



Arco Vara AS

INTERIM REPORT FOR THE
SECOND QUARTER AND SIX MONTHS 2013



ARCO VARA

**INTERIM REPORT FOR THE
SECOND QUARTER AND SIX MONTHS
ENDED 30 JUNE 2013
(UNAUDITED)**

Company name: Arco Vara AS

Registry number: 10261718

Address: Jõe 2b, 10151 Tallinn, Republic of Estonia

Telephone: +372 6 144 630

Fax: +372 6 144 631

E-mail: info@arcovara.ee

Corporate website: www.arcorealestate.com

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

Activities of real estate agencies (EMTAK 6831)

Real estate management (EMTAK 6832)

Construction of buildings (EMTAK 4100)

Civil engineering (EMTAK 4200)

Specialised construction activities (EMTAK 4300)

Financial year: 1 January 2013 – 31 December 2013

Reporting period: 1 January 2013 – 30 June 2013

Supervisory board: Hillar-Peeter Luitsalu, Toomas Tool, Aivar Pilv,

Stephan David Balkin, Arvo Nõges, Rain Lõhmus, Allar Niinepuu

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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Directors' report

ARCO VARA GROUP

Arco Vara AS and other entities of Arco Vara group (together referred to as 'the group') are involved in real estate development and provision of real estate services. The group has three business lines and its operations are carried out by three divisions – Service, Development and Construction.

The core business of the Service division consists of real estate brokerage and valuation, real estate management and consulting, and short-term investment in residential real estate.

The core business of the Development division is development of complete living environments and commercial real estate. Fully developed housing solutions are sold to the end-consumer. In the development of commercial real estate, the purpose is to create an asset generating cash flow that can either be held for consolidating the group's own cash flows or sold. The group is currently holding some completed commercial properties that generate rental income.

The core business of the Construction division was provision of general construction and environmental engineering services as a general contractor or a subcontractor. We are planning to discontinue provision of construction services to external customers by the end of 2013 and do not intend to start any new projects funded by the public sector or the EU. We may continue construction operations as part of our development business.

The performance of all divisions is subject to seasonal fluctuations. The transaction volumes of the Service division usually increase in autumn and spring and the Construction division's turnover and the Development division's investment volumes decline in winter.

At the end of the second quarter of 2013, the group comprised of 23 companies (30 June 2012: 28). In addition, at 30 June 2013 the group had two joint ventures (30 June 2012: 3) and one associate (30 June 2012: 1).

The group's active markets are Estonia, Latvia and Bulgaria.

Mission, vision and shared values

The mission of Arco Vara is **to be a comprehensive and valued provider of real estate solutions.**

The vision of Arco Vara is **to become a symbol of real estate.**

Our core values include:

Partnership – our client is our partner

Reliability – we are reliable, open and honest

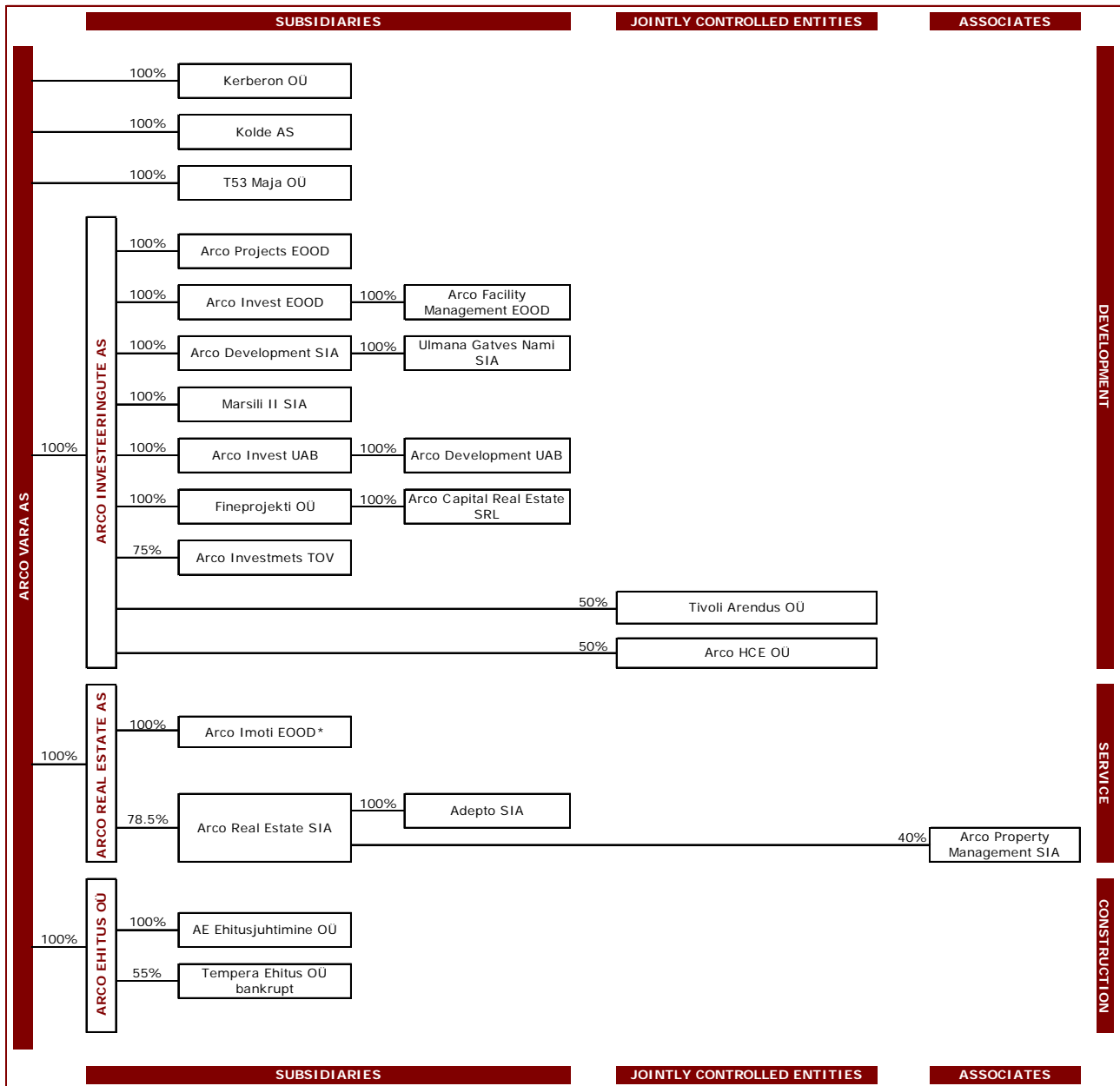
Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

GROUP STRUCTURE

As at 30 June 2013



* Previously the entity was presented in the chart of Group structure under the name Arco Real Estate EOOD. From now on, we shall use the name under which the company is recorded in the local commercial registry.

CHANGES IN GROUP STRUCTURE

On 1 March 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary Pärnu Turg OÜ to Bellvory Turg OÜ. The group's sales gain on the transaction amounted to 98 thousand euros. As a result of the divestment, the group's assets decreased by 2,067 thousand euros and its loan liabilities declined by 772 thousand euros. The group's annual revenue decreased by around 300 thousand euros.

On 30 May 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary T53 Maja OÜ to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and loan relations and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

On 31 May 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary Kolde AS to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

On 20 June 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary Kerberon OÜ to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and loan relations and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

Changes in group structure after the reporting date

On 1 July 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary Arco Development SIA to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and loan relations and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

On 8 July 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary Arco Invest UAB to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and loan relations and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

On 17 July 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary Marsili II SIA to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and loan relations and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

The group's restructuring will be completed in the third quarter of 2013. After the changes, the parent will have direct control, both as a shareholder and a creditor, over all of the group's significant subsidiaries that sell end-products or services.

KEY PERFORMANCE INDICATORS

- Arco Vara group ended the first six months of 2013 with revenue of 7.7 million euros compared with 11.1 million euros for the first half of 2012. Revenue proved 31% smaller than in the comparative period, principally because construction volumes decreased significantly. The Service and Development divisions posted revenue growth, 7% and 5% up on the first six months of the previous year respectively.
- The group's operating profit for the first half-year amounted to 2.0 million euros including 1 million euros from the reversal of a provision. The same period in 2012 ended in an operating loss of 0.6 million euros.
- Net profit for the first half-year was 1.5 million euros compared with a net loss of 1.3 million euros incurred in the first half of 2012.
- Equity to assets ratio improved notably, being 17.1% at the reporting date (31 December 2012: 10.8%).
- The loan burden (net loans) decreased to 15.2 million euros (30 June 2012: 20.9 million euros) and the average interest rate of loans dropped to 5.1% per year.
- At the end of the second quarter, the group's order backlog in the construction business stood at 1.0 million euros compared with 10.3 million euros at the end of the second quarter of 2012. In 2013, the group will duly complete all environmental engineering projects which are in progress. After that, provision of environmental engineering services will be discontinued.
- In the first half-year, the group sold 52 apartments and plots in its self-developed projects (2012 HY1: 35).

	6 months 2013	6 months 2012	Q2 2013	Q2 2012
In millions of euros				
Revenue	7.7	11.1	4.8	7.4
Operating profit/loss	2.0	-0.6	1.7	-0.1
Net profit/loss	1.5	-1.3	1.5	-0.4
EPS (in euros)	0.32	-0.18	0.32	-0.09
Total assets at period-end	28.7	53.5		
Invested capital at period-end	20.8	43.1		
Net loans at period-end	15.2	20.9		
Equity at period-end	4.9	19.9		
Average loan term (in years)	1.7	2.1		
Average interest rate of loans (per year)	5.1%	6.9%		
ROIC (rolling, four quarters)	neg	neg		
ROE (rolling, four quarters)	neg	neg		
Number of staff at period-end	76	126		

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)

Equity to assets ratio = equity at end of period / total assets at end of period

Average equity = past four quarters' equity at end of period / four

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

Average invested capital = past four quarters' current interest-bearing liabilities, non-current liabilities and equity / four

Return on invested capital (ROIC) = past four quarters' profit before tax and interest expense / average invested capital

Number of staff at period-end = number of people working under employment contracts, excludes brokers and appraisers that work for the group under service contracts

Group Chief Executive's review

General comments

In the second quarter we continued to change the group's course in line with the goals and targets set. Our focus is increasingly shifting from cleaning up the statement of financial position and resolving our key issues, which stem from the past, to the future, i.e. re-launching major development operations and enhancing our organisation and work processes. This entails the following:

A. Cleaning up the statement of financial position

- a) We realised the Tivoli project at a public auction. We exited the project without monetary loss even though the revenue raised from the Tivoli properties was smaller than the venture partner's loan receivable from Tivoli Arendus OÜ for which Arco Vara had provided a surety guarantee.
- b) We continued to seek solutions for restructuring the Ahtri 3 project. Regrettably, in the second quarter a satisfactory solution could not be found. The parties will sustain their efforts. Until an in-court or out-of-court settlement is reached, we have to be prudent and maintain a provision of 1.9 million euros recognised for the surety guarantee Arco Investeeringute AS has provided to Danske bank to secure the loan liabilities of the group's associate Arco HCE OÜ.
- c) We continued to perform the construction contracts signed by Arco Ehitus OÜ and to date we have completed the Paide project. Only the Kuusalu project still needs to be completed. When construction operations have been discontinued, Arco Ehitus OÜ will probably remain a group entity because it is involved in a number of pending litigations. None of the lawsuits connected with Arco Ehitus OÜ is likely to have a significant effect on the group's operations or profitability.

B. Restructuring

- a) All companies that sell products or services to the end-consumer will belong directly to the parent and will receive the financial resources they need for developing their business straight from the parent. There will be no intra-group holding companies, mixed or unclear managerial accountability or chains of command consisting of more than two links.
- b) We are going to implement integrated production whereby Arco Vara will incorporate into the end-product that is delivered to the consumer all the know-how of its analysts, brokers, appraisers, product designers, project managers and marketing staff. In order to achieve maximum synergies from the new approach, many internal processes will have to be reviewed and changed. Implementation of an integrated production process is time consuming and requires additional investments in data processing.

C. Re-launch of development operations

- a) We completed and put on sale 14 apartments in the Bišumuiža-1 development project in Riga. Our inventory includes another 14 apartments that are awaiting completion.
- b) We started preparations for completing sections A and B in the Manastirski project in Sofia (approx. 130 apartments).
- c) We acquired the entire Paldiski mnt 70c property in Tallinn and initiated a detailed plan process for the construction of at least 300 apartments.
- d) We started preparations for initiating the detailed plan processes for the Liimi 1b and Lehiku street properties in Tallinn.
- e) We made additional investments in the Madrid project in Sofia so as to increase its rental and sales revenues. We are planning to continue relevant investments.

Comments on sales volumes

I am pleased to report that in contrast to the first half of 2012 when over half of the group's revenue was generated by construction operations, in the first half of 2013 over half of our revenue resulted from development operations. Arco Vara's business focus has again shifted to real estate development and real estate services.

Shrinkage in sales volumes was a negative inevitability. We expect the downward trend to continue for at least four quarters because we are selling off finished goods (self-developed real estate) more quickly than our stocks can be replenished. This is the effect of previous years' production gap in our development operations.

As anticipated, we succeeded in increasing our development revenues compared with the first half of 2012. Having refinanced our Bulgarian loans in the first quarter, we could complete sales of the Manastirski and Madrid apartments, which had previously been suspended. As a result, Sofia was the main source of our second-quarter development revenues. However, according to current projections in third and fourth quarter development revenues will decline. Current development operations cannot compensate for the decrease in existing stocks and, thus, also in sales volumes that is going to emerge in the next four quarters.

Construction revenues were also in line with expectations as both Arco Ehitus OÜ and the customers fulfilled their obligations. At the end of the second quarter, our order backlog in the construction business amounted to approx. 1 million euros, which will translate into revenue in the third or fourth quarter.

An encouraging development was slight sales growth at the Service division, particularly in light of fierce competition in the real estate service sectors in Estonia, Latvia and Bulgaria and the sentiment of the consumers and the financial sector, who are still displaying uncertainty rather than confidence. In Sofia, total second-quarter transaction activity in the real estate market grew by 41% (compared with the first quarter) and Arco Imoti EOOD's brokerage and valuation revenue increased by 20%. It should be noted that the market is mostly based on local customers. In Riga, revenue growth resulted from valuation services and brokerage fees earned on transactions conducted by non-residents. Local demand for real estate is still weak and local demand for brokerage services is even weaker. Sales volumes in Tallinn and the rest of Estonia remained stable. All units of the Service division are profitable.

Comments on profit

The first half-year proved that the people who make up the organisation of Arco Vara are able to create added value in the real estate sector and to conduct business so that it generates cash.

The group's target for 2013 was to start earning operating profit. We ended the first quarter with an operating profit as well as a small net profit. In the second quarter we achieved a net profit of half a million euros even without the reversal of the provision set up for the surety guarantee provided to the Tivoli project (1 million euros). Together with the reversal of the provision, our actual net profit was 1.5 million euros.

Despite this, I would still like to underline that in order to change our course for the long term and maintain profitability, we need to increase sales. Growth will be supported by units of the Service division but the main opportunities for growth have to be sought in continuing and expanding development operations. Unfortunately, in recent years there has been a major gap in Arco Vara's production process, which is now separating our current inventory of completed apartments and plots from the inventory of products that will be completed in the future. Our future inventory is currently in the stage of work in progress and its completion requires capital.

Accordingly, our biggest challenges include raising interim financing for development operations in 2013-2014 and speeding up ongoing development projects so as to fill the gap between our current and future inventory more quickly.

Comments on loan burden

As stated in our previous reports, our loan burden is not going to continue decreasing at the same pace as in the first quarter. In the second quarter the total loan burden decreased somewhat but net loans (loan balance less cash and cash equivalents) grew by 1 million euros to 15.2 million euros. Net loans increased because we took a loan to purchase a property at Paldiski mnt 70c in Tallinn in order to re-launch large-scale development operations. By the date of release of this report, we have initiated a detailed plan process for the property.

Over 80% of our loans are related to the Bulgarian development projects.

We expect an increase in the group's loan burden in the second half of the year because we are planning to expand our development operations concurrently with the sale of existing stocks but free cash flow from the sale of goods will not be sufficient for this.

Comments on human resources

In the second quarter the number of people working for the group did not change considerably compared with the end of 2012 and we are not planning to make any major changes to personnel or personnel expenses except for those resulting from shrinkage of operations at the Construction division and reinforcement of our marketing, financial management and information processing teams.

REVENUE AND PROFIT

	6 months 2013	6 months 2012	Q2 2013	Q2 2012
In millions of euros				
Revenue				
Service	1.3	1.3	0.7	0.7
Development	4.0	3.8	2.8	3.1
Construction	2.4	6.1	1.4	3.7
Eliminations	-0.1	-0.1	-0.1	-0.1
Total revenue	7.6	11.1	4.8	7.4
Operating profit/loss				
Service	0.1	0.1	0.0	0.1
Development	2.2	-0.4	1.9	0.2
Construction	0.1	0.2	0.0	-0.2
Unallocated income and expenses	-0.1	-0.7	0.0	-0.3
Eliminations	-0.3	0.2	-0.2	0.1
Total operating profit/loss	2.0	-0.6	1.7	-0.1
Finance income and costs (net)	-0.5	-0.7	-0.2	-0.3
Net profit/loss	1.5	-1.3	1.5	-0.4

CASH FLOWS

	6 months 2013	6 months 2012	Q2 2013	Q2 2012
In millions of euros				
Cash flows from operating activities	-0.4	-0.3	-0.5	0.9
Cash flows from investing activities	1.4	0.9	0.0	-0.2
Cash flows from financing activities	-2.0	-0.5	-0.1	-0.2
Net cash flow	-1.0	0.1	-0.6	0.5
Cash and cash equivalents at beginning of period	1.8	2.2	1.4	1.8
Cash and cash equivalents at end of period	0.8	2.4	0.8	2.3

At 30 June 2013, the largest current liabilities to be settled in the next 12 months comprised:

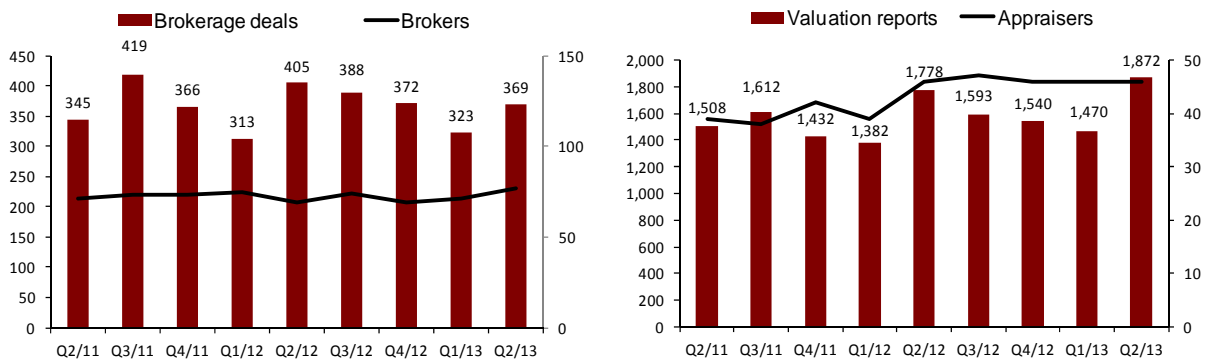
- repayments to be made under the settlement schedule of the loan of the Boulevard Residence Madrid project in Sofia of 0.9 million euros;
- repayments of the loan taken for the Manastirski project of 0.7 million euros;
- repayments of the loan taken for the Bišumuiža-1 project of 0.5 million euros.

In the first half of 2013, we made repayments under the loans taken for the Madrid and Manastirski projects in Sofia and repaid in full the loans taken by Pärnu Turg OÜ and Kolde AS.

In addition, Marsili II SIA made sales-linked loan repayments and we followed the settlement schedule agreed for the bank loan taken by Arco Real Estate AS.

SERVICE DIVISION

In 2013, the Service division’s semi-annual results were somewhat better than in the previous year. Operating profit for the first half of 2013 was 92 thousand euros compared with 59 thousand euros for the first half of 2012. Revenue amounted to 1,305 thousand euros compared with 1,291 thousand euros generated in the first half of 2012. The number of brokerage transactions decreased by 4% while the number of valuation reports issued grew by 6% year over year. The number of brokers increased by 12% and the number of appraisers remained stable.



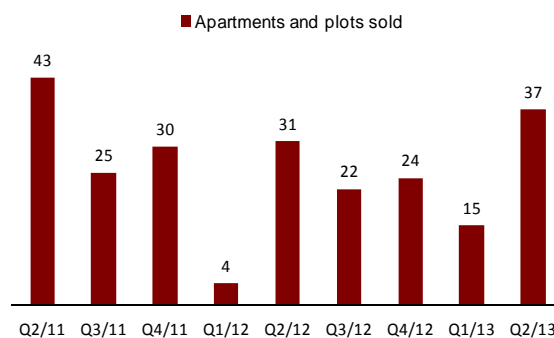
	6 months 2013	6 months 2012	Change, %
Number of completed brokerage transactions	692	718	-4%
Number of projects on sale at end of period	170	233	-27%
Number of valuation reports issued during the period	3,342	3,160	6%
Number of appraisers at end of period ¹	46	46	0%
Number of brokers at end of period ¹	77	69	12%
Number of staff at end of period	39	40	-3%

¹ Includes people working under service contracts

DEVELOPMENT DIVISION

In the second quarter of 2013, Arco Vara sold 35 apartments and 2 plots in its own development projects: 2 Baltezers plots and 1 Bišumuiža-1 apartment in Latvia, 4 Kodukolde apartments and 1 Kastanimaja apartment in Estonia and 23 Manastirski and 6 Residence Madrid apartments in Bulgaria.

Phase VI of the Kodukolde development project at Helme 16 in Tallinn, which consists of two apartment buildings with a total of 48 apartments, was completed in June 2012. The last apartment in the project was sold in June 2013.



The permit for the construction of a mixed-use residential/commercial building of energy class B called Kastanimaja (Chestnut House) at Tehnika 53 in Tallinn was obtained in January 2012. By the date of release of this report, construction work has been completed and the building has been issued a permit of use. Sales have been successful: to date 13 out of the 14 apartments have been sold (final sales under contracts on the transfer of real property rights).

In Bulgaria, we continue to sell phase I of the Manastirski project. To date, 95% of the 74 apartments have either been reserved or sold and we have started planning phase II of the Manastirski project. In the commercial/residential building Boulevard Residence Madrid in Sofia we continue to lease out commercial and office premises and to sell and rent out the remaining free apartments.

Although the third quarter of 2012 we suspended development and construction operations in the Bišumuiža-1 apartment buildings project in Latvia, in February 2013 we extended the construction permit to continue development of the project. By the date of release of this report, a building with 14 apartments and a sellable area of 1,149 square metres has been completed. 3 of the apartments have been reserved and 5 are covered with pre-sale contracts. The last building of the project, also with 14 apartments, is awaiting its turn. The outer shell has already been erected. All apartments in the project's previously completed 7 buildings have been sold.

On 11 April 2013 Kylemore International Invest Corp, a creditor of Tivoli Arendus OÜ, demanded settlement of debts and initiated enforcement proceedings for satisfying its claims through sale of real estate belonging to Tivoli Arendus OÜ. At the second auction held on 10 June 2013, the properties belonging to Tivoli Arendus OÜ were acquired for their opening price of 7.8 million euros by International Invest Project OÜ. Tivoli Arendus OÜ used the funds raised for settling its liabilities to Kylemore International Invest Corp. The sale of the properties and the release from the surety obligations also extinguished Arco Investeeringute AS's receivable from Tivoli Arendus OÜ (the receivable had already been written down to nil value). Tivoli Arendus OÜ is Arco Investeeringute AS's 50% joint venture with International Invest Project OÜ.

In order to recover a loan, Danske Bank A/S initiated enforcement proceedings against Arco HCE OÜ, which is a 50% joint venture of Arco Investeeringute AS. The object of the proceedings was to exercise a mortgage created for the benefit of Danske Bank A/S on a property located at Ahtri 3 in Tallinn. On 20 February 2013, the court suspended the enforcement proceedings against Arco HCE OÜ. Since Arco Investeeringute AS had provided a surety guarantee to Arco HCE OÜ's bank loan, the creditor Danske Bank A/S sent Arco Investeeringute AS a claim for paying out the full amount of the guarantee, i.e. 1.9 million euros. Arco Investeeringute AS contested the claim. In response, Danske Bank A/S filed a petition for declaring Arco Investeeringute AS bankrupt. Arco Investeeringute AS has contested the petition. Concurrently with the legal proceedings, Arco Vara AS is seeking alternative solutions for resolving the situation.

At the end of June 2013, the division employed 7 people (30 June 2012: 20).

For further information on our projects, please refer to: www.arcorealestate.com/development.

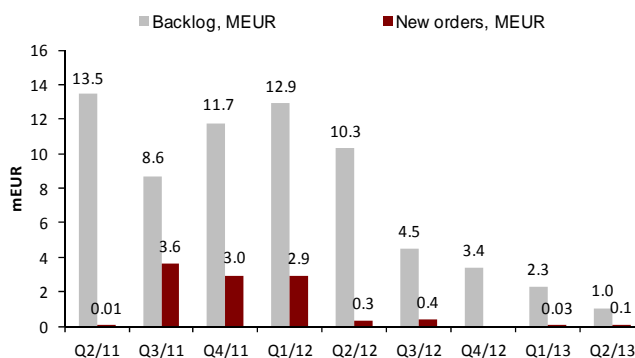
CONSTRUCTION DIVISION

The Construction division specialises in environmental engineering and the construction of infrastructure assets.

At the end of the second quarter of 2013, the largest projects in progress were the construction of the Paide wastewater treatment plant (remaining balance 0.7 million euros) and the construction of the Kuusalu public water and wastewater network (remaining balance 0.3 million euros).

In the second quarter of 2013, the group secured contracts of 93 thousand euros for additional work to be performed under its ongoing construction projects. At the end of the second quarter, the Construction division's order backlog stood at 1.0 million euros compared with 10.3 million euros at the end of the second quarter of 2012.

At 30 June 2013, the division employed 17 people (30 June 2012: 52 people).



SUMMARY TABLE OF ARCO VARA'S PROJECTS AS AT 30 JUNE 2013

Country	Passive m ²	In preparation m ²	Under construction m ²	In stock m ²	Cash flow m ²	TOTAL m ²
Estonia	504,488	60,900	0	70,678	0	636,066
inc building	0	41,700	0	1,048	0	42,748
inc land plot	504,488	19,200	0	69,630	0	593,318
Latvia	2,450	121,435	1,215	40,896	0	165,996
inc building	0	1,215	1,215	0	0	2,430
inc land plot	2,450	120,220	0	40,896	0	163,566
Lithuania	0	0	0	6,500	0	6,500
inc building	0	0	0	0	0	0
inc land plot	0	0	0	6,500	0	6,500
Bulgaria	6,881	12,611	0	4,047	7,349	30,888
inc building	6,881	12,611	0	4,047	7,349	30,888
inc land plot	0	0	0	0	0	0
ARCO VARA TOTAL	513,819	194,946	1,215	122,121	7,349	839,450

Note: The development and success of the group's development projects depend largely on external factors, particularly on the adoption of plans and the issue of construction permits by the local governments and the planning authorities. Expectations of the projects' realisation may also change over time in connection with changes in the market situation and the competitive environment. Management estimates the value of the projects portfolio on an ongoing basis and is prepared to sell any project or part of a project at any time, depending on the results of the cost-benefit analysis.

Passive – development projects that have not reached the preparation or construction phase.

In preparation – development projects in the phase of market research, marketing, detailed plan process or design work.

In the case of apartment development, the area presented is the gross above-ground building right.

Under construction – development projects for which financing has been obtained and which are under construction.

In stock – completed development projects, apartments or plots on sale.

Cash flow – completed development projects that generate regular cash flow.

PEOPLE

At the end of the second quarter of 2013, the group employed 76 people compared with 126 at the end of the second quarter of 2012. Employee remuneration expenses for the first six months of 2013 totalled 1.5 million euros compared with 1.8 million euros for the first half of 2012.

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 amounted to 121 thousand euros compared with 115 thousand euros for the first half of 2012.

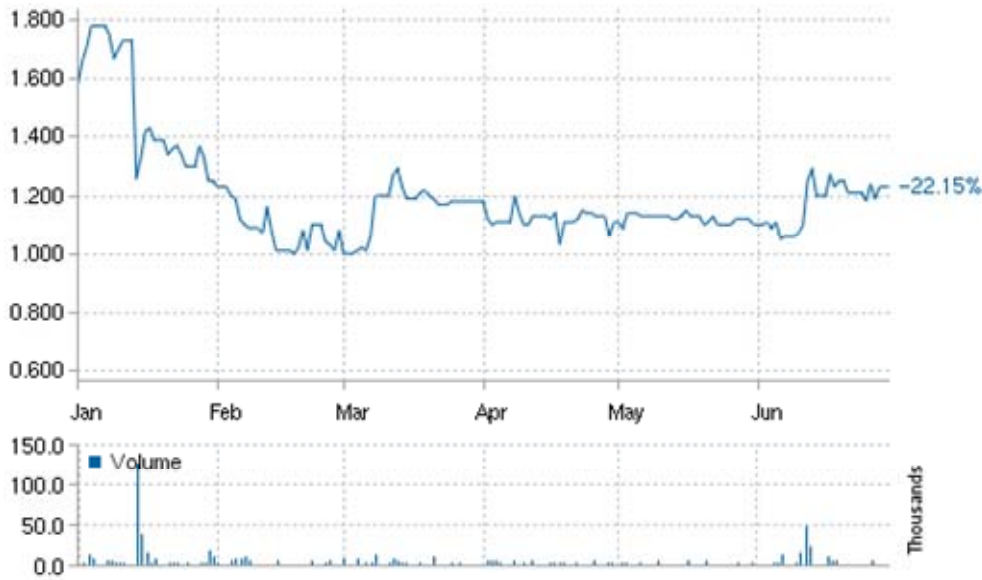
The management board of Arco Vara AS has one member. Since 22 October 2012, the member of the management board and chief executive of Arco Vara AS has been Tarmo Sild.

SHARE AND SHAREHOLDERS

Arco Vara AS has issued a total of 4,741,707 shares. At 30 June 2013, the company had 1,820 shareholders and the share price closed at 1.23 euros, a 22.15% decrease within six months.

The following charts reflect movements in the price and daily turnover of the Arco Vara share in the first half of 2013

In euros (EUR)



Changes in share price compared with the benchmark index OMX Tallinn in the first half of 2013



Index/equity	1 January 2013	30 June 2013	+/-%
—OMX Tallinn	734.20	812.73	+10.70
_ARC1T	EUR 1.58	EUR 1.23	-22.15

Major shareholders at 30 June 2013	Number of shares	Interest, %
OÜ HM INVESTEERINGUD	1,301,350	27.44%
OÜ TOLETUM	470,105	9.91%
OÜ BALTPLAST	450,000	9.49%
GAMMA HOLDING OÜ	310,000	6.54%
FIREBIRD REPUBLICS FUND LTD	309,542	6.53%
LHV PENSIONIFOND L	252,378	5.32%
Central Securities Depository of Lithuania	205,064	4.32%
FIREBIRD AVRORA FUND, LTD.	153,994	3.25%
FIREBIRD FUND L.P.	110,445	2.33%
Other	1,178,829	24.86%
Total	4,741,707	100.00%

Holdings of members of the management and supervisory boards at 30 June 2013	Position	Number of shares held	Interest, %
Tarmo Sild (Alarmo Kapital OÜ)	member of the management board	309,542	6.53%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	chairman of the supervisory board	459,507	9.69%
Toomas Tool (OÜ Baltplast)	member of the supervisory board	1,301,350	27.44%
Arvo Nõges (Gamma Holding OÜ)	member of the supervisory board	470,105	9.91%
Rain Lõhmus (Lõhmus Holdings AS, LHV pension funds M, L, XL)	member of the supervisory board	687,523	14.50%
Stephan David Balkin	member of the supervisory board	0	0%
Aivar Pilv	member of the supervisory board	0	0%
Total		3,228,027	68.08%

DESCRIPTION OF THE MAIN RISKS

Credit risk

Credit risk exposure is the greatest at the Construction division. Accordingly, counterparties' settlement behaviour is monitored on an ongoing basis.

Liquidity risk

The group's free funds are placed in overnight or short-term fixed-interest term deposits with the largest banks operating in Estonia. Owing to high refinancing risk, cash flow management is critical. The group's cash and cash equivalents balance is constantly smaller than the balance of loans that require refinancing in the next 12 months. At 30 June 2013, the weighted average duration of interest-bearing liabilities was 1.7 years, which means that on average all loans need to be refinanced within less than two years. At the end of the second quarter of 2013 the group's cash and cash equivalents totalled 0.7 million euros and term deposits with maturities extending from 3 to 12 months totalled 0.3 million euros. Out of the above balance 0.6 million euros was under the group's own control and the rest was in accounts with restricted withdrawal opportunities (mostly accounts of designated purpose where withdrawals require the banks' consent). Liquidity and refinancing risks continue to be the most significant risks for the group.

Interest rate risk

The base currency of most of the group's loan agreements is the euro and the base interest rate is 3 or 6 month EURIBOR. As a result, the group is exposed to developments in international capital markets. At the moment, the group does not use hedging instruments to mitigate its long-term interest rate risk.

In the first half of 2013, the group's interest-bearing liabilities decreased by 2 million euros to 16.6 million euros at 30 June 2013. In the first half of 2013, interest payments on interest-bearing liabilities totalled 0.4 million euros. Compared with the first half of 2012, the weighted average interest rate decreased from 6.9% to 5.1%, mainly thanks to a decline in EURIBOR and a decrease in the interest rates negotiated on refinancing the bank loans of the group's Bulgarian development company.

Currency risk

Purchase and sales contracts are mostly signed in local currencies: euros (EUR), Latvian lats (LVL) and Bulgarian leva (BGN). The group is not protected against currency devaluations. Most liquid funds are held in short-term deposits denominated in euros.

The member of the management board/chief executive confirms that the directors' report of Arco Vara AS for the second quarter and six months ended 30 June 2013 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

16 August 2013

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	6 months 2013	6 months 2012	Q2 2013	Q2 2012
In thousands of euros					
Revenue from rendering of services		4,241	8,116	2,301	4,748
Revenue from sale of own real estate		3,421	2,961	2,539	2,701
Total revenue	3	7,662	11,077	4,840	7,449
Cost of sales	4	-5,799	-9,612	-3,718	-6,797
Gross profit		1,863	1,465	1,122	652
Other income		213	209	194	17
Marketing and distribution expenses	5	-126	-143	-61	-61
Administrative expenses	6	-966	-1,384	-476	-687
Other expenses		-54	-736	-36	-20
Gain on transactions involving subsidiaries and joint ventures	14	1,098	0	1,000	0
Operating profit/loss		2,028	-589	1,743	-99
Finance income	7	19	45	7	23
Finance costs	7	-500	-744	-242	-350
Profit/loss for the period		1,547	-1,288	1,508	-426
Profit/loss for the period attributable to		1,547	-1,288	1,508	-426
<i>Owners of the parent</i>		1,541	-1,294	1,503	-430
<i>Non-controlling interests</i>		6	6	5	4
Total comprehensive income/expense for the period attributable to		1,547	-1,288	1,508	-426
<i>Owners of the parent</i>		1,541	-1,294	1,503	-430
<i>Non-controlling interests</i>		6	6	5	4
Earnings per share (in euros)	8	0.32	-0.27	0.32	-0.09

Consolidated statement of financial position

	Note	30 June 2013	31 December 2012
In thousands of euros			
Cash and cash equivalents		739	1,775
Receivables and prepayments	9	2,874	3,094
Inventories	10	13,056	11,701
Total current assets		16,669	16,570
Investments in equity-accounted investees		1	1
Investment property	11	11,482	14,097
Property, plant and equipment		516	540
Intangible assets		19	21
Total non-current assets		12,018	14,659
TOTAL ASSETS		28,687	31,229
Loans and borrowings	12	3,173	16,838
Payables and deferred income	13	5,780	6,645
Provisions	14	2,084	3,084
Total current liabilities		11,037	26,567
Loans and borrowings	12	12,736	1,231
Payables and deferred income	13	0	64
Total non-current liabilities		12,736	1,295
TOTAL LIABILITIES		23,773	27,862
Share capital	8	3,319	3,319
Statutory capital reserve		2,011	2,011
Retained earnings		-417	-1,958
Total equity attributable to owners of the parent		4,913	3,372
Equity attributable to non-controlling interests		1	-5
Total equity		4,914	3,367
TOTAL LIABILITIES AND EQUITY		28,687	31,229

Consolidated statement of cash flows

Note	6 months 2013	6 months 2012	Q2 2013	Q2 2012
In thousands of euros				
Cash receipts from customers	7,900	14,020	4,502	7,629
Cash paid to suppliers	-6,341	-12,700	-3,929	-5,882
Taxes paid	-1,332	-1,022	-789	-493
Taxes recovered	135	341	82	106
Cash paid to employees	-634	-850	-340	-433
Other cash payments and receipts related to operating activities	-115	-77	-58	-53
NET CASH USED IN/FROM OPERATING ACTIVITIES	-387	-288	-532	874
Purchase of property, plant and equipment and intangible assets	-9	-19	-9	-7
Proceeds from sale of property, plant and equipment	6	6	4	6
Proceeds from sale of investment property	20	1 149	0	9
Proceeds from sale of a subsidiary	1,610	0	0	0
Loans provided	-8	-236	-8	-173
Repayment of loans provided	0	1		1
Placement of security deposits	-263	0	0	0
Interest received	4	6	0	3
Other payments related to investing activities	0	-29	0	0
NET CASH FROM/USED IN INVESTING ACTIVITIES	1,360	878	-13	-161
Proceeds from loans received	12 1,420	745	1,327	484
Settlement of loans and finance lease liabilities	12 -2,926	-484	-1,260	-319
Interest paid	-457	-738	-209	-345
Other payments related to financing activities	-9	-12	-7	-10
NET CASH USED IN FINANCING ACTIVITIES	-1,972	-489	-149	-190
NET CASH FLOW	-999	101	-694	523
Cash and cash equivalents at beginning of period	1,775	2,209	1,433	1,787
Decrease/increase in cash and cash equivalents	-999	101	-694	523
Decrease in cash and cash equivalents through sale of a subsidiary	-37	0	0	0
Cash and cash equivalents at end of period	739	2,310	739	2,310

Consolidated statement of changes in equity

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Share capital	Statutory capital reserve	Retained earnings	Total		
In thousands of euros						
Balance as at 31 December 2011	3,319	2,011	16,306	21,636	-447	21,189
Total comprehensive expense for the period	0	0	-1,294	-1,294	6	-1,288
Balance as at 30 June 2012	3,319	2,011	15,012	20,342	-441	19,901
Balance as at 31 December 2012	3,319	2,011	-1,958	3,372	-5	3,367
Total comprehensive income for the period	0	0	1,541	1,541	6	1,547
Balance as at 30 June 2013	3,319	2,011	-417	4,913	1	4,914

Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the second quarter and six months ended 30 June 2013 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the consolidated annual financial statements for the year ended 31 December 2012, 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.

From 2013 the group presents its statement of cash flows using the direct method whereby major classes of gross cash receipts and gross cash payments are disclosed. Until the end of 2012, cash flows from operating activities were reported using the indirect method.

2. Segment information

The group has the following reportable operating segments:

Development – development of residential and commercial real estate environments and long-term investment in real estate;

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

Construction – general and sub-contracting and construction supervision in the field of general construction and environmental engineering.

Revenue and operating profit by operating segment

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	6 months 2013	6 months 2012	6 months 2013	6 months 2012	6 months 2013	6 months 2012	6 months 2013	6 months 2012	6 months 2013	6 months 2012	6 months 2013	6 months 2012
In thousands of euros												
External revenue	4,014	3,822	1,212	1,136	2,435	6,118	1	1	0	0	7,662	11,077
Annual change	5%	-73%	7%	13%	-60%	-28%					-31%	-53%
Inter-segment revenues	10	13	93	155	0	0			-103	-168	0	0
Total revenue	4,024	3,835	1,305	1,291	2,435	6,118	1	1	-103	-168	7,662	11,077
Operating profit/loss	2,235	-374	92	59	58	239	-126	-663	-231	150	2,028	-589

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	Q2 2013	Q2 2012	Q2 2013	Q2 2012	Q2 2013	Q2 2012	Q2 2013	Q2 2012	Q2 2013	Q2 2012	Q2 2013	Q2 2012
In thousands of euros												
External revenue	2,811	3,057	681	635	1,347	3,756	1	1	0	0	4,840	7,449
Annual change	-8%	-25%	7%	14%	-64%	-33%					-35%	-27%
Inter-segment revenues	4	7	52	83	0	0			-56	-90	0	0
Total revenue	2,815	3,064	733	718	1,347	3,756	1	1	-56	-90	4,840	7,449
Operating profit/loss	1,856	229	46	64	34	-142	44	-324	-237	74	1,743	-99

Assets and liabilities by operating segment

Segment	Development		Service		Construction		Unallocated assets and liabilities		Consolidated	
	30 June 2013	31 Dec 2012	30 June 2013	31 Dec 2012	30 June 2013	31 Dec 2012	30 June 2013	31 Dec 2012	30 June 2013	31 Dec 2012
In thousands of euros										
Assets	25,540	27,605	511	486	2,278	2,310	358	828	28,687	31,229
Liabilities	20,487	23,382	585	623	2,631	2,746	70	1,111	23,773	27,862

3. Revenue

	6 months 2013	6 months 2012	Q2 2013	Q2 2012
In thousands of euros				
Sale of real estate	3,421	2,961	2,539	2,701
Construction services	2,427	6,215	1,345	3,752
Brokerage services	1,181	1,047	669	595
Rental services	524	709	240	326
Property management services	54	98	25	45
Other revenue	55	47	22	30
Total revenue	7,662	11,077	4,840	7,449

4. Cost of sales

	6 months 2013	6 months 2012	Q2 2013	Q2 2012
In thousands of euros				
Cost of real estate sold	-2,625	-2,657	-1,957	-2,421
Construction services purchased	-1,924	-5,465	-1,094	-3,567
Personnel expenses	-944	-1,022	-515	-552
Property management costs	-195	-303	-93	-171
Vehicle expenses	-65	-89	-32	-44
Depreciation, amortisation and impairment losses	-9	-10	-5	-5
Inventory write-down expenses	-3	0	-3	0
Other costs	-34	-66	-19	-37
Total cost of sales	-5,799	-9,612	-3,718	-6,797

5. Marketing and distribution expenses

	6 months 2013	6 months 2012	Q2 2013	Q2 2012
In thousands of euros				
Advertising expenses	-80	-76	-36	-42
Personnel expenses	-16	-19	-8	-8
Brokerage fees	-4	-19	-2	-1
Market research	-3	-3	-1	-1
Other marketing and distribution expenses	-23	-26	-14	-9
Total marketing and distribution expenses	-126	-143	-61	-61

6. Administrative expenses

	6 months 2013	6 months 2012	Q2 2013	Q2 2012
In thousands of euros				
Personnel expenses	-497	-803	-262	-394
Office expenses	-229	-278	-105	-141
Legal and consulting fees	-153	-157	-62	-93
Vehicle expenses	-22	-77	-10	-37
Depreciation, amortisation and impairment losses	-24	-33	-12	-15
Other expenses	-41	-36	-25	-7
Total administrative expenses	-966	-1,384	-476	-687

7. Finance income and costs

Finance income

	6 months 2013	6 months 2012	Q2 2013	Q2 2012
In thousands of euros				
Interest income	19	45	7	23
Total finance income	19	45	7	23

Finance costs

	6 months 2013	6 months 2012	Q2 2013	Q2 2012
In thousands of euros				
Interest expense	-429	-671	-204	-328
Foreign exchange loss	-3	-5	-1	-2
Other finance costs	-68	-68	-37	-20
Total finance costs	-500	-744	-242	-350

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.

	6 months 2013	6 months 2012	Q2 2013	Q2 2012
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707	4,741,707	4,741,707
Net profit/loss attributable to owners of the parent (in thousands of euros)	1,541	-1,294	1,503	-430
Earnings per share (in euros)	0.32	-0.27	0.32	-0.09

Diluted earnings per share are calculated by taking into account the effects of all dilutive potential ordinary shares. At the reporting date, the group did not have any dilutive potential ordinary shares. Therefore, diluted earnings per share equalled basic earnings per share.

9. Receivables and prepayments

	30 June 2013	31 December 2012
In thousands of euros		
Trade receivables		
Receivables from customers	2,496	2,214
Allowance for doubtful receivables	-463	-463
Total trade receivables	2,033	1,751

Other receivables		
Loans provided	32	580
Term deposits (with maturities from 3 to 12 months)	284	19
Miscellaneous receivables	219	202
Total other receivables	535	801
Accrued income		
Interest receivable	2	230
Due from customers under long-term construction contracts	61	0
Prepaid and recoverable taxes	127	112
Other accrued income	0	12
Total accrued income	190	354
Prepayments	116	188
Total receivables and prepayments	2,874	3,094

10. Inventories

	30 June 2013	31 December 2012
In thousands of euros		
Real estate purchased and being developed for resale	12,968	11,090
Materials and goods for sale	75	92
Prepayments for inventories	13	519
Total inventories	13,056	11,701

11. Investment property

In thousands of euros	
Balance at 31 December 2011	21,252
Reclassification from inventories	470
Sales	-4,072
Balance at 30 June 2012	17,650
Balance at 31 December 2012	14,097
Reclassification to inventories	-592
Sales	-2,023
Balance at 30 June 2013	11,482

In March 2013, Arco Investeeringute AS sold its subsidiary Pärnu Turg OÜ. The assets of Pärnu Turg OÜ included an investment property at Suur-Sepa 18 in Pärnu, where the “old” Pärnu market operates. At the date of sale, the carrying amount of the investment property was 2,000 thousand euros. The group’s gain on the sale of the subsidiary amounted to 98 thousand euros.

12. Loans and borrowings

	30 June 2013			31 December 2012		
	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	15,879	3,161	12,718	18,032	16,824	1,208
Finance lease liabilities	30	12	18	37	14	23
Total	15,909	3,173	12,736	18,069	16,838	1,231

In March 2013, the group's Bulgarian development company Arco Invest EOOD agreed with the bank amendments to its loan agreements according to which out of the total liability of 15,717 thousand euros 4,018 thousand euros was to be repaid in 2013 and 11,699 thousand euros in 2014-2015. In addition, as a result of the amendments, the interest rate of the loan was lowered by 1.5 percentage points.

In the first six months of 2013, the group settled loans and borrowings of 2,926 thousand euros (HY1 2012 : 484 thousand euros) through cash transactions and raised new loans and borrowings of 1,420 thousand euros (HY1 2012: 745 thousand euros).

In the first half-year, the group's loans and borrowings also decreased through non-cash transactions:

- by 447 thousand euros through the sale of Pärnu Turg OÜ (see also note 11);
- by 207 thousand euros that customers who purchased apartments paid directly to banks.

13. Payables and deferred income

Short-term payables and deferred income

	30 June 2013	31 December 2012
In thousands of euros		
Trade payables	2,175	2,050
Miscellaneous payables	627	739
Taxes payable		
Corporate income tax	196	220
Value added tax	143	291
Social security tax	74	61
Personal income tax	42	33
Other taxes	136	91
Total taxes payable	591	696
Accrued expenses		
Interest payable	64	91
Payables to employees	127	217
Other accrued expenses	1	29
Total accrued expenses	192	337
Deferred income		
Prepayments received in connection with sale of real estate	1,414	2,080
Due to customers under long-term construction contracts	769	742
Other deferred income	12	1
Total deferred income	2,195	2,823
Total short-term payables and deferred income	5,780	6,645

Long-term payables

	30 June 2013	31 December 2012
In thousands of euros		
Retentions and deposits received	0	64
Total long-term payables	0	64

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

Transactions with related parties

	6 months 2013	6 months 2012
In thousands of euros		
Joint ventures and associate		
Services sold	1	2
Loans provided	8	235
Other related parties		
Services sold	0	95
Services purchased	19	203
Settlement of other liabilities	0	309
Repayment of loans provided	0	52
Prepayments made	0	62
Loans received	0	130
Repayment of loans received	0	6

Balances with related parties

	30 June 2013	31 December 2012
In thousands of euros		
Joint ventures and associate		
Trade receivables	1	0
Loans provided	14	6
Companies with a significant ownership interest in the group's parent company		
Trade receivables ¹	0	4
Other short-term receivables ¹	0	376
Short-term interest receivables ¹	0	136
Other related parties		
Short-term loan receivables ¹	0	175
Short-term interest receivables ¹	0	93
Other short-term receivables ¹	0	7
Trade payables	0	3

¹ In June 2013, the group's receivables from companies controlled by the members of the supervisory board of Arco Vara AS of 804 thousand euros in aggregate were offset against part of the cost of a property acquired by the group at Paldiski mnt 70c in Tallinn.

At 30 June 2013, receivables from joint ventures that had been written down totalled 196 thousand euros.

In June 2013, the group waived its right to receivables of 2,967 thousand euros due from its joint venture Tivoli Arendus OÜ that had already been written down. The receivables were waived in a transaction where the group's partner in the Tivoli project purchased the properties belonging to Tivoli Arendus OÜ at a public auction. Through the transaction, Arco Vara AS disposed of the surety guarantee it had provided to the loan commitments of Tivoli Arendus OÜ and, thus, the group could reverse a provision of 1,000 thousand euros that had been recognised in 2012.

In the first six months of 2013, 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 121 thousand euros (HY1 2012: 115 thousand euros). The remuneration provided to the chief executive/member of the management board is based on his service contract. The remuneration provided to the members of the supervisory board is based on the resolution of the general meeting of Arco Vara AS adopted in 2009. The group's key management personnel was not provided or paid any other remuneration or benefits (bonuses, termination benefits, etc) in the first half of 2013.

15. Contingent assets and liabilities

Available credit line

Group company T53 Maja OÜ has a credit line that was made available to it by Swedbank in connection with the construction of a residential/commercial building at Tehnika 53 in Tallinn. The credit line was made available on 16 August 2012 and has a limit of 730 thousand euros. At 30 June 2013, the credit line liability was 532 thousand euros.

Claims and statements of claim related to Arco Ehitus OÜ

At 30 June 2013, Arco Ehitus OÜ was a respondent to six statements of claim of 1,893 thousand euros in aggregate. According to the group's assessment, the statements of claim are largely baseless and their realisation probability is remote. At the same time, Arco Ehitus OÜ has claims in four different bankruptcy proceedings of 847 thousand euros in aggregate and it has filed two statements of claim of 1,043 thousand euros in aggregate.

Bank guarantees for construction activities

Group entities' obligations under construction contracts are secured with various guarantees and surety bonds. Banks have issued the letters of guarantee required by customers against mortgages. The guarantees expire within up to three years. The group considers the probability of the realisation of the guarantees and surety bonds remote. Therefore, relevant provisions have not been recognised in the statement of financial position. At 30 June 2013, bank guarantees provided to customers totalled 905 thousand euros (31 December 2012: 1,434 thousand euros).

16. Subsequent events

On 1 July 2013, the annual general meeting of Arco Vara AS resolved to approve Arco Vara AS's annual report for 2012, to transfer the net loss for the year ended to retained earnings, to increase the share capital of Arco Vara AS conditionally by issuing one convertible bond, to change the procedure for the remuneration of the members of the supervisory board and to appoint AS PricewaterhouseCoopers as the company's auditor for 2013.

On 5 August 2013, an extraordinary general meeting of the shareholders of Arco Vara AS elected Allar Niinepuu as a new member of the supervisory board of Arco Vara AS.

Statement by the chief executive/member of the management board

The chief executive/member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the second quarter and six months ended 30 June 2013 as set out on pages 15-29.

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

16 August 2013