	-77
Vehicle expenses	-12	-10	-6	-6
Depreciation, amortisation and impairment losses	-6	-6	-3	-3
Other costs	-57	-57	-36	-21
Total cost of sales	**-4,692**	**-4,169**	**-1,513**	**-1,269**

5. Marketing and distribution expenses

In thousands of euros	**6 months 2016**	6 months 2015	**Q2 2016**	Q2 2015
Advertising expenses	-151	-136	-71	-75
Personnel expenses	-63	-60	-29	-32
Market research	-5	-5	-1	-1
Brokerage fees	-3	0	0	0
Other marketing and distribution expenses	-58	-33	-37	-17
Total marketing and distribution expenses	**-280**	**-234**	**-138**	**-125**

6. Administrative expenses

In thousands of euros	**6 months 2016**	6 months 2015	**Q2 2016**	Q2 2015
Personnel expenses	-547	-482	-297	-239
Office expenses	-189	-238	-92	-126
Services purchased	-109	-83	-40	-28
IT expenses	-80	-75	-38	-40
Depreciation, amortisation and impairment losses	-46	-20	-23	-11
Vehicle expenses	-16	-15	-8	-9
Legal service fees	-15	-18	-11	-9
Other expenses	-19	-14	-13	-8
Total administrative expenses	**-1,021**	**-945**	**-522**	**-470**

7. Finance income and costs

In thousands of euros	6 months 2016	6 months 2015	Q2 2016	Q2 2015
Interest expenses	-286	-327	-122	-144
Interest income	0	2	0	1
Other finance income and costs	-10	-63	-2	-55
Total finance income and costs	**-296**	**-388**	**-124**	**-198**

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 2016	6 months 2015	Q2 2016	Q2 2015
Weighted average number of ordinary shares outstanding during the period	6,117,012	6,117,012	6,117,012	6,117,012
Number of ordinary shares potentially to be issued	780,000	390,000	780,000	390,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	878	719	-182	-3
Earnings per share (in euros)	**0.14**	0.12	**-0.03**	0.00
Diluted earnings per share (in euros)	**0.13**	0.11	**-0.03**	0.00

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

According to the decision of the annual general shareholders' meeting of Arco Vara AS, held on 10 May 2016, another convertible bond was issued with the nominal value of 1,000 euros. The new convertible bond will give to the chief executive of the group's parent company the right to subscribe additionally up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. See also note 14.

9. Receivables and prepayments

Short-term receivables and prepayments

In thousands of euros	30 June 2016	31 December 2015
Trade receivables		
Receivables from customers	201	235
Allowance for doubtful trade receivables	-12	-12
Total trade receivables	**189**	**223**
Other receivables		
Loans provided	6	6
Miscellaneous receivables	33	119
Total other receivables	**39**	**125**
Accrued income		
Prepaid and recoverable taxes	74	75
Other accrued income	17	3
Total accrued income	**91**	**78**
Prepayments	**397**	**253**
Total short-term receivables and prepayments	**716**	**679**

10. Inventories

In thousands of euros	**30 June 2016**	31 December 2015
Properties purchased and being developed for resale	14,067	12,580
Materials and finished goods	10	12
Prepayments for inventories	15	226
Total inventories	**14,092**	**12,818**

Properties purchased and being developed for resale (changes in the period)

In thousands of euros	**2016**	2015
Balance at the beginning of period, 1 January	**12,580**	**11,942**
Properties purchased for development	2,102	70
Construction costs of apartment buildings	2,382	728
Capitalized borrowing costs	234	81
Other capitalized costs	14	199
Reclassification from investment property (note 11)	431	77
Cost of sold properties (note 4)	-3,676	-3,224
Balance at the end of period, 30 June	**14,067**	**9,873**

11. Investment property

Investment property (changes in the period)

In thousands of euros	**2016**	2015
Balance at the beginning of period, 1 January	**9,513**	**11,585**
Capitalised development costs	29	21
Reclassification to inventories (note 10)	-431	-77
Balance at the end of period, 30 June	**9,111**	**11,529**

12. Loans and borrowings

	As at 30 June 2016			As at 31 December 2015		
In thousands of euros	**Total**	*of which current portion*	*of which non-current portion*	**Total**	*of which current portion*	*of which non-current portion*
Bank loans	9,647	58	9,589	12,585	2,179	10,406
Bonds	1,122	0	1,122	151	150	1
Finance lease liabilities	16	10	6	26	16	10
Other loans	50	50	0	0	0	0
Total	**10,835**	**118**	**10,717**	**12,762**	**2,345**	**10,417**

In 6 months 2016, the group settled loans and borrowings in amount of 2,998 thousand euros (in 6 months 2015: 3,965 thousand euros) through cash transactions and new loans in amount of 1,071 thousand euros were raised (in 6 months 2015: 870 thousand euros).

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

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

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

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

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

13. Payables and deferred income

Short-term payables and deferred income	**30 June 2016**	31 December 2015
In thousands of euros		
Trade payables	**836**	**296**
Payable on purchase of a subsidiary	**1,050**	**0**
Miscellaneous payables	**19**	**172**
Taxes payable		
Value added tax	114	47
Corporate income tax	32	114
Social security tax	46	40
Personal income tax	28	31
Other taxes	367	336
Total taxes payable	**587**	**568**
Accrued expenses		
Payables to employees	146	174
Interest payable	2	8
Other accrued expenses	4	11
Total accrued expenses	**152**	**193**
Deferred income		
Prepayments received on sale of real estate	1,666	704
Other deferred income	2	2
Total deferred income	**1,668**	**706**
Total short-term payables and deferred income	**4,312**	**1,935**

14. Related party disclosures

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

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

Transactions with related parties

In thousands of euros	**6 months 2016**	6 months 2015
Companies that have a significant interest in the group's parent company		
Services purchased	20	14
Bonds issued	100	0
Redemption of bonds	150	750
Paid interest	6	85
Other related parties		
Services sold	0	2
Redemption of bonds	0	250
Paid interest	0	39

Balances with related parties

In thousands of euros	**30 June 2016**	31 December 2015
Companies that have a significant interest in the group's parent company		
Bonds issued	100	150
Other related parties		
Bonds issued	2	11

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

In 6 months 2016, the remuneration provided to the group's key management personnel, i.e. the chief executive/member of the management board and the members of the supervisory board of the group's parent company, including social security charges, amounted to 57 thousand euros (in 6 months 2015: 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 mandate of the chief executive was prolonged by 3 years (until October 2018) on the supervisory board meeting held in September 2015.The basis for the remuneration provided to the members of the supervisory board was changed in July 2013 and were slightly amended in February 2015. According to the resolutions of the general meeting of Arco Vara AS, the members of the supervisory board will get paid 500 euros (net amount) for every participated meeting but not more than 1,000 euros (net amount) per month. The payment of the remuneration is made dependent on the signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating on the board meetings are also compensated to the members of the supervisory board. The group's key management personnel was not provided or paid any other remuneration or benefits (bonuses, termination benefits, etc) in the reporting period.

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

According to the decision of the annual general shareholders' meeting of Arco Vara AS, held on 10 May 2016, new convertible bond was issued with the nominal value of 1,000 euros. The new convertible bond will give to the chief executive of the group's parent company the right to subscribe additionally up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. See also note 8.

Statement by the chief executive/member of the management board

The chief executive/member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the second quarter and six months ended 30 June 2016.

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

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

On 11 August 2016