



**INTERIM REPORT FOR THE 4TH QUARTER  
AND 12 MONTHS OF 2016  
(UNAUDITED)**

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AND 12 MONTHS OF 2016  
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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 – 31 December 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 Q4 AND 12 MONTHS OF 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 considers 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, and behaviour of potential clients. Analytical data allows to make better decisions on real estate development: purchase of land plots, planning and designing, pricing end products, and timing the start of construction.

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

As of 31 December 2016, the group consisted of 22 companies, which is three less than at the end of 2015. On 19 February 2016, the group's subsidiary Fineprojekti OÜ was erased from 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% to 100% and the share capital of the fund was additionally increased by 77 thousand euros. In April 2016, the group sold its 100% subsidiary Arco BB EOOD in Bulgaria and in May 2016, the group acquired a 100% subsidiary Iztok Parkside EOOD in Bulgaria. On 31 October 2016, the group sold its 70.6% ownership in Arco Real Estate SIA (including its subsidiary Adepto SIA). On 22 December 2016, the group established a new subsidiary Kodulahe II OÜ. 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 use value, while remaining innovative;
- 2) to achieve stable and strong return on equity for the shareholders, which beats the competition in real estate business and justifies investing in and holding Arco Vara's shares;
- 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

Caring – we value our clients as individuals

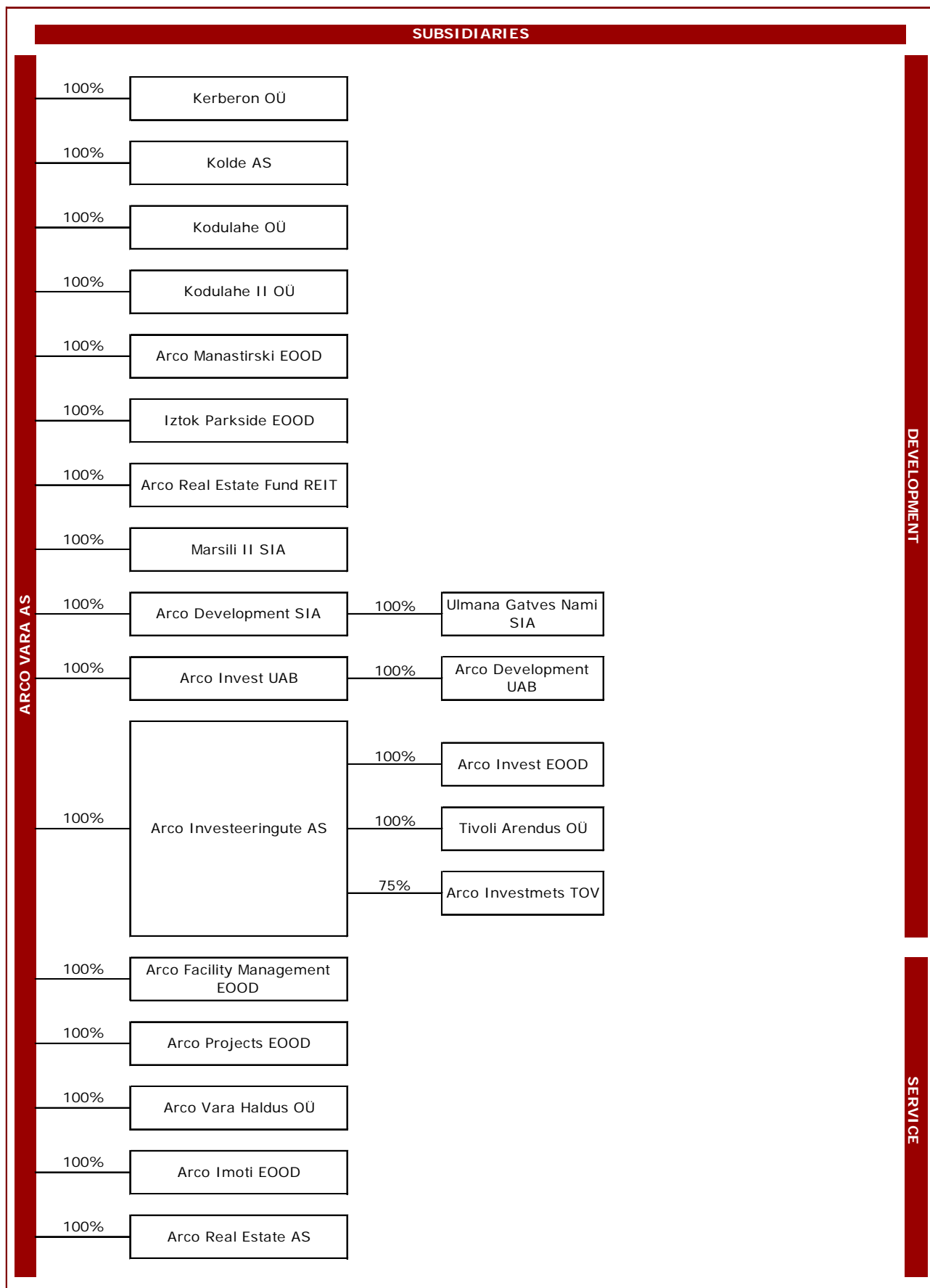
Responsibility – we keep our promises

### Significant subsidiaries

Company name	Location	Segment	Share capital (nominal value)	Equity balance at 31 Dec 2016	The group's interest
In thousands of euros					
Arco Invest EOOD	Bulgaria	Development	26,826	-1,170	100%
Iztok Parkside EOOD	Bulgaria	Development	1,433	1,177	100%
Arco Real Estate Fund REIT	Bulgaria	Development	332	306	100%
Kodulahe OÜ	Estonia	Development	3	-330	100%
Kerberon OÜ	Estonia	Development	5	1,332	100%
Marsili II SIA	Latvia	Development	1,524	743	100%
Arco Real Estate AS	Estonia	Service	42	-1,095	100%
Arco Imoti EOOD	Bulgaria	Service	444	171	100%

**Group structure**

As of 31 December 2016



## KEY PERFORMANCE INDICATORS

- In Q4 2016, the group's revenue was 1.3 million euros, which is 37.6% less compared to the revenue of 2.1 million euros in Q4 2015. Revenue of the Development division amounted to 0.6 million euros in Q4, decreasing by 54% compared to Q4 2015. Revenue of the Service division amounted to 0.8 million euros in Q4 2016, increasing by 1.6% compared to Q4 2015. The group's revenue of 9.7 million euros for the 12 months of 2016 decreased by 8.5% compared to the 12 months of year 2015. Revenue of the Development division decreased by 11.3% to 7.0 million euros for 12 months 2016. Revenue of the Service division amounted to 3.2 million euros in 12 months 2016, decreasing by 0.7% compared to 12 months 2015.
- In Q4 2016, the group's operating loss (=EBIT) was 1.1 million euros (In Q4 2015: 0.2 million euros) and net loss 1.3 million euros (In Q4 2015: 0.4 million euros). In 12 months 2016, the group's operating loss (=EBIT) was 0.1 million euros and net loss was 0.8 million euros. In 12 months 2015, the group earned operating profit of 1.3 million euros and net profit of 0.5 million euros. The group's financial performance for 2016 was affected by the loss from devaluation of assets in amount of 0.6 million euros. The development division earned operating profit of 0.6 million euros in 12 months 2016 and 1.8 million euros in 12 months 2015. Operating loss of the Service division was 0.2 million euros in 12 months 2016 and 0.1 million euros in 12 months 2015.
- As of 31 December 2016, the group's debt burden had increased by 1.5 million euros compared to the year-end of 2015. Net loans had increased by 1.4 million euros over 2016 up to the level of 13.4 million euros as of 31 December 2016. As of 31 December 2016, the weighted average annual interest rate of interest bearing liabilities was 5.3%. This is an increase of 0.3 percentage points compared to 31 December 2015.
- In Q4 2016, 2 apartments, 4 commercial spaces and 2 land plots were sold in projects developed in the group (in Q4 2015, 17 apartments and 3 land plots were sold). In 12 months 2016, 77 apartments, 9 commercial spaces and 8 land plots were sold (in 12 months 2015: 90 apartments, 6 commercial spaces and 4 land plots).

	12 months 2016	12 months 2015	Q4 2016	Q4 2015
In millions of euros				
<b>Revenue</b>				
Development	7.0	7.9	0.6	1.4
Service	3.2	3.3	0.8	0.8
Eliminations	-0.5	-0.5	-0.2	-0.1
<b>Total revenue</b>	<b>9.7</b>	<b>10.7</b>	<b>1.2</b>	<b>2.1</b>
<b>Operating profit (EBIT)</b>				
Development	0.6	1.8	-0.9	0.2
Service	-0.1	-0.1	0.0	-0.2
Unallocated income and expenses	-0.6	0.1	-0.1	0.1
Eliminations	0.0	-0.5	-0.1	-0.3
<b>Total operating profit/loss (EBIT)</b>	<b>-0.1</b>	<b>1.3</b>	<b>-1.1</b>	<b>-0.2</b>
Financial income and expense	-0.6	-0.7	-0.1	-0.1
Income tax	-0.1	-0.1	-0.1	-0.1
<b>Net profit/loss</b>	<b>-0.8</b>	<b>0.5</b>	<b>-1.3</b>	<b>-0.4</b>
<b>Key ratios</b>				
EPS (in euros)	-0.13	0.08	-0.21	-0.07
Diluted EPS (in euros)	-0.13	0.07	-0.20	-0.07
ROIC (rolling, four quarters)	-3.7%	2.0%		
ROE (rolling, four quarters)	-8.4%	4.6%		
ROA (rolling, four quarters)	-3.2%	1.8%		

	31 Dec 2016	31 Dec 2015
In millions of euros, as of the end of period		
<b>Total assets</b>	27.7	24.5
<b>Invested capital</b>	23.2	22.4
<b>Net loans</b>	13.4	12.0
<b>Equity</b>	9.0	9.6
<b>Current ratio</b>	1.15	3.22
<b>Quick ratio</b>	0.09	0.32
<b>Financial leverage</b>	3.09	2.54
<b>Average loan term (in years)</b>	1.2	1.7
<b>Average annual interest rate of loans</b>	5.3%	5.0%
<b>Number of staff, end-of-period</b>	110	178

### Cash flows

	12 months 2016	12 months 2015	Q4 2016	Q4 2015
In millions of euros				
Cash flows from/used in operating activities	1.3	2.4	-1.3	-0.6
Cash flows from/used in investing activities	-2.0	-0.2	0.0	-0.1
Cash flows from/used in financing activities	0.8	-3.2	1.7	0.2
<b>Net cash flows</b>	<b>0.1</b>	<b>-1.0</b>	<b>0.4</b>	<b>-0.5</b>
Cash and cash equivalents at beginning of period	0.7	1.7	0.4	1.2
Cash and cash equivalents at the end of period	0.8	0.7	0.8	0.7

### Revenue and net profit/loss from continuing operations

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

### FORMULAS USED:

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

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

**Net loans** = current interest-bearing liabilities + non-current liabilities – cash and cash equivalents – short-term investments in securities (at the end of period)

**Return on invested capital (ROIC)** = past four quarters' net profit / average invested capital

**Return on equity (ROE)** = past four quarters' net profit / average equity

**Return on assets (ROA)** = past four quarters' net profit / average total assets

**Current ratio** = current assets / current liabilities

**Quick ratio** = (current assets - inventory) / current liabilities

**Financial leverage** = total assets / equity

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

## GROUP CEO'S REVIEW

From the targets set for 2016, we achieved necessary internal growth, but did not achieve profit. It is hard to reach profit without selling anything and without revaluating your assets. There are no reasons to reevaluate our assets upwards, and in order to sell anything, we must first complete the ongoing development projects while launching new developments like a cascade. As a general philosophical remark, I think that earning real money must be preferred anytime to simple rewriting the asset valuations. In real estate you earn real money when you sell something against payment.

Arco Vara will celebrate its 25th birthday very shortly. A few years ago, we went through reanimation from a situation which we had put ourselves into by growing our assets and liabilities much faster than our capacity to sell to our customers completed real estate products. Today, we are gathering speed again, which is a painfully slow process. I am not proud of the results of Q4 and the full year, but I also do not think they are bad results. I see how the results of 2016 will lead us to sales in 2017 and the years thereafter. Presales of development products have been good and this will be recorded as revenue in 2017.

At the moment, let's concentrate on 2016 figures. I start with the worse, with the net loss. The full year's results were damaged by Q4 when we did not sell anything out of our almost empty stock. We did not achieve our annual target to sell our services and products for 10.3 million euros and earn a net profit of at least 0.8 million euros. The actual 2016 results (unaudited) are a revenue of 9.7 million euros and net loss of 0.8 million euros, where Q4 was the biggest contributor to annual loss.

There are five reasons for the annual loss. First, we were not successful in letting out the offices of Madrid Blvd building, Sofia. Although one additional tenant was signed in Q4, the vacant premises at the end of the year amounted to 3,500 square meters. The lost rental income for 2016 was at least 0.4 million euros, in cash.

Second, since we were not successful in letting out the offices of Madrid Blvd and the effective rents of signed agreements have been lower than expected, the management had to write down the value of the building as of the end of the year. We decreased the valuation by 0.4 million euros. That part of net loss is accounted on paper, not in cash.

Third, around year-end we sold as one-off deal "Baltezers-3" - the block of undeveloped residential land plots in Latvia, at an accounting loss of 0.2 million euros. With this transaction we chose guaranteed cash over possible revenue in the future. We calculated that at times when the Group issues debt to finance its developments at a cost of over 10% per annum, it would not be right to sit for years on undeveloped land that offers zero current yield and negative cash flow after land taxes and other expenses. The management devaluated the whole Baltezers project (both completed unsold individual residential plots and the value of undeveloped chunk of land) as of the end of 2012. Apparently, the devaluation at that time was not sufficient. Since then, we have sold the finished products with a small profit, but very slowly, 4-8 units per year.

Fourth, we lost 0.2 million euros by rendering evaluation and brokerage services. Looking into the mirror provides an answer for this loss. As of today, we have sold out of the Group the Latvian service unit. It is possible that we will license the trademark and software in Latvia. In Bulgarian and especially in Estonian units, we have undertaken thorough changes in personnel, marketing, service standards, processing of data and sharing the revenues. I expect these changes to deliver current operational profit both in Bulgaria and in Estonia in 2017.

Fifth, the loss was increased by marketing and other preparatory expenses of Iztok Parkside that were borne but not capitalized during Q4. Those costs were foreseen in the business plan and we expect the net profit to be respectively larger, when we will sell out the Iztok products.

If one wants to sum up the reasons of loss in 2016 and be smart retrospectively, then we made substantial mistakes with the offices in Madrid Blvd. The effect of those mistakes on the P/L statement amounts to more than 0.8 million euros. The only good news here is that the occupancy of the building has improved over the year and the net result of Madrid Blvd building should be significantly better in 2017.

Next I will describe the internal growth factors of Arco Vara during the past year, which should become visible in numbers by end of 2017 and in 2018.

Kodulahe construction progress and presale met its targets. The first building with 130 units will be sold out by the beginning of 2018, if we continue with average sales pace of 6 apartments per month. The first and the largest building will be completed in Q3 2017. Expected sale revenue exceeds 16 million euros. In addition, we have commenced the design of the second phase – altogether there are five phases on Paldiski road 70c (former name) land plot – and we have concluded a pre-agreement to acquire additional land plot in 2018 in the neighbourhood of Kodulahe project with a view to make a detail plan and continue development of Kodulahe project after Paldiski road 70c plot (2.7 hectares, 330 units) will become exhausted. We will be Kodulahe district developers and sellers at least until 2022.

Iztok Parkside presale has exceeded expectations. We launched a marketing campaign in December and have sold „on paper“ more than 26% of the total project volume by today. Expected sales revenue exceeds 8 million euros. The offers presented in construction tender also met our expectations. The sole problem we face today is the delay caused by the bureaucracy of Sofia municipality in obtaining the construction permit. Delay with construction permit causes in turn the delay with concluding and performing the construction contract. As of the date of this report, we have lost at least 45 days against our initial schedule. Completion of the construction works will therefore be postponed into Q1 2018.



Although this is a small condolence, we have learned from our competitors that many developers get stuck into municipal bureaucracy in Sofia.

In Madrid Blvd building we signed in one new tenant and reduced the vacancy. There are ongoing negotiations with several interested parties. The shortest way to eliminate Group's loss and start making profit is to resolve the problems of Madrid Blvd vacancy.

In Tartu, Estonia, we succeeded in bringing to an end the land exchange with Tartu municipality. We waived our co-ownership in Turu 34a commercial purpose land plot, made a compensation payment to the municipality and acquired from the municipality the sole ownership of Oa Str 37, 39 and 41 land plots that have detail plan allowing construction of 2300 square meters (ca 40 apartments). We have commenced the design works with a view to complete the project by the end of 2018. Considering that the plots are located at the bank of Emajõgi river in a good neighbourhood, and that we shifted ourselves from commercial segment into residential segment, the progress so far could be called a success.

Last but not least the revenues of Estonian and Bulgarian service companies grew. The younger team of professional appraisers and brokers has started to show first results, although there are still big differences between the regions. The biggest challenge of 2017 lies ahead in Tallinn.

We sold Latvian subsidiary in Q4 to Latvian management, preferring one-off money from selling the shares to unclear prospect of earning dividends in the future.

### Targets for 2017 and 2018

Arco Vara's objective of year 2017 is to earn revenue of at least 18 million euros and net profit of at least 1.8 million euros. For this, we need to sell at least 120 apartments and serve at least 6,000 appraisal and brokerage customers. By the end of 2018, we wish to earn at least 20 million euros and make a net profit of at least 2 million euros, which is a new level in the Group's history and a new threshold for the Group's future years. Our objective is to be the most people-oriented real estate company. In Estonian and Bulgarian real estate sectors, there remains a lot to be done to achieve this mission. If we succeed, the future Arco Vara will be several times larger than today's.

In short term, we need to:

- 1) Sell out Kodulahe phase I in Tallinn and commence construction and presale of phase II in 2017;
- 2) Commence the construction of Iztok Parkside in Q1 and sell it out by the end of Q1 2018;
- 3) Let out all Madrid Blvd vacancies by the end of Q2 2017 and refinance the existing loan contract with outstanding balance of less than 9 million euros by the end of 2017;
- 4) Commence the construction and presale of Oa project in Tartu in Q4 2017 and sell it out by the end of 2018;
- 5) Acquire in Sofia at least one development plot with GBA/GSA exceeding 10,000 sqm in 2017;
- 6) Acquire in Tallinn at least one development plot with GSA/GBA exceeding 10,000 sqm in 2018;
- 7) Serve in Bulgaria and in Estonia combined at least 7,500 customers per year and earn at least 3 million euros of annual revenue by end of 2018, at which level we will start to make satisfactory profits.

In order to deliver the above, we need to resolve a bunch of tactical issues related to financing, design, marketing, sales and IT, as well as in our relations with municipal and state bureaucracy. This is what the management and the team are paid for and eagerly working on.

### Service division

The most significant event of the group's services division in Q4 2016 was the sale of the Latvian brokerage agency on 31 October 2016. In 10 months 2016, revenue of Latvian agency was 771 thousand euros (including 7 thousand euros of intra-group revenue) and net loss amounted to 11 thousand euros. With the sale of Latvian agency, the number of employees working for the group decreased by 70 people.

Revenue of the service division amounted to 3,231 thousand euros in 12 months 2016 (2015: 3,254 thousand euros), which included intra-group revenue of 418 thousand euros (2015: 467 thousand euros). In Q4 2016, revenue of the group's service division was 827 thousand euros (Q4 2015: 814 thousand euros), which included intra-group revenue of 136 thousand euros (Q4 2015: 100 thousand euros). In 12 months 2016, revenue of the Service division from main services (real estate brokerage and valuation services) decreased by 3% compared to 12 months 2015. The main reason is the fact that the revenue from Latvian agency was included in the group revenue only for the first 10 months of 2017. The revenue from main services increased in Estonian 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 - 97 thousand euros less in year 2016 compared to year 2015.

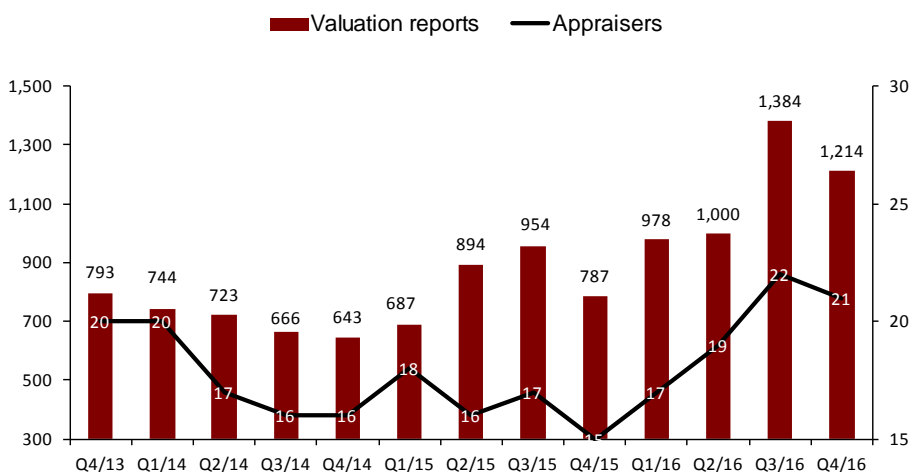
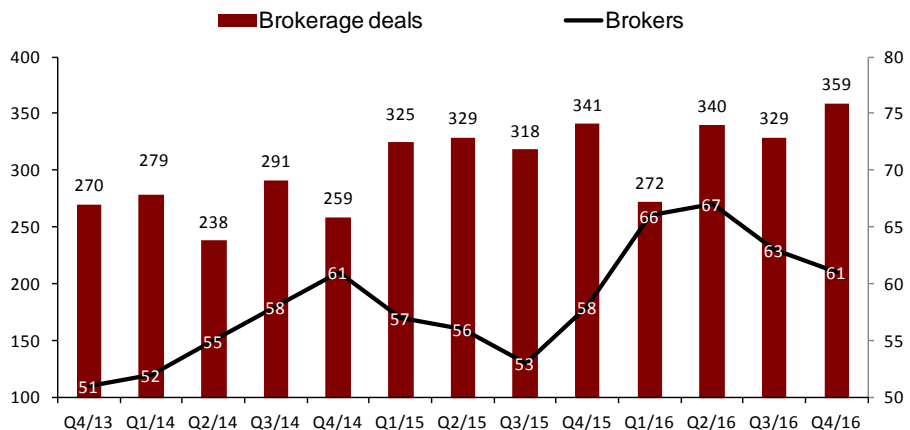
#### Revenue of real estate agencies from brokerage and valuation

	12 months 2016	12 months 2015	Change, %	Q4 2016	Q4 2015	Change, %
In thousands of euros						
Estonia	1,422	1,282	11%	386	319	21%
Latvia	771	898	-14%	77	219	-65%
Bulgaria	639	746	-14%	195	208	-6%
<b>Total</b>	<b>2,832</b>	<b>2,926</b>	<b>-3%</b>	<b>658</b>	<b>746</b>	<b>-12%</b>

In 2016, all 3 brokerage agencies operated at a loss: Estonian agency had net loss of 188 thousand euros, Bulgarian agency 19 thousand euros and Latvian agency 11 thousand euros (Latvian agency in 10 months). In 2015, Estonian and Latvian agencies had net loss of 209 thousand euros and 73 thousand euros, respectively. Bulgarian agency had net profit of 109 thousand euros in 2015.

In addition to brokerage and valuation services, the service division also provides real estate management services and accommodation service in Bulgaria. The revenue from real estate management was 118 thousand euros in 12 months 2016, 100 thousand euros of which was intra-group revenue (2015: 141 thousand and 105 thousand euros, respectively). Revenue from accommodation services amounted to 144 thousand euros in 12 months 2016 (2015: 132 thousand euros).

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



At of 31 December 2016, the number of staff in service division was 97 (at 31.12.2015: 165). The number decreased in 2016 due to the sale of the Latvian agency in October.

**Development division**

In Q4 2016, revenue of development division totalled 647 thousand euros (in Q4 2015: 1,403 thousand euros) including revenue of 519 thousand euros (Q4 2015: 1,306 thousand euros) from the sale of properties in the group’s own development projects. In 12 months of 2016, revenue of the Development division amounted to 7,048 thousand euros, which is 899 thousand euros or 11.3% less compared to 12 months 2015. In 12 months 2016, the revenue from the sale of properties in the group’s own development projects reached 6,562 thousand euros (2015: 7,019 thousand euros).

Most of the other revenue of the Development division consists of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 98 thousand euros in Q4 2016 and 369 thousand euros in 12 months 2016 (77 thousand euros in Q4 2015 and 838 thousand euros in 12 months 2015). Rental income has decreased compared to the previous year due to ending the rental agreement with anchor tenant in Q3 2015 and the renovation works of rental area in Q4 2015. The rental area that was previously rented out to one anchor tenant is now divided into 7 smaller areas. Finding new tenants at the same level of rental fee has proved to be difficult. At the end of Q3 2016, a decision was taken to decrease rental income expectations with the aim of renting out all rental areas by no later than in Q2 2017. In Q4 2016, one new rental agreement was concluded.

In 12 months 2016, operating profit of the Development division was 611 thousand euros. In Q4 2016, an operating loss in the amount of 912 thousand euros was suffered in the Development division. This included a loss in the amount of 708 thousand euros from the decrease in value of inventories and investment property. In 12 months 2015, development division had an operating profit of 1,790 thousand euros, out of which 192 thousand euros in Q4.

During Q4 2016, the construction and presale of apartments of the 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 75 apartments and one commercial space have been concluded. The construction of the apartment building should be finished by summer 2017.

In Q4 2016, the group completed a land exchange agreement in Tartu, where a joint ownership in a commercial property at Turu street 34a was exchanged for land plots on Oa street 37, 39, 41 with building right for smaller apartment buildings with GSA above grade of up to 2,300 m<sup>2</sup> (ca 40 apartments). Design works have started and the project is scheduled for completion by the end of 2018.

As of 31 December 2016, 5 apartments remained unsold in Madrid Blvd complex in Sofia, one of which was presold. In Q4 2016, 2 apartments were sold. 15 apartments are furnished and are being rented out as accommodation service. Unsold 103 parking places are also rented out.

The last four commercial spaces in Manastirski Livadi project were sold in Q4 2016 and thus the whole residential project (developed in 3 stages with 300 apartments and commercial spaces in total) is sold out by now.

In May 2016, the group finalized the purchase of a company Iztok Parkside EOOD. As a result, the group's development portfolio has gained a new development project in Iztok district in Sofia. In September 2016, a bank loan agreement was concluded to fully finance further development costs of the project in the maximum amount of 4.9 million euros. In Q4 2016, detail plan for the project's property was established and construction tender was carried out, but obtaining the construction permit has been somewhat delayed. By the publishing date of this report, presale agreements for 18 apartments have been concluded already. Three apartment buildings with 68 apartments (7,070 square meters of apartments' sellable area) will be built by Q1 2018.

By the end of 2016, an agreement for sale of the whole Baltezers-3 project in Latvia (68 plots) was reached. The transaction was completed in January 2017. Accounting loss from the transaction in amount of 200 thousand euros was recognized already in 2016.

At 31 December 2016, 10 Marsili residential plots remained unsold. In Q4 2016, one presale agreement was concluded for one of those plots.

As of 31 December 2016, 5 people were employed in the Development division, the same number as of the end of 2015.

#### Summary table of Arco Vara's active projects as of 31 December 2016

Project name	Address	Product main type	Stage	Area of plot(s) (m <sup>2</sup> )	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	20
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	2,408	20
Iztok Parkside	Iztok, Sofia	Apartments	S3	2,470	7,070	68
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	18,047	10
Kodulahe, stage 1	Lahepea 7, Tallinn	Apartments	S4/S5	6,102	8,732	130
Kodulahe, stages 2-5	Lahepea, Soodi, Pagi streets, Tallinn	Apartments	S3	22,396	<13,300>	<200>
Oa street apartments	Oa street, Tartu	Apartments	S3	4,146	<2,300>	<40>
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 between < > 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 of 31 December 2016, 110 people worked for the group (178 as of 31 December 2015). The number of employees has decreased significantly due to the sale of the Latvian brokerage agency Arco Real Estate SIA in October 2016. Employee remuneration expenses in the 12 months of 2016 amounted to 2.8 million euros (in 12 months 2015: 2.7 million euros), out of which 0.7 million euros in Q4 (0.8 million euros in Q4 2015).

The remuneration of the member of the management board / CEO, and the members of the supervisory board of the group's parent company including social security charges amounted to 111 thousand euros in 12 months 2016 (108 thousand euros in 12 months 2015), out of which 28 thousand euros in Q4 (26 thousand euros in Q4 2015).

## Management board and supervisory board

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

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

Additional information on key persons of Arco Vara is presented on company's corporate web page [www.arcorealestate.com](http://www.arcorealestate.com).

## Description of main risks

### Strategic risk

Most of the group's equity is invested into real estate development. The group is focused mainly on residential real estate development where development cycle lasts for years, starting from the acquisition of a land plot, moving on to detail planning, design and construction, and ending with the sale of end products to customers. The equity is invested mainly in the early 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 forecasts, the main risk for the group is investing equity into a development product for which there is no or too little demand in the future.

For mitigating the risk, the group: (i) invests equity into different development projects in different markets (in 2016, in Sofia and Tallinn), (ii) monitors current demand and supply in its home markets and (iii) makes efforts to narrow the time between making initial investment and selling the final product – by signing pre-agreements with clients, acquiring land without no or little upfront equity investment etc.

### Credit risk

The group considers credit risks to be substantially mitigated. The final sales of real estate development products takes place simultaneously with customer payment, therefore customer debts do not arise. Also, cash and cash equivalents are not held in the same banking group.

### 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 international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. On 31 December 2016, the group's interest-bearing liabilities amounted to 15.5 million euros (increased by 2.7 million euros during 12 months 2016), out of which 9.4 million euros is due within next 12 months, including bank loan in the amount of 9 million euros in Madrid project in Bulgaria. At the same time, the group's cash and cash equivalents totalled 0.8 million euros as of 31 December 2016 (on 31 December 2015: 0.7 million euros). In 12 months 2016, interest payments on interest-bearing liabilities totalled 0.8 million euros (in 12 months 2015: 0.8 million euros). The group's weighted average loan interest rate was 5.3% as of 31 December 2016. This is an increase by 0.3 percentage points compared to the end of year 2015. The reason for the increase is new borrowings raised in 2016, which bear an above-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. Liquid assets are mostly held on demand or short-term deposits denominated in euros.

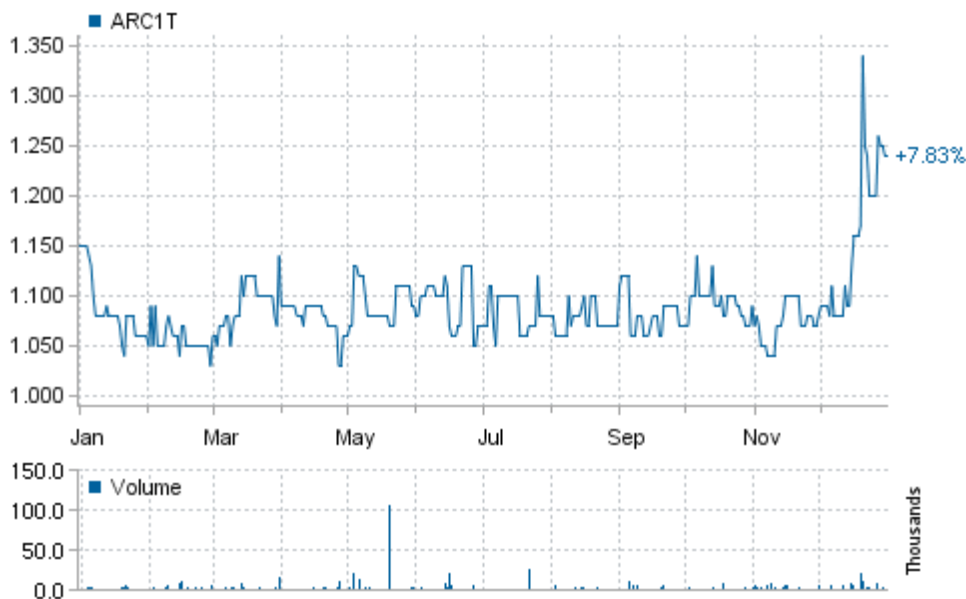
## SHARE AND SHAREHOLDERS

### Share price

Arco Vara AS has issued a total of 6,507,012 ordinary shares with nominal value of 0.7 euros per share. In November 2016, the share capital increased by 390 thousand shares, when a convertible bond issued to CEO was executed. The shares are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.24 euros on 31 December 2016. The price has increased by 7.8% within 12 months 2016 (closing price at the end of 2015 was 1.15 euros). During the period, the highest traded price per share was 1.35 euros and lowest price 1.01 euros. As of 31 December 2016, market capitalization of shares amounted to 8,049 thousand euros, P/E ratio of the share was negative (-9.2) and P/B ratio was 0.90 (at 31 December 2015: 7,035 thousand euros, 15.8 and 0.73, respectively).

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

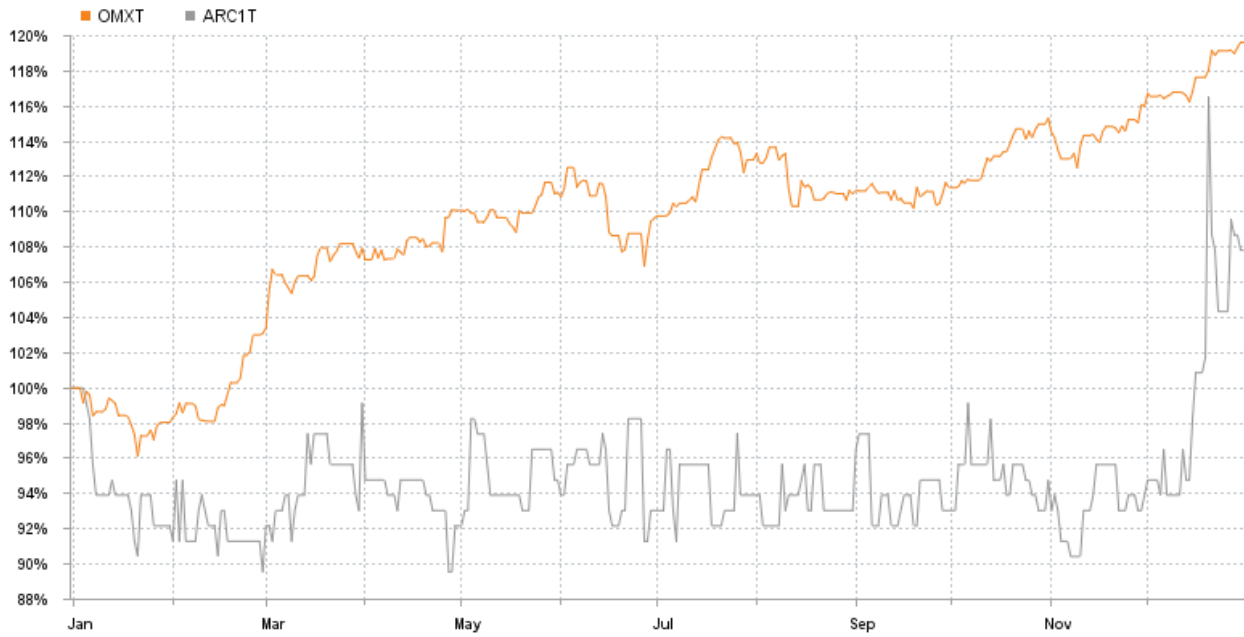
In 12 months 2016:



In the period from 31 December 2013 until 31 December 2016:



**Changes in Arco Vara share (ARC1T) price compared with the benchmark index OMX Tallinn in 2016:**

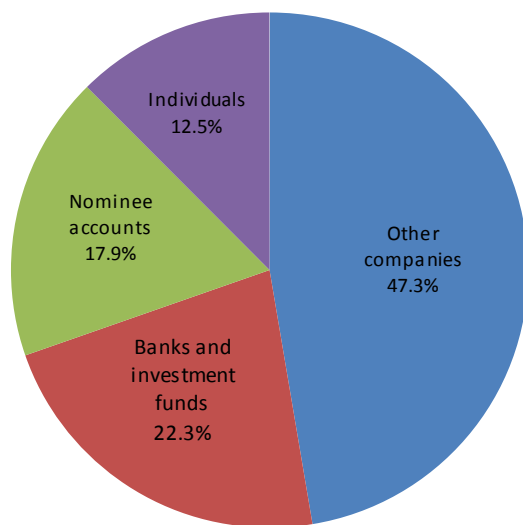


Index/equity	31 Dec 2015	31 Dec 2016	+/-%
OMX Tallinn	898.99	1,075.50	+19.63
ARC1T	1.15 EUR	1.24 EUR	+7.83

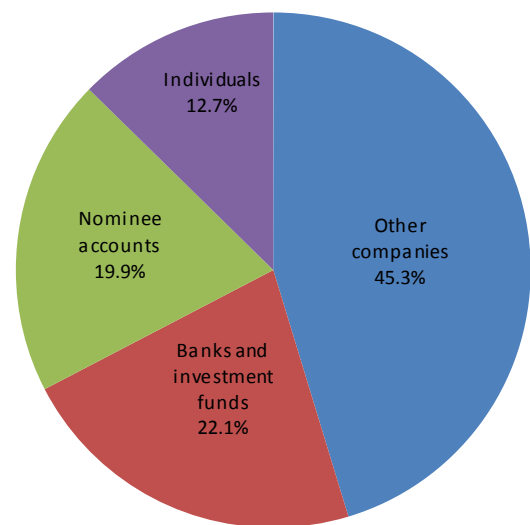
**Structure of shareholders**

As of 31 December 2016, Arco Vara had 1,502 shareholders (on 31 December 2015: 1,600) including 1,297 individuals as shareholders (on 31 December 2015: 1,381 individuals) who jointly owned 12.5% (on 31 December 2015: 12.7%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams:

**Ownership structure as of 31 December 2016**



**Ownership structure as of 31 December 2015**



Major shareholders of 31 December 2016	No of shares	Share, %
Alarmo Kapital OÜ	890,188	13.7%
NORDEA BANK FINLAND PLC client	862,820	13.3%
AS Lõhmus Holdings	602,378	9.3%
Gamma Holding Investment OÜ	553,975	8.5%
LHV PENSIONIFOND L	389,765	6.0%
FIREBIRD REPUBLICS FUND LTD	356,428	5.5%
HM Investeeringud OÜ	330,505	5.1%
FIREBIRD AVRORA FUND, LTD.	185,800	2.9%
LHV PENSIONIFOND XL	173,583	2.7%
FIREBIRD FUND L.P.	150,522	2.3%
Other shareholders	2,011,048	30.9%
<b>Total</b>	<b>6,507,012</b>	<b>100.0%</b>

Holdings of members of the management and supervisory boards (and related persons) on 31 December 2016	Position	No of shares	Share, %
Tarmo Sild ja Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	890,188	13.7%
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	602,378	9.3%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	chairman of supervisory board	369,259	5.7%
Kert Keskaik (privately and through K Vara OÜ)	member of supervisory board	202,171	3.1%
Steven Yaroslav Gorelik <sup>1</sup>	member of supervisory board	0	0.0%
<b>Total</b>		<b>2,063,996</b>	<b>31.7%</b>

<sup>1</sup> - Steven Yaroslav Gorelik is active as fund manager in three investment funds holding interest in Arco Vara (Firebird Republics Fund Ltd, Firebird Avrora Fund Ltd and Firebird Fund L.P) of 692,750 shares (total of 11.3% interest).

## **CEO'S CONFIRMATION ON DIRECTORS' REPORT**

The CEO and member of the management board of Arco Vara AS confirms that the director's report of Arco Vara for the fourth quarter and twelve months ended on 31 December 2016 provides a true and fair view of business developments, financial performance and financial position of the group as well as a description of the main risks and uncertainties.

Tarmo Sild  
Chief Executive and Member of the Management Board of Arco Vara AS  
On 16 February 2017



## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	12 months 2016	12 months 2015	Q4 2016	Q4 2015
In thousands of euros					
<b>Continuing operations</b>					
Revenue from sale of own real estate		6,620	7,019	577	1,306
Revenue from rendering of services		3,127	3,633	732	791
<b>Total revenue</b>	2, 3	<b>9,747</b>	<b>10,652</b>	<b>1,309</b>	<b>2,097</b>
Cost of sales	4	-6,621	-6,865	-1,067	-1,432
<b>Gross profit</b>		<b>3,126</b>	<b>3,787</b>	<b>242</b>	<b>665</b>
Other income		182	80	147	10
Marketing and distribution expenses	5	-556	-530	-138	-170
Administrative expenses	6	-2,064	-2,020	-545	-648
Other expenses		-99	-151	-70	-119
Gain/loss on revaluation of investment property	11	-584	95	-584	95
Loss on inventory write-down	10	-124	0	-124	0
Gain on sale of subsidiaries		4	0	3	0
<b>Operating profit/loss</b>		<b>-115</b>	<b>1,261</b>	<b>-1,069</b>	<b>-167</b>
Finance income and costs	7	-590	-666	-131	-128
<b>Profit/loss before tax</b>		<b>-705</b>	<b>595</b>	<b>-1,200</b>	<b>-295</b>
Income tax		-127	-135	-127	-135
<b>Net profit/loss from continuing operations</b>		<b>-832</b>	<b>460</b>	<b>-1,327</b>	<b>-430</b>
<b>Discontinued operations</b>					
Profit/loss from discontinued operations		0	-15	0	-2
<b>Net profit/loss for the period</b>		<b>-832</b>	<b>445</b>	<b>-1,327</b>	<b>-432</b>
<i>attributable to owners of the parent</i>		-832	467	-1,327	-425
<i>attributable to non-controlling interests</i>		0	-22	0	-7
<b>Total comprehensive income/expense for the period</b>		<b>-832</b>	<b>445</b>	<b>-1,327</b>	<b>-432</b>
<i>attributable to owners of the parent</i>		-832	467	-1,327	-425
<i>attributable to non-controlling interests</i>		0	-22	0	-7
<b>Earnings per share (in euros)</b>	8				
- basic		-0.13	0.08	-0.21	-0.07
- diluted		-0.13	0.07	-0.20	-0.07

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	31 December 2016	31 December 2015
In thousands of euros			
Cash and cash equivalents		845	745
Receivables and prepayments	9	470	679
Inventories	10	14,593	12,818
<b>Total current assets</b>		<b>15,908</b>	<b>14,242</b>
Receivables and prepayments	9	11	0
Investment property	11	10,835	9,513
Property, plant and equipment		718	489
Intangible assets		248	229
<b>Total non-current assets</b>		<b>11,812</b>	<b>10,231</b>
<b>TOTAL ASSETS</b>		<b>27,720</b>	<b>24,473</b>
Loans and borrowings	12	9,372	2,345
Payables and deferred income	13	4,369	1,935
Provisions		108	146
<b>Total current liabilities</b>		<b>13,849</b>	<b>4,426</b>
Loans and borrowings	12	4,886	10,417
<b>Total non-current liabilities</b>		<b>4,886</b>	<b>10,417</b>
<b>TOTAL LIABILITIES</b>		<b>18,735</b>	<b>14,843</b>
Share capital	8	4,555	4,282
Share premium		292	292
Statutory capital reserve		2,011	2,011
Other reserves	8	52	298
Retained earnings		2,075	2,656
<b>Total equity attributable to owners of the parent</b>		<b>8,985</b>	<b>9,539</b>
Equity attributable to non-controlling interests		0	91
<b>TOTAL EQUITY</b>		<b>8,985</b>	<b>9,630</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>27,720</b>	<b>24,473</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	12 months 2016	12 months 2015	Q4 2016	Q4 2015
In thousands of euros					
Cash receipts from customers		14,290	13,770	2,008	2,825
Cash paid to suppliers		-9,991	-7,679	-2,858	-2,926
Income tax paid from profits		-106	-197	-23	-24
Other taxes paid and recovered (net)		-1,631	-2,399	-87	-267
Cash paid to employees		-1,151	-1,015	-257	-249
Other cash payments and receipts related to operating activities (net)		-96	9	-23	-15
Net cash flow of discontinued operations		0	-15	0	-2
<b>NET CASH FROM/USED IN OPERATING ACTIVITIES</b>		<b>1,315</b>	<b>2,474</b>	<b>-1,240</b>	<b>-658</b>
Payments made on purchase of tangible and intangible assets		-99	-196	-18	-59
Proceeds from sale of property, plant and equipment		1	0	1	0
Proceeds from sale of a subsidiary		41	0	40	0
Payments made on purchase of a subsidiary		-1,890	0	0	0
Interest received		0	4	0	0
Other payments related to investing activities		-3	0	0	0
<b>NET CASH FROM/USED IN INVESTING ACTIVITIES</b>		<b>-1,950</b>	<b>-192</b>	<b>23</b>	<b>-59</b>
Proceeds from loans received	12	6,135	2,734	2,850	1,349
Settlement of loans and borrowings	12	-4,637	-5,025	-1,259	-916
Interest paid		-797	-788	-176	-200
Dividends paid		-61	-61	0	0
Proceeds from share capital increase	8	273	0	273	0
Other payments related to financing activities		-138	-88	0	-6
<b>NET CASH FROM/USED IN FINANCING ACTIVITIES</b>		<b>775</b>	<b>-3,228</b>	<b>1,688</b>	<b>227</b>
<b>NET CASH FLOW</b>		<b>140</b>	<b>-946</b>	<b>471</b>	<b>-490</b>
Cash and cash equivalents at beginning of period		745	1,691	414	1,235
<b>Increase in cash and cash equivalents</b>		<b>140</b>	<b>-946</b>	<b>471</b>	<b>-490</b>
Decrease in cash and cash equivalents through sale of subsidiaries		-40	0	-40	0
Cash and cash equivalents at end of period		845	745	845	745

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands of euros								
<b>Balance as at 31 December 2014</b>	<b>4,282</b>	<b>292</b>	<b>2,011</b>	<b>179</b>	<b>2,250</b>	<b>9,014</b>	<b>36</b>	<b>9,050</b>
Dividends paid	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
<b>Balance as at 31 December 2015</b>	<b>4,282</b>	<b>292</b>	<b>2,011</b>	<b>298</b>	<b>2,656</b>	<b>9,539</b>	<b>91</b>	<b>9,630</b>
<b>Balance as at 31 December 2015</b>	<b>4,282</b>	<b>292</b>	<b>2,011</b>	<b>298</b>	<b>2,656</b>	<b>9,539</b>	<b>91</b>	<b>9,630</b>
Dividends paid	0	0	0	0	-61	-61	0	-61
Change in non-controlling interest	0	0	0	0	14	14	-91	-77
Increase of share capital	273	0	0	-298	298	273	0	273
Formation of equity reserve	0	0	0	52	0	52	0	52
Total comprehensive income for the period	0	0	0	0	-832	-832	0	-832
<b>Balance as at 31 December 2016</b>	<b>4,555</b>	<b>292</b>	<b>2,011</b>	<b>52</b>	<b>2,075</b>	<b>8,985</b>	<b>0</b>	<b>8,985</b>

## NOTES TO THE CONDENSED 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 on 31 December 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 investments in real estate.

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

#### Revenue and operating profit by operating segment

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	12m 2016	12m 2015	12m 2016	12m 2015	12m 2016	12m 2015	12m 2016	12m 2015	12m 2016	12m 2015
in thousands of euros										
External revenue	6,932	7,861	2,813	2,787	2	4			9,747	10,652
<i>Annual change</i>	-11.8%		0.9%						-8.5%	
Inter-segment revenue	116	86	418	467			-534	-553	0	0
<b>Total revenue</b>	<b>7,048</b>	<b>7,947</b>	<b>3,231</b>	<b>3,254</b>	<b>2</b>	<b>4</b>	<b>-534</b>	<b>-553</b>	<b>9,747</b>	<b>10,652</b>
<i>Annual change</i>	-11.3%		-0.7%							
<b>Operating profit</b>	<b>611</b>	<b>1,790</b>	<b>-174</b>	<b>-94</b>	<b>-569</b>	<b>73</b>	<b>17</b>	<b>-508</b>	<b>-115</b>	<b>1,261</b>
<i>Incl. inventory write-down</i>	-124	0	0	0	0	0			-124	0
<i>Gain/loss from revaluation of investment property</i>	-584	95	0	0	0	0			-584	95

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	Q4 2016	Q4 2015	Q4 2016	Q4 2015	Q4 2016	Q4 2015	Q4 2016	Q4 2015	Q4 2016	Q4 2015
in thousands of euros										
External revenue	616	1,382	691	714	2	1			1,309	2,097
<i>Annual change</i>	-55.4%		-3.2%						-37.6%	
Inter-segment revenue	31	21	136	100			-167	-121	0	0
<b>Total revenue</b>	<b>647</b>	<b>1,403</b>	<b>827</b>	<b>814</b>	<b>2</b>	<b>1</b>	<b>-167</b>	<b>-121</b>	<b>1,309</b>	<b>2,097</b>
<i>Annual change</i>	-53.9%		1.6%							
<b>Operating profit</b>	<b>-913</b>	<b>192</b>	<b>-13</b>	<b>-174</b>	<b>-82</b>	<b>483</b>	<b>-61</b>	<b>-668</b>	<b>-1,069</b>	<b>-167</b>
<i>Incl. inventory write-down</i>	-124	0	0	0	0	0			-124	0
<i>Gain/loss from revaluation of investment property</i>	-584	95	0	0	0	0			-584	95

**Assets and liabilities by operating segment**

Segment	Development		Service		Unallocated		Consolidated	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
in thousands of euros								
Assets	26,892	23,318	385	505	443	650	27,720	24,473
Liabilities	16,816	14,060	344	518	1,575	265	18,735	14,843

**3. Revenue**

	12 months 2016	12 months 2015	Q4 2016	Q4 2015
In thousands of euros				
Sale of own real estate	6,620	7,019	577	1,306
Real estate brokerage and valuation	2,515	2,505	562	642
Rental of real estate	486	913	131	100
Property management services	46	95	13	10
Other revenue	80	120	26	39
<b>Total revenue</b>	<b>9,747</b>	<b>10,652</b>	<b>1,309</b>	<b>2,097</b>

**4. Cost of sales**

	12 months 2016	12 months 2015	Q4 2016	Q4 2015
In thousands of euros				
Cost of real estate sold	-4,555	-4,883	-512	-889
Personnel expenses	-1,578	-1,497	-371	-388
Property management costs	-301	-314	-111	-102
Vehicle expenses	-25	-22	-7	-6
Depreciation, amortisation and impairment losses	-12	-12	-3	-4
Other costs	-150	-137	-63	-43
<b>Total cost of sales</b>	<b>-6,621</b>	<b>-6,865</b>	<b>-1,067</b>	<b>-1,432</b>

**5. Marketing and distribution expenses**

	12 months 2016	12 months 2015	Q4 2016	Q4 2015
In thousands of euros				
Advertising expenses	-294	-285	-74	-83
Personnel expenses	-119	-123	-25	-32
Market research	-7	-9	-1	-2
Brokerage fees	-6	0	-1	0
Other marketing and distribution expenses	-130	-113	-37	-53
<b>Total marketing and distribution expenses</b>	<b>-556</b>	<b>-530</b>	<b>-138</b>	<b>-170</b>

## 6. Administrative expenses

	12 months 2016	12 months 2015	Q4 2016	Q4 2015
In thousands of euros				
Personnel expenses	-1,104	-1,126	-325	-416
Office expenses	-372	-446	-80	-114
Services purchased	-231	-157	-54	-43
IT expenses	-150	-138	-33	-32
Depreciation, amortisation and impairment losses	-93	-44	-23	-14
Legal service fees	-37	-42	-11	-10
Vehicle expenses	-33	-33	-8	-9
Other expenses	-44	-34	-11	-10
<b>Total administrative expenses</b>	<b>-2,064</b>	<b>-2,020</b>	<b>-545</b>	<b>-648</b>

## 7. Financial income and costs

	12 months 2016	12 months 2015	Q4 2016	Q4 2015
In thousands of euros				
Interest expenses	-530	-600	-130	-125
Interest income	1	4	1	1
Other finance income and costs	-61	-70	-2	-4
<b>Total finance income and costs</b>	<b>-590</b>	<b>-666</b>	<b>-131</b>	<b>-128</b>

## 8. Earnings per share

Basic earnings per share are calculated by dividing profit or loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by taking into account the effects of all potentially issued shares.

	12 months 2016	12 months 2015	Q4 2016	Q4 2015
Weighted average number of ordinary shares outstanding during the period	6,194,675	6,117,012	6,358,642	6,117,012
Number of ordinary shares potentially to be issued (at period end)	390,000	390,000	390,000	390,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	-832	467	-1,327	-425
<b>Earnings per share (in euros)</b>	<b>-0.13</b>	0.08	<b>-0.21</b>	-0.07
<b>Diluted earnings per share (in euros)</b>	<b>-0.13</b>	0.07	<b>-0.20</b>	-0.07

According to the decision of the annual general 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 gave to the CEO 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. The CEO transferred the right for subscription to the company Alarmo Kapital OÜ where he has controlling interest. On 4 November 2016, 390 thousand new shares were issued after the subscription right was executed. Alarmo Kapital OÜ paid 273 thousand euros for the shares. After the share issue, Arco Var'sa share capital consists of 6,507,012 shares in the nominal value of 4,555 thousand euros.

According to the decision of the annual general 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 CEO of the group's parent company the right to subscribe additionally up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. An equity reserve in the amount of 52 thousand euros has been formed for the option associated with the bond. See also note 14.

## 9. Receivables and prepayments

### Short-term receivables and prepayments

	31 December 2016	31 December 2015
In thousands of euros		
<b>Trade receivables</b>		
Receivables from customers	193	235
Allowance for doubtful trade receivables	0	-12
<b>Total trade receivables</b>	<b>193</b>	<b>223</b>
<b>Other receivables</b>		
Loans provided	0	6
Miscellaneous receivables	10	119
<b>Total other receivables</b>	<b>10</b>	<b>125</b>
<b>Accrued income</b>		
Prepaid and recoverable taxes	107	75
Other accrued income	5	3
<b>Total accrued income</b>	<b>112</b>	<b>78</b>
<b>Prepayments</b>	<b>155</b>	<b>253</b>
<b>Total short-term receivables and prepayments</b>	<b>470</b>	<b>679</b>

### Long-term receivables

	31 December 2016	31 December 2015
In thousands of euros		
Prepayments	11	0
<b>Total long-term receivables and prepayments</b>	<b>11</b>	<b>0</b>

## 10. Inventories

	31 December 2016	31 December 2015
In thousands of euros		
Properties purchased and being developed for resale	14,571	12,580
Materials and finished goods	6	12
Prepayments for inventories	16	226
<b>Total inventories</b>	<b>14,593</b>	<b>12,818</b>

### Properties purchased and being developed for resale

	2016	2015
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>12,580</b>	<b>11,942</b>
Properties purchased for development	2,102	70
Construction costs of apartment buildings	5,633	2,464
Capitalized borrowing costs	436	127
Inventory write-down	-124	0
Other capitalized costs	160	583
Reclassification to/from investment property (note 11)	-1,661	2,277
Cost of sold properties (note 4)	-4,555	-4,883
<b>Balance at the end of period, 31 December</b>	<b>14,571</b>	<b>12,580</b>



## 11. Investment property

	2016	2015
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>9,513</b>	<b>11,585</b>
Net loss on changes in fair value	-584	95
Capitalised development costs	325	110
Reclassification to/from inventories (note 10)	1,661	-2,277
Reclassification to property, plant and equipment	-138	0
Purchase of land plots	58	0
<b>Balance at the end of period, 31 December</b>	<b>10,835</b>	<b>9,513</b>

## 12. Loans and borrowings

	As at 31 December 2016			As at 31 December 2015		
	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	12,827	9,063	3,764	12,585	2,179	10,406
Bonds	1,121	0	1,121	151	150	1
Finance lease liabilities	10	9	1	26	16	10
Other loans	300	300	0	0	0	0
<b>Total</b>	<b>14,258</b>	<b>9,372</b>	<b>4,886</b>	<b>12,762</b>	<b>2,345</b>	<b>10,417</b>

In 12 months 2016, the group settled loans and borrowings in the amount of 4,637 thousand euros (in 12 months 2015: 5,025 thousand euros) through cash transactions and raised new loans in the amount of 6,135 thousand euros (in 12 months 2015: 2,734 thousand euros).

In 12 months 2016, the following major loan obligations were settled:

- 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.
- In November, the group repaid 1,050 thousand euros of short-term bridge loan raised in September for final payment of purchase price on acquisition of the group's Bulgarian subsidiary Iztok Parkside EOOD.
- 1,381 thousand euros of Madrid Blvd project's bank loan principal was repaid to Piraeus bank in Bulgaria.
- In January, the group redeemed bonds (issued in March 2014) in the amount of 150 thousand euros, out of which 50 thousand euros was settled in cash. 100 thousand euros out of total bond issue was 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.

In 12 months 2016, the group raised new loans in the total amount of 6,135 thousand euros, out of which:

- 1,020 thousand euros is bond issue described in the previous paragraph;
- 2,714 thousand euros is bank loan for financing construction of first stage apartment building in Kodulahe project (the loan was activated in August 2016);
- 1,050 thousand euros is short-term bridge loan raised for final payment of purchase price on acquisition of the group's Bulgarian subsidiary Iztok Parkside EOOD;
- 1,050 thousand euros is bank loan from Raiffeisenbank Bulgaria raised for completion of acquisition of Iztok Parkside EOOD;
- 250 thousand euros is short term loans from Estonian companies raised in December for financing the first payment of the new property acquisition close to Kodulahe project in Tallinn.

### 13. Payables and deferred income

#### Short-term payables and deferred income

	31 December 2016	31 December 2015
In thousands of euros		
<b>Trade payables</b>	<b>800</b>	<b>296</b>
<b>Miscellaneous payables</b>	<b>21</b>	<b>172</b>
<b>Taxes payable</b>		
Value added tax	66	47
Corporate income tax	53	114
Social security tax	47	40
Personal income tax	27	31
Other taxes	173	336
<b>Total taxes payable</b>	<b>366</b>	<b>568</b>
<b>Accrued expenses</b>		
Payables to employees	117	174
Interest payable	76	8
Other accrued expenses	5	11
<b>Total accrued expenses</b>	<b>198</b>	<b>193</b>
<b>Deferred income</b>		
Prepayments received on sale of real estate	2,958	704
Other deferred income	26	2
<b>Total deferred income</b>	<b>2,984</b>	<b>706</b>
<b>Total short-term payables and deferred income</b>	<b>4,369</b>	<b>1,935</b>

### 14. Related party disclosures

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

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

#### Transactions with related parties

	12 months 2016	12 months 2015
In thousands of euros		
<b>Companies that have a significant interest in the group's parent company</b>		
Share capital contribution	273	0
Services purchased	34	32
Bonds issued	100	0
Redemption of bonds	150	500
Paid interest	9	92
<b>Other related parties</b>		
Services sold	1	2
Prepayments received	6	0
Bonds issued	1	0
Redemption of bonds	0	260
Paid interest	0	40

**Balances with related parties**

	31 December 2016	31 December 2015
In thousands of euros		
<b>Companies that have a significant interest in the group's parent company</b>		
Bonds issued	100	150
<b>Other related parties</b>		
Deferred income	6	0
Bonds issued	1	1

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 was 9.8%. In June 2015, it was 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 into the new bond issue conducted in December 2015 and January 2016. See also note 12.

In 12 months 2016, the remuneration provided to the group's key management personnel, i.e. the CEO / member of the management board and the members of the supervisory board of the group's parent company, including social security charges, amounted to 111 thousand euros (in 12 months 2015: 108 thousand euros). The remuneration provided to the CEO / member of the management board is based on his service contract. The termination benefits agreed with Tarmo Sild, who was appointed the CEO / member of the management board of Arco Vara AS in October 2012, amount to up to five months' base remuneration. The mandate of the CEO was extended by 3 years (until October 2018) on the supervisory board meeting held in September 2015. The basis for the remuneration provided to the members of the supervisory board was changed in July 2013 and was slightly amended in February 2015. According to the resolutions of the general meeting of Arco Vara AS, the members of the supervisory board will receive 500 euros (net amount) for every meeting where they have participated, but not more than 1,000 euros (net amount) per month. The payment of the remuneration is dependent on the signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating on the board meetings are also compensated to the members of the supervisory board. The group's key management personnel has not been granted or received any other remuneration or benefits (bonuses, termination benefits, etc) in the reporting period.

A convertible bond had been issued to the CEO / member of management board, which gave him the right to subscribe for 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 the amount of 298 thousand euros and has been recognized as payroll expense distributed over the period from July 2013 until December 2015. In November 2016, the subscription right was executed by the company Alarmo Kapital OÜ where CEO has controlling interest. Alarmo Kapital paid in 273 thousand euros for issue of additional shares. 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 CEO of the group's parent company the right to subscribe for additional 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. As at 31 December 2016, an equity reserve in the amount of 52 thousand euros has been formed for the option associated with the bond. See also note 8.

**STATEMENT BY THE CEO / MEMBER OF THE MANAGEMENT BOARD**

The CEO / member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the fourth quarter and twelve months ended on 31 December 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 16 February 2017