



# Arco Vara AS

INTERIM REPORT FOR THE FIRST QUARTER 2015



ARCO VARA

**INTERIM REPORT FOR THE  
FIRST QUARTER  
ENDED 31 MARCH 2015  
(UNAUDITED)**

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[www.arcoreal.lv](http://www.arcoreal.lv)

[www.arcoreal.bg](http://www.arcoreal.bg)

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

Activities of real estate agencies (EMTAK 6831)

Real estate management (EMTAK 6832)

Financial year: 1 January 2015 – 31 December 2015

Reporting period: 1 January 2015 – 31 March 2015

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

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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## Directors' report for the first quarter 2015

### General information

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

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

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

In first quarter 2015, there were no changes in the group structure. At 31 March 2015, the group comprises of 24 companies (31 December 2014: 24).

### The goal and core values

Common **goal** for all Arco Vara companies is:

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

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

Partnership – our client is our partner

Reliability – we are reliable, open and honest

Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

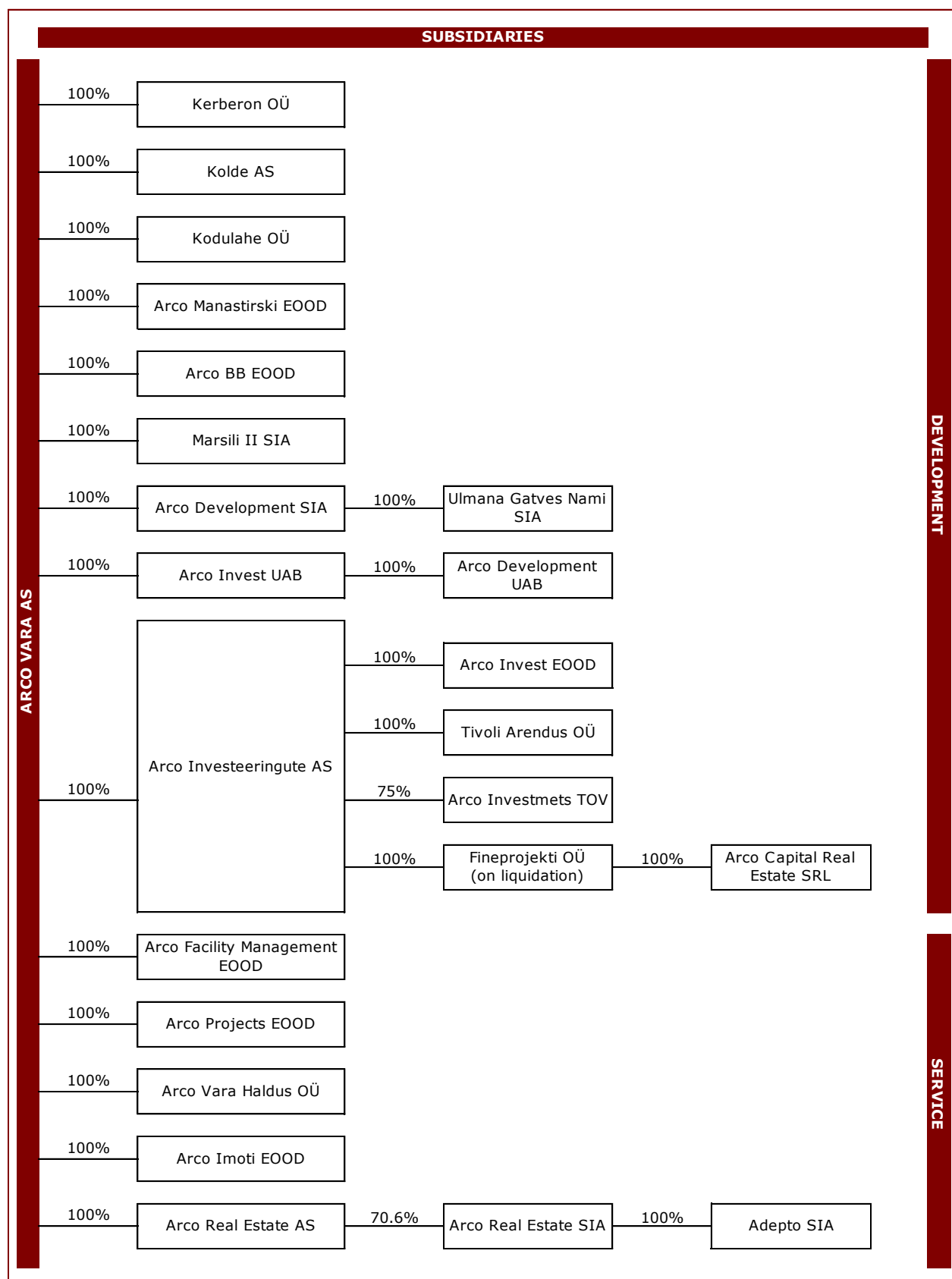
### Significant subsidiaries

Company name	Location	Segment	Share capital (nominal value)	Equity balance at 31 March 2015	The group's interest
In thousands of euros					
Arco Manastirski EOOD	Bulgaria	development	2,676	3,447	100%
Arco Invest EOOD	Bulgaria	development	25,976	-769	100%
Kolde AS	Estonia	development	28	-215	100%
Kerberon OÜ	Estonia	development	5	1,194	100%
Marsili II SIA	Latvia	development	1,524	940	100%
Arco Development SIA	Latvia	development	6,473	-1,961	100%
Arco Real Estate AS	Estonia	service	42	-653	100%
Arco Real Estate SIA <sup>1</sup>	Latvia	service	1,905	107	70.6%
Arco Imoti EOOD	Bulgaria	service	444	130	100%

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

**GROUP STRUCTURE**

As at 31 March 2015



## Key Performance Indicators

- In first three months 2015, the group's revenue from continuing operations was 4.4 million euros, exceeding almost four times the revenue of Q1 2014, when revenue amounted to 1.1 million euros. At the same time, the revenue of service division has been decreased by 8% compared to first quarter of previous year. The increase of the group's revenue for the first quarter 2015 comes from Development division, where revenue amounted to 3.8 million euros (in Q1 2014: 0.4 million euros), of which 3.5 million euros from the sale of apartments in the group's development projects in Bulgaria.
- In Q1 2015, operating profit (=EBIT) from continuing operations was 0.9 million euros and net profit 0.7 million euros, a year ago the same figures were 0.6 million euros and 0.4 million euros respectively. Moreover, the result of Q1 2014 was impacted by gain from the sale of a subsidiary in amount of more than 0.6 million euros.
- Equity to assets ratio continues to improve, being 40.1% at 31 March 2015. At 31 December 2014, the figure was 33.5%.
- The group's net loans have decreased by 2.6 million euros in Q1 2015. As at 31 March 2015, the weighted average annual interest rate of loans is 5.4%. This is a decrease by 0.4 percentage point since the end of year 2014.
- In first 3 months 2015, were sold 48 apartments and 5 commercial spaces in projects developed in the group. In Q1 2014, were sold only 2 apartments.

	Q1 2015	Q1 2014
In millions of euros		
<b>Revenue</b>		
Development	3.8	0.4
Service	0.8	0.8
Eliminations	-0.2	-0.1
<b>Total revenue</b>	<b>4.4</b>	<b>1.1</b>
<b>Operating profit (EBIT)</b>		
Development	1.0	0.0
Service	0.0	0.1
Unallocated income and expenses	-0.1	0.5
Eliminations	0.0	0.0
<b>Total operating profit (EBIT)</b>	<b>0.9</b>	<b>0.6</b>
Finance income and expense	-0.2	-0.2
<b>Net profit</b>	<b>0.7</b>	<b>0.4</b>

<b>Main ratios</b>		
<b>EPS (in euros)</b>	0.12	0.08
<b>ROIC (rolling, four quarters)</b>	4.8%	21.2%
<b>ROE (rolling, four quarters)</b>	13.8%	62.0%
<b>ROA (rolling, four quarters)</b>	4.3%	14.4%

	31 March 2015	31 Dec 2014
In millions of euros		
<b>Total assets, at period end</b>	24.3	27.0
<b>Invested capital, at period end</b>	22.2	24.1
<b>Net loans, at period end</b>	10.7	13.3
<b>Equity, at period end</b>	9.8	9.1
<b>Average loan term (in years)</b>	2.4	2.3
<b>Average annual interest rate of loans</b>	5.4%	5.8%
<b>Number of staff, at period end</b>	184	189

**Cash flows**

	Q1 2015	Q1 2014
In millions of euros		
Cash flows from/used in operating activities	3.0	-1.1
Cash flows from/used in investing activities	-0.1	0.0
Cash flows from/used in financing activities	-2.8	1.1
<b>Net cash flows</b>	<b>0.1</b>	<b>0.0</b>
Cash and cash equivalents at beginning of period	1.7	0.8
Cash and cash equivalents at end of period	1.8	0.8

**FORMULAS USED**

**Earnings per share (EPS)** = net profit attributable to owners of the parent / (weighted average number of ordinary shares outstanding during the period – own shares)

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

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

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

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

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

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

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

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

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



## Group Chief Executive's review

The first quarter will be the strongest quarter of 2015 of Arco Vara, providing nearly a half of total revenue predicted for 2015 and over a half of net profit. The sales results of the quarter have also allowed to strongly decrease the loan obligations of the group by a total of 2.5 million euros. The group funded development works of the first quarter in Sofia and Tallinn with its own means, without taking any new loans.

We delivered the majority of apartments at Sofia Manastirski stage II (block AB) to clients. As at the end of the quarter, only 11 apartments and 3 business premises out of 135 units are not yet sold in the apartment building. 7 more apartments are waiting for delivery on the basis of a concluded pre-sales agreement, revenue of which will be recognized in the second quarter. We predict that all apartments of block AB will be sold by the end of the year despite the repeated increase in prices.

We have also started the construction of the final third stage (block D) of the Manastirski project. The speed of pre-sales of block D has also been worrisomely fast. In two months, when the construction of the structure had reached third floor level, nearly a half of the volume of the entire project had been covered with pre-sale agreements. A sobering fact to bring out is that in addition to apartments, we must also successfully realise the business premises of block D which border the street, eight units in total. The demand of small business owners can be assessed after the sale of apartments and after people have moved into the development area. Revenue from block D will be stated in the income statement and cash flows only in the first quarter of 2016 to a significant degree, after the construction is completed and the permit for use is obtained.

To sum up, at this rate the Manastirski apartment stock will be empty by the end of the year. Obtaining a plot of land necessary for continued development in Sofia in 2017 has developed from an urgent question to a critical question. Meanwhile, we must not lose time with the development project at Paldiski road 70c in Tallinn (Kodulahe).

The rent revenue for building premises in Madrid Blvd, Sofia (business and office premises) remains stable at the level of 235 thousand euros per quarter and meets our expectations. The biggest challenge and risk is stabilising rent revenue long-term and finding new tenants for office premises starting from the third quarter of 2015 if necessary. The company started preparations for modernising and redevelopment of rental premises. A pleasing fact is the occupancy rate of rental apartments of Madrid Blvd (14 units) exceeding 65% and the additional rental income received from those, which exceeds 100 thousand euros per year. As the group made a scheduled repayment of the bank loan on the Madrid Blvd building in amount of 950 thousand euros in the first quarter, the repayment date of the principal part of the bank loan has been extended to December 2017 and this enables to make long-term plans for profitable realisation of the building as a rental object of keeping it in the balance sheet of the group as a stable cash generator. We also sold three apartments at Madrid Blvd in the first quarter and made an additional repayment of the project's bank loan in amount of 203 thousand euros. The number of apartments on sale and for rent has thereby decreased to a total of 30 units. However, the sale of apartments is still not fast enough compared even to our own Manastirski development and we are considering an additional investment for the gradual letting of apartments in stock.

The designing process of Paldiski road in Tallinn (Kodulahe) conforms to the planned schedule and we are hoping to begin the construction and pre-sale of the apartment building of the first stage, with over 120 apartments, at the end of 2015. The delivery of the first apartments is planned for the first quarter of 2017. The objective is to launch a residential product which exceeds the expectations of consumers developed on the Tallinn market.

The sale of development products in Riga (apartments at Bisumuisa-1 and residential plots at Marsili) has essentially ground to a halt and the only good aspect here is that the stock of development projects in Riga and the cash under this is small. The problem is low credit worthiness and borrowing capacity of the market and the unclear perspective in the upcoming year. The group does not plan any new developments in Latvia for 2015.

The results of the second quarter of the group are predicted to be weaker than the results of the first quarter due to the decreasing stock and resulting decreased sales volumes. The third quarter should be weaker than the second quarter in turn, as the stock will have decreased further by then. The Manastirski block D will be completed by the end of the fourth quarter, which may influence the sales results of the quarter and will briefly increase the stock of apartments by another 80 units.



## DEVELOPMENTS IN ARCO VARA HOME MARKETS

### Sofia

In Q1 2015, were made 4,800 sale and purchase transactions with real-estate in Sofia, which is 31% more than in first quarter of last year but 31% less than in forth quarter of 2014. Grounding to the experience of brokers in Arco Vara Bulgarian agency there is growing demand for two-bedroom apartments, especially in the segment with apartment size between 60-85 m<sup>2</sup> and price range between 55-65 thousand euros. On one-bedroom apartments is noticed increasing interest for more expensive segment apartments and decreasing demand in lowest price segment (apartment price below 50 thousand euros). The real estate market is recovered mainly in Sofia, there is no signs of growing trend in other regions of Bulgaria. Analysts predict that 2015 summer season in Black Sea coast could be modest in economic terms due to the conflict between Russia and Ukraine and high dependence on tourists from Russia.

### Riga

In Q1 2015, transaction activity in Riga market continued decreasing trend, started already in second half of 2014. In first quarter, were concluded 2,192 real estate sales transactions, which is 16% less than in Q4 2014 and 19% less than in Q1 2014. 1,615 apartment sales transactions concluded in first 3 months of 2015, dropped by 17% compared to previous quarter and by 24% compared to Q1 2014. In first quarter 2015, the new projects share was 12% out of all sales transactions with apartments. The rate has been fluctuating between 15-20% during the year 2014. On new apartment segment most sales were concluded with apartments in the price range between 1,000 and 1,400 euros per m<sup>2</sup>, there were only a few transactions in the price range over 2,500 euros per m<sup>2</sup>. The further activity of the Riga real estate market will be influenced by a law amendment which will enter into force on 1 March 2015, providing that in the case of bankruptcy proceedings of a private person, the mortgage loan granted to him or her is paid also when the realizable value of the mortgage is less than the outstanding loan (so-called non-recourse loans). Though, such loan agreement type is not obligatory for borrower but only an option. As the self-financing requirements of banks will increase up to at least 30-40% on non-recourse loans, then it is predictable that this agreement type will not be very popular. Latvia and Riga, out of three Arco Vara home markets, is most vulnerable to the adverse developments in Russia and surrounding countries bounded economically and politically to Russia. Trends in Latvian real estate market evidence that clearly.

### Tallinn

In Tallinn, 2,905 transactions of purchase and sale of real estate have been completed in Q1 2015, decreased by 4% compared to previous quarter and increased by 4% compared to the Q1 2014. 1,931 transactions for purchase and sale of apartment ownerships were carried out in first quarter in Tallinn, which is 6% less than in Q4 2014 and 3% more than in Q1 2014. The median sales price for apartment ownerships was 1,402 euros per m<sup>2</sup> in Q1 2015, which is 1% higher compared to Q4 2014 and 5% higher than in Q1 2014. Then comparing three Arco Vara home markets Tallinn remains relatively the most active market having most stable transaction volumes and sales prices. New apartment building development projects continuing to enter into the market. Increasing supply has stopped the growth in prices, there is already made downwards corrections to sales prices in several projects. The apartment buyer values more and more of quality therefore the construction quality on new developments is rather increasing.

## SERVICE DIVISION

In Q1 2015, revenue of service division was 779 thousand euros, that included intra-group revenue of 143 thousand euros (in Q1 2014: 845 thousand and 127 thousand euros, respectively). Revenue of service division from main services (real estate brokerage and valuation services) decreased by 9% compared to the same period of previous year. Revenue increased in Bulgaria and decreased in Latvia and Estonia. Different from Estonia and Latvia, intra-group brokerage has significant share in revenue of Bulgarian agency (56% in Q1 2015 and 52% in Q1 2014).

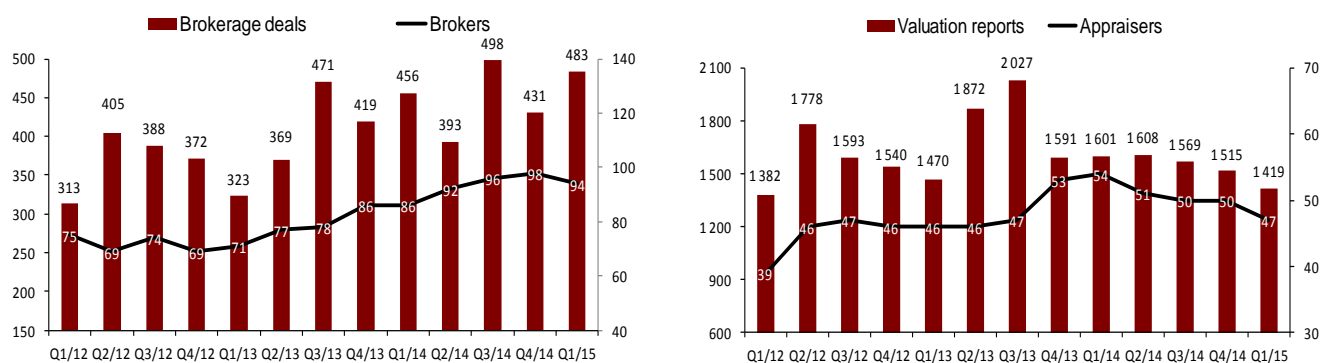
### Revenue of real estate agencies from brokerage and valuation

	Q1 2015	Q1 2014	Change, %
In thousands of euros			
Estonia	278	334	-17%
Latvia	243	293	-17%
Bulgaria	180	146	23%
<b>Total</b>	<b>701</b>	<b>773</b>	<b>-9%</b>

As a logical consequence of decreasing revenue, Estonian and Latvian agencies end up with the loss in first quarter 2015: Estonian agency's net loss was 7 thousand euros and Latvian agency's net loss was 15 thousand euros. In Q1 2014, Estonian and Latvian agency's had net profit of 9 thousand euros and 17 thousand euros, respectively. Bulgarian agency's net profit was 51 thousand euros in Q1 2015 (in Q1 2014: 41 thousand euros).

In addition to brokerage and valuation services, the service division also provides real estate management services as well as accommodation service in Bulgaria. The revenue from real estate management was 41 thousand euros in Q1 2015, 28 thousand euros of which was intra-group revenue (in Q1 2014: 45 thousand and 32 thousand euros, respectively). Revenue from accommodation services amounted to 23 thousand euros in first 3 months 2015 (in Q1 2014: 15 thousand euros).

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



The number of staff in service division has been decreased to 171 employees as at 31 March 2015, which is 5 people less compared to year end 2014.

## DEVELOPMENT DIVISION

In Q1 2015, revenue of development division totalled 3,782 thousand euros (in Q1 2014: 397 thousand euros). The big leap in revenues comes from the sale of real estate in the group's own development projects, amounting to 3,505 thousand euros in Q1 2015 (only 128 thousand euros in Q1 2014). In Q1 2015, were sold 46 apartments and 5 smaller commercial spaces in Manastirski Livadi project II stage and two apartments in Madrid Blvd project in Bulgaria. In first 3 months of 2014, were sold only 2 apartments in Bisumuiza-1 project in Riga. Most of other revenue of development division consisted of rental income from commercial and office space in Madrid Blvd building in Sofia, amounted to 237 thousand euros in Q1 2015 (in Q1 2014: 246 thousand euros).

In Q1 2015, operating profit of development division was 966 thousand euros (in Q1 2014: 44 thousand euros).

In Q1 2015, has been continued the apartment sales on second stage of Manastirski Livadi project, as well as concluded the contracts for apartments presold in 2014. As at 31 March 2015, 11 apartments and 3 commercial spaces remained in stock, out of 135 in total. Also, 7 presold apartments waited for the finalisation of sale transaction. In Bulgaria, there are 2 more apartments unsold in Manastirski Livadi I stage (block C) apartment building and 30 apartments in Madrid Blvd complex. 14 apartments and all parking places, out of all Madrid Blvd unsold assets, are rented out.

In Latvia, there remain 4 last apartments unsold in Bisumuiza-1 project in Riga as well as 15 residential plots in Marsili near Riga. In first three months 2015, there were no sales in Latvia.

In Estonia, there was concluded design contract in February for the first stage apartment building in Paldiski road 70C project. The construction of the apartment building (more than 120 apartments) should start in fourth quarter of 2015.

As at 31 March 2015, 5 people were employed in development division, the same as at the end of year 2014.

## SUMMARY TABLE OF ARCO VARA'S PROJECTS AS AT 31 MARCH 2015

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>
Manastirski A/B	Manastirski, Sofia	Apartments	S5	-	2,166	21
Manastirski C	Manastirski, Sofia	Apartments	S5	-	204	2
Manastirski D	Manastirski, Sofia	Apartments	S4	2,223	6,672	88
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	16
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	3,429	30
Bisumuiza-1	Kometas 2, Riga	Apartments	S5	-	105	1
Bisumuiza-1	Kometas 4, Riga	Apartments	S5	-	278	3
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	27,545	15
Marsili residential plots	Marsili, near Riga	Residential plots	S2	120,220	<120,220>	<68>
Instituudi 7, 9	Instituudi tee 7,9 Harku	Apartments	S3/S5	5,003	2,035	32
PM 70C	Paldiski road 70C, Tallinn	Apartments	S3	28,498	21,420	334
Lehiku carpet building	Lehiku 21,23 Tallinn	Apartments	S2	5,915	<1,100>	<5>
Liimi	Liimi 1b, Tallinn	Lease: Office	S2	2,463	<6,500>	<1>
Viimsiranna	Haabneeme, Viimsi vald	Office/Mix	S3/S5	14,174	500	1

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

**Description of stages**

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

**PEOPLE**

As at 31 March 2015, 184 people worked for the group (189 at the end of 2014). Employee remuneration expenses in Q1 2015 amounted to 0.6 million euros (in Q1 2014: 0.6 million euros).

The remuneration of the member of the management board/chief executive and the members of the supervisory board of the group's parent company including social security charges in first three months 2015 amounted to 25 thousand euros compared with 27 thousand euros in Q1 2014.

**MANAGEMENT BOARD AND SUPERVISORY COUNCIL**

The management board of Arco Vara AS has one member. Since 22 October 2012, the member of the management board and chief executive of Arco Vara AS has been Tarmo Sild.

At 31 March 2015, the supervisory board of Arco Vara AS has 5 members. As at the end of 2014, the supervisory board had 7 members. On 10 February 2015, extraordinary shareholders meeting recalled previous supervisory board and elected new supervisory board with 5 members. Hillar-Peeter Luitsalu, Allar Niinepuu and Rain Lõhmus, remained from the previous supervisory board and two new members are Steven Yaroslav Gorelik and Kert Keskaik. The members of previous supervisory board Toomas Tool, Arvo Nõges, Aivar Pilv and Stephan David Balikh will not continue in new board.

More information on key persons of Arco Vara you can find on company's corporate web page [www.arcorealestate.com](http://www.arcorealestate.com).

**DESCRIPTION OF THE MAIN RISKS**Credit risk

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

Liquidity and interest rate risks

The base currency of all of the group's loan agreements is euro and the base interest rate is 3 or 6 months EURIBOR. As a result, the group is exposed to developments in international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In first three months 2015, the group's interest-bearing liabilities have decreased by 2.5 million euros and at 31 March 2015 amounted to 12.5 million euros, of which 1.6 million euros is due within next 12 months. In the same time, the group's cash and cash equivalents totalled 1.8 million euros as at 31 March 2015. In Q1 2015, interest payments on interest-bearing liabilities totalled 0.3 million euros. The group's weighted average loan interest rate is 5.4% as at 31 March 2015. This is a decrease by 0.4 percentage point in 3 months 2015. The main reason for the decrease of average interest rate is the premature redemption of bonds in February 2015. The bonds bore higher than average interest rate. Side effect had also continuing decrease of EURIBOR rates.

Currency risk

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

## Share and shareholders

Arco Vara AS has issued a total of 6,117,012 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ OMX Tallinn stock exchange. As at 31 March 2015, the company had 1,669 shareholders (at 31 December 2014: 1,668 shareholders) and the share price closed at 1.16 euros. The price has increased by 40.1% within three months 2015 (closing price at the end of 2014 was 0.828 euros). During the period, the highest price per share was 1.29 euros and lowest price 0.83 euros. As at 31 March 2015, market capitalization of shares amounted to 7,096 thousand euros and P/E ratio of the share was 5.5 (at 31 December 2014: 5,065 thousand euros and 5.5, respectively).

The following charts reflect movements in the price and daily turnover of Arco Vara share in three years: for the period from 31 March 2012 to 31 March 2015.

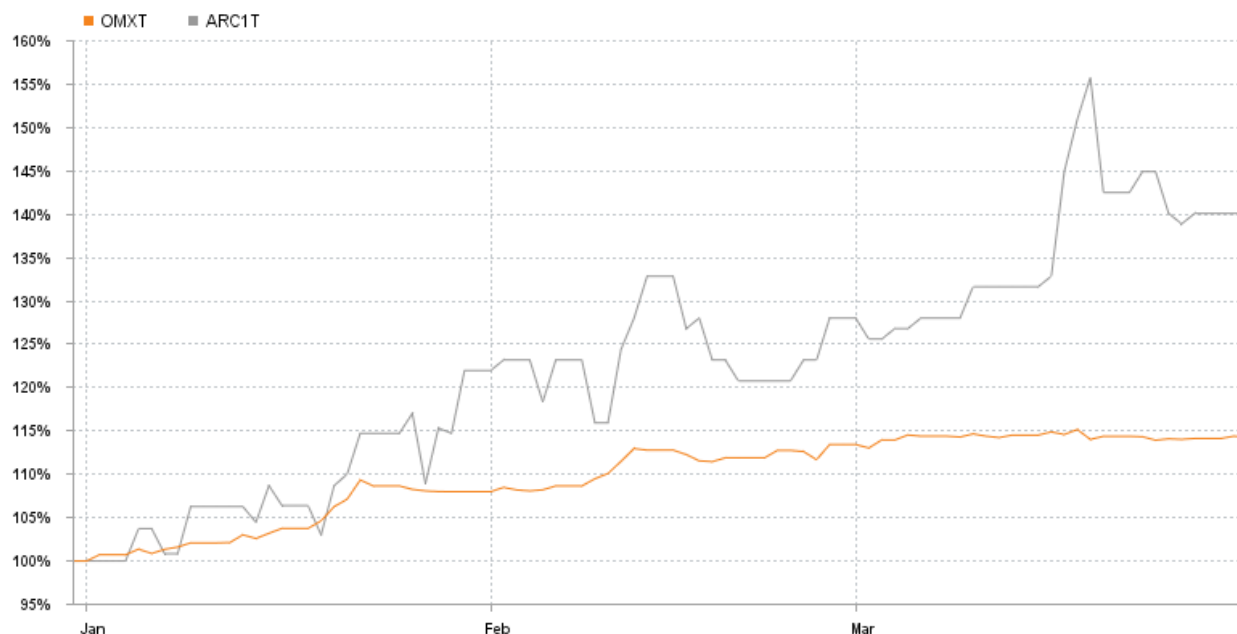
### In Q1 2015



### In the period 31 March 2012 – 31 March 2015



Changes in Arco Vara share (ARC1T) price compared with the benchmark index OMX Tallinn in first 3 months 2015.



Index/equity	31 Dec 2014	31 March 2015	+/-%
OMX Tallinn	755.05	862.86	+14.28
ARC1T	0.828 EUR	1.16 EUR	+40.10

Major shareholders at 31 March 2015	No of shares	Interest %
AS Baltplast	862,820	14.1%
AS Lõhmus Holdings	602,378	9.8%
Gamma Holding Investment OÜ	549,000	9.0%
Alarmo Kapital OÜ	489,188	8.0%
HM Investeeringud OÜ	460,000	7.5%
LHV PENSIONIFOND L	378,765	6.2%
FIREBIRD REPUBLICS FUND LTD	356,428	5.8%
FIREBIRD AVRORA FUND, LTD.	185,800	3.0%
LHV PENSIONIFOND XL	169,583	2.8%
FIREBIRD FUND L.P.	150,522	2.5%
Other shareholders	1,912,528	31.3%
<b>Total</b>	<b>6,117,012</b>	<b>100.0%</b>

Holdings of members of the management and supervisory boards (and connected persons) at 31 March 2015	Position	No of shares	Interest %
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	602,378	9.8%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	chairman of supervisory board	498,884	8.2%
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	489,188	8.0%
Kert Keskpaiik (privately and through K Vara OÜ)	member of supervisory board	191,787	3.1%
Steven Yaroslav Gorelik <sup>1</sup>	member of supervisory board	3,150	0.1%
<b>Total</b>		<b>1,785,387</b>	<b>29.2%</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).

## **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 first quarter ended 31 March 2015 provides a true and fair view of the development, financial performance and financial position of the group as well as a description of the main risks and uncertainties.

Tarmo Sild

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

On 7 May 2015

## Condensed consolidated interim financial statements

### Consolidated statement of comprehensive income

	Note	Q1 2015	Q1 2014
In thousands of euros			
<b>Continuing operations</b>			
Revenue from sale of own real estate		3,505	128
Revenue from rendering of services	2,3	892	985
<b>Total revenue</b>		<b>4,397</b>	<b>1,113</b>
Cost of sales	4	-2,900	-618
<b>Gross profit</b>		<b>1,497</b>	<b>495</b>
Other income		17	16
Marketing and distribution expenses	5	-109	-100
Administrative expenses	6	-475	-453
Other expenses		-12	-8
Gain on sale of subsidiary		0	662
<b>Operating profit</b>		<b>918</b>	<b>612</b>
Finance income and costs	7	-190	-207
<b>Net profit from continuing operations</b>		<b>728</b>	<b>405</b>
<b>Discontinued operations</b>			
Loss from discontinued operations		-11	-13
<b>Net profit for the period</b>		<b>717</b>	<b>392</b>
<i>attributable to owners of the parent</i>		722	387
<i>attributable to non-controlling interests</i>		-5	5
<b>Total comprehensive income for the period</b>		<b>717</b>	<b>392</b>
<i>attributable to owners of the parent</i>		722	387
<i>attributable to non-controlling interests</i>		-5	5
<b>Earnings per share (in euros)</b>	8		
- basic		0.12	0.08
- diluted		0.11	0.08



## Consolidated statement of financial position

	Note	31 March 2015	31 Dec 2014
In thousands of euros			
Cash and cash equivalents		1,797	1,691
Receivables and prepayments	9	647	1,205
Inventories	10	9,710	11,970
<b>Total current assets</b>		<b>12,154</b>	<b>14,866</b>
Receivables and prepayments	9	0	5
Investment property	11	11,576	11,585
Property, plant and equipment		485	434
Intangible assets		130	113
<b>Total non-current assets</b>		<b>12,191</b>	<b>12,137</b>
<b>TOTAL ASSETS</b>		<b>24,345</b>	<b>27,003</b>
Loans and borrowings	12	1,638	3,194
Payables and deferred income	13	1,792	2,659
Provisions		274	274
<b>Total current liabilities</b>		<b>3,704</b>	<b>6,127</b>
Loans and borrowings	12	10,874	11,826
<b>Total non-current liabilities</b>		<b>10,874</b>	<b>11,826</b>
<b>TOTAL LIABILITIES</b>		<b>14,578</b>	<b>17,953</b>
Share capital		4,282	4,282
Share premium		292	292
Statutory capital reserve		2,011	2,011
Other reserves		179	179
Retained earnings		2,972	2,250
<b>Total equity attributable to owners of the parent</b>		<b>9,736</b>	<b>9,014</b>
Equity attributable to non-controlling interests		31	36
<b>TOTAL EQUITY</b>		<b>9,767</b>	<b>9,050</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>24,345</b>	<b>27,003</b>

## Consolidated statement of cash flows

	Note	Q1 2015	Q1 2014
In thousands of euros			
Cash receipts from customers		5,893	1,691
Cash paid to suppliers		-1,285	-2,404
Taxes paid		-1,508	-285
Taxes recovered		5	122
Cash paid to employees		-235	-224
Other cash payments and receipts related to operating activities		127	-14
<b>NET CASH FROM/USED IN OPERATING ACTIVITIES</b>		<b>2,997</b>	<b>-1,114</b>
Purchase of property, plant and equipment		-56	-8
Proceeds from sale of a subsidiary		0	10
Loans provided		0	-3
Placement of security deposits		0	-258
Release of security deposits		0	263
Interest received		1	1
<b>NET CASH FROM/USED IN INVESTING ACTIVITIES</b>		<b>-55</b>	<b>5</b>
Proceeds from loans received	12	0	1,345
Settlement of loans and finance lease liabilities	12	-2,533	-71
Interest paid		-303	-214
Other payments related to financing activities		0	-5
<b>NET CASH FROM/USED IN FINANCING ACTIVITIES</b>		<b>-2,836</b>	<b>1,055</b>
<b>NET CASH FLOW</b>		<b>106</b>	<b>-54</b>
Cash and cash equivalents at beginning of period		1,691	818
<b>Change in cash and cash equivalents</b>		<b>106</b>	<b>-54</b>
Cash and cash equivalents at end of period		1,797	764

## Consolidated statement of changes in equity

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands of euros								
Balance as at 31 December 2013	3,319	0	2,011	60	1,452	6,842	12	6,854
Change in non-controlling interests	0	0	0	0	-5	-5	5	0
Total comprehensive income for the period	0	0	0	0	387	387	5	392
Balance as at 31 March 2014	3,319	0	2,011	60	1,834	7,224	22	7,246
Balance as at 31 December 2014	4,282	292	2,011	179	2,250	9,014	36	9,050
Total comprehensive income for the period	0	0	0	0	722	722	-5	717
Balance as at 31 March 2015	4,282	292	2,011	179	2,972	9,736	31	9,767

## 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 first quarter ended 31 March 2015 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

### 2. Segment information

The group has the following reportable operating segments:

**Development** - development of residential and commercial real estate environments;

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

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

#### Revenue and operating profit by operating segment

Segment	Development		Service		Unallocated		Eliminations		Consolidated	
	Q1 2015	Q1 2014	Q1 2015	Q1 2014	Q1 2015	Q1 2014	Q1 2015	Q1 2014	Q1 2015	Q1 2014
in thousands of euros										
External revenue	3,760	394	636	718	1	1			4,397	1,113
Annual change	854%	-67%	-11%	34%					295%	-36%
Inter-segment revenue	22	3	143	127			-165	-130	0	0
<b>Total revenue</b>	<b>3,782</b>	<b>397</b>	<b>779</b>	<b>845</b>	<b>1</b>	<b>1</b>	<b>-165</b>	<b>-130</b>	<b>4,397</b>	<b>1,113</b>
<b>Operating profit/loss</b>	<b>966</b>	<b>44</b>	<b>43</b>	<b>75</b>	<b>-91</b>	<b>493</b>			<b>918</b>	<b>612</b>
Gain on sale of a subsidiary	0		0	0	0	662			0	662

#### Assets and liabilities by operating segment

Segment	Development		Service		Unallocated		Consolidated	
	31 March 2015	31 Dec 2014	31 March 2015	31 Dec 2014	31 March 2015	31 Dec 2014	31 March 2015	31 Dec 2014
in thousands of euros								
Assets	22,437	25,602	701	668	1,207	733	24,345	27,003
Liabilities	13,716	16,265	514	499	348	1,189	14,578	17,953

### 3. Revenue

	Q1 2015	Q1 2014
In thousands of euros		
Sale of own real estate	3,505	128
Real estate brokerage and valuation	581	670
Rental of real estate	237	246
Property management services	33	33
Other revenue	41	36
<b>Total revenue</b>	<b>4,397</b>	<b>1,113</b>

#### 4. Cost of sales

	Q1 2015	Q1 2014
In thousands of euros		
Cost of real estate sold (note 10)	-2,433	-114
Personnel expenses	-344	-414
Property management costs	-80	-56
Vehicle expenses	-4	-5
Depreciation, amortisation and impairment losses	-3	-3
Other costs	-36	-26
<b>Total cost of sales</b>	<b>-2,900</b>	<b>-618</b>

#### 5. Marketing and distribution expenses

	Q1 2015	Q1 2014
In thousands of euros		
Advertising expenses	-61	-52
Personnel expenses	-28	-25
Market research	-4	-5
Brokerage fees	0	-1
Other marketing and distribution expenses	-16	-17
<b>Total marketing and distribution expenses</b>	<b>-109</b>	<b>-100</b>

#### 6. Administrative expenses

	Q1 2015	Q1 2014
In thousands of euros		
Personnel expenses	-243	-192
Office expenses	-112	-82
Services purchased	-55	-92
IT expenses	-35	-38
Legal service fees	-9	-25
Depreciation, amortisation and impairment losses	-9	-8
Vehicle expenses	-6	-11
Other expenses	-6	-5
<b>Total administrative expenses</b>	<b>-475</b>	<b>-453</b>

#### 7. Finance income and costs

	Q1 2015	Q1 2014
In thousands of euros		
Interest expense	-183	-200
Interest income	1	1
Other finance income and costs	-8	-8
<b>Total finance income and costs</b>	<b>-190</b>	<b>-207</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.

	Q1 2015	Q1 2014
Weighted average number of ordinary shares outstanding during the period	6,117,012	4,741,707
Number of ordinary shares potentially to be issued	390,000	390,000
Net profit attributable to owners of the parent (in thousands of euros)	722	387
<b>Earnings per share (in euros)</b>	<b>0.12</b>	<b>0.08</b>
<b>Diluted earnings per share (in euros)</b>	<b>0.11</b>	<b>0.08</b>

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

According to the decision of the annual general shareholders' meeting of Arco Vara AS, held on 1 July 2013, one convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the chief executive of the group's parent company the right to subscribe up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2016. As at 31 March 2015, an equity reserve is formed in amount of 179 thousand euros (as at 31 December 2014: 179 thousand euros) for the option associated with the bond. See also note 14.

## 9. Receivables and prepayments

### Short-term receivables and prepayments

	31 March 2015	31 Dec 2014
In thousands of euros		
<b>Trade receivables</b>		
Receivables from customers	246	989
Allowance for doubtful trade receivables	-22	-22
<b>Total trade receivables</b>	<b>224</b>	<b>967</b>
<b>Other receivables</b>		
Loans provided	6	6
Miscellaneous receivables	50	154
<b>Total other receivables</b>	<b>56</b>	<b>160</b>
<b>Accrued income</b>		
Prepaid and recoverable taxes	48	22
Other accrued income	3	4
<b>Total accrued income</b>	<b>51</b>	<b>26</b>
<b>Prepayments</b>	<b>316</b>	<b>52</b>
<b>Total short-term receivables and prepayments</b>	<b>647</b>	<b>1,205</b>

### Long-term receivables

	31 March 2015	31 Dec 2014
In thousands of euros		
Prepayments	0	5
<b>Total long-term receivables and prepayments</b>	<b>0</b>	<b>5</b>

## 10. Inventories

	31 March 2015	31 Dec 2014
In thousands of euros		
Properties purchased and being developed for resale	9,681	11,942
Materials and finished goods	13	12
Prepayments for inventories	16	16
<b>Total inventories</b>	<b>9,710</b>	<b>11,970</b>

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

	Q1 2015	Q1 2014
In thousands of euros		
<b>Balance at the beginning of period, 31 December</b>	<b>11,942</b>	10,762
Properties purchased for development	0	120
Construction costs of apartment buildings	71	1,126
Capitalized borrowing costs	27	42
Other capitalized costs	64	17
Reclassification from investment property (note 11)	10	0
Cost of sold properties (note 4)	-2,433	-114
<b>Balance at the end of period, 31 March</b>	<b>9,681</b>	<b>11,953</b>

## 11. Investment property

### Investment property (changes in period)

	Q1 2015	Q1 2014
In thousands of euros		
<b>Balance at the beginning of period, 31 December</b>	<b>11,585</b>	11,331
Capitalised development costs	1	3
Reclassification to inventories (note 10)	-10	0
<b>Balance at the end of period, 31 March</b>	<b>11,576</b>	<b>11,334</b>

## 12. Loans and borrowings

	31 March 2015			31 December 2014		
	Total	of which current portion	of which non-current portion	Total	of which current portion	of which non-current portion
In thousands of euros						
Bank loans	12,310	1,456	10,854	14,081	3,010	11,071
Bonds	161	160	1	911	160	751
Finance lease liabilities	41	22	19	28	24	4
<b>Total</b>	<b>12,512</b>	<b>1,638</b>	<b>10,874</b>	<b>15,020</b>	<b>3,194</b>	<b>11,826</b>

In first 3 months 2015, the group settled loans and borrowings of 2,533 thousand euros (in Q1 2014: 71 thousand euros) through cash transactions and no new loans were raised. In Q1 2014, were raised new loans in amount of 1,345 thousand euros).

In Q1 2015, were settled following major obligations:

- In January, the group repaid last part, in amount of 606 thousand euros, loan used for financing the construction of Manastirski Livadi project II stage. Contractual repayment deadline of the loan was 30 May 2016.
- On 19 and 20 February 2015, 18 months before maturity date, Arco Vara redeemed bonds at nominal value of 750 thousand euros issued in August 2013 for restarting Manastirski Livadi development project. Redemption price of bonds was 1,155 euros per bond, consisted of bond's nominal value of 1,000 euros and accrued interest of 155 euros per bond.



Redemption of bonds before the maturity date was possible due to faster than planned sales pace and unanimous consent among bondholders then accepting the proposal for earlier redemption. See also note 14.

- In Q3 2015, total of 1,153 thousand euros of Madrid Blvd project loan was repaid to Piraeus bank in Bulgaria. The amount includes a principal repayment in amount of 950 thousand euros the group made on 20 February 2015. There was also agreed with the bank on amendments to loan contract what mitigate risks regarding the terms of the possible recall of the loan before maturity date by the bank.

### 13. Payables and deferred income

	31 March 2015	31 Dec 2014
In thousands of euros		
<b>Trade payables</b>	<b>357</b>	<b>208</b>
<b>Miscellaneous payables</b>	<b>54</b>	<b>91</b>
<b>Taxes payable</b>		
Value added tax	193	820
Corporate income tax	46	125
Social security tax	39	33
Personal income tax	21	19
Other taxes	347	343
<b>Total taxes payable</b>	<b>646</b>	<b>1,340</b>
<b>Accrued expenses</b>		
Payables to employees	167	144
Interest payable	7	100
Other accrued expenses	2	19
<b>Total accrued expenses</b>	<b>176</b>	<b>263</b>
<b>Deferred income</b>		
Prepayments received on sale of real estate	559	757
<b>Total deferred income</b>	<b>559</b>	<b>757</b>
<b>Total short-term payables and deferred income</b>	<b>1,792</b>	<b>2,659</b>

### 14. Related party disclosures

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

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

#### Transactions with related parties

	Q1 2015	Q1 2014
In thousands of euros		
<b>Joint ventures and associate</b>		
Services sold	-	0
Services purchased	-	4
Provision of loans	-	3

<b>Companies that have a significant interest in the group's parent company</b>		
Services purchased	7	5
Bonds issued	0	150
Redemption of bonds	750	0
Paid interest	81	18
<b>Other related parties</b>		
Services sold	1	1
Services purchased	0	2
Redemption of bonds	250	0
Paid interest	39	9

### **Balances with related parties**

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

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

On 21 March 2014, Arco Vara AS issued bonds as targeted issue in total amount of 160 thousand euros. 150 thousand euros out of the total issued bonds were subscribed by the companies that have significant interest in the group's parent company. The bonds maturity date is 20 June 2015 and annual interest rate is 9.8%. The issued bonds are guaranteed with mortgage on property that belongs to the subsidiary of Arco Vara AS. See also note 12.

In Q1 2015, the remuneration provided to the group's key management personnel, i.e. the chief executive/member of the management board and the members of the supervisory board of the group's parent company, including social security charges, amounted to 25 thousand euros (in Q1 2014: 27 thousand euros). The remuneration provided to the chief executive/member of the management board is based on his service contract. The termination benefits agreed with Tarmo Sild, who was appointed chief executive officer/member of the management board of Arco Vara AS in October 2012, amount to up to five months' basic board member remuneration. The basis for the remuneration provided to the members of the supervisory board was changed in July 2013 and were slightly amended in February 2015. According to the resolutions of the general meeting of Arco Vara AS, the members of the supervisory board will get paid 500 euros (net amount) for every participated meeting but not more than 1,000 euros (net amount) per month. The payment of the remuneration is made dependent on the signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating on the board meetings are also compensated to the members of the supervisory board. The group's key management personnel was not provided or paid any other remuneration or benefits (bonuses, termination benefits, etc) in Q1 2015.

In favor of chief executive/member of management board is issued convertible bond, which gives him the right to subscribe up to 390,000 ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2016. See also note 8.

## **15. Events after the reporting date**

### **Arco Vara shareholders' decision on distribution of dividends**

On 23 April 2015, shareholders meeting of Arco Vara decided, in addition to the approval of Annual Report for year 2014 and appointment of PricewaterhouseCoopers as auditors, to distribute to shareholders as dividends 0.01 euros per share, 61 thousand euros in total. The list of shareholders entitled to dividends shall be fixed as at 15 May 2015. Dividends shall be paid to the shareholders by transfer to the bank account of the shareholders on 29 May 2015.

### **Signing loan contract for financing construction of apartment building in Manastirski Livadi project third stage**

On 24 April 2015, the group's Bulgarian subsidiary Arco Manastirski EOOD concluded loan agreement with UniCredit bank for financing construction costs of apartment building in Manastirski Livadi project third stage with the limit of 2,650 thousand euros. Loan limit should be used until 31 March 2016 and have to be repaid during the period from September 2016 to September 2017. Considering very good pace of apartment presale, the loan will be most likely repaid already in Q1 2016. Interest rate of loan is 4.4% + 3 months Euribor.

## **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 first quarter ended 31 March 2015.

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

Tarmo Sild

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

On 7 May 2015