

**INTERIM REPORT FOR THE  
SECOND QUARTER AND SIX MONTHS  
ENDED 30 JUNE 2014  
(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](http://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)

Financial year: 1 January 2014 – 31 December 2014

Reporting period: 1 January 2014 – 30 June 2014

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

## CONTENTS

<b>DIRECTORS' REPORT</b> .....	<b>3</b>
<b>GROUP CHIEF EXECUTIVE'S REVIEW</b> .....	<b>7</b>
<b>CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS</b> .....	<b>15</b>
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b> .....	<b>15</b>
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b> .....	<b>16</b>
<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b> .....	<b>17</b>
<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b> .....	<b>18</b>
<b>NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS</b> .....	<b>19</b>
1. SIGNIFICANT ACCOUNTING POLICIES .....	19
2. SEGMENT INFORMATION .....	19
3. REVENUE .....	20
4. COST OF SALES.....	20
5. MARKETING AND DISTRIBUTION EXPENSES .....	20
6. ADMINISTRATIVE EXPENSES .....	21
7. FINANCE INCOME AND COSTS .....	21
8. EARNINGS PER SHARE .....	21
9. RECEIVABLES AND PREPAYMENTS .....	21
10. INVENTORIES .....	22
11. INVESTMENT PROPERTY.....	22
12. LOANS AND BORROWINGS.....	23
13. PAYABLES AND DEFERRED INCOME.....	23
14. SALE OF A SUBSIDIARY .....	23
15. RELATED PARTY DISCLOSURES .....	24
16. EVENTS AFTER THE REPORTING DATE.....	26
<b>STATEMENT BY THE CHIEF EXECUTIVE/MEMBER OF THE MANAGEMENT BOARD</b> .....	<b>27</b>

## Directors' report

### ARCO VARA GROUP

Arco Vara AS (hereafter also 'the parent company' or 'the Company') and other entities of Arco Vara group (hereafter together 'the group') are engaged in real estate development and services related to real estate. Until the end of year 2013, the group's three business lines – services, development and construction had been organised into corresponding divisions. Since year 2014, the group has two continuing business lines: Service division and Development division. The group has no plans on independent construction activities in next few years.

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 to make 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.

The Construction division provided general construction and environmental engineering services, operating as a general contractor and construction manager as well as a subcontractor. In 2013, the provision of construction services was finished and in February 2014, the group sold its construction company Arco Ehitus OÜ. Arco Vara is still responsible for completing possible warranty works, together with Arco Ehitus.

As at 30 June 2014, the group comprised 21 companies (31 December 2013: 23). At 30 June 2014, the group had interests in one joint venture (31 December 2013: 1) and one associate (31 December 2013: 1).

The group regards Estonia, Latvia and Bulgaria as its home markets.

### 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

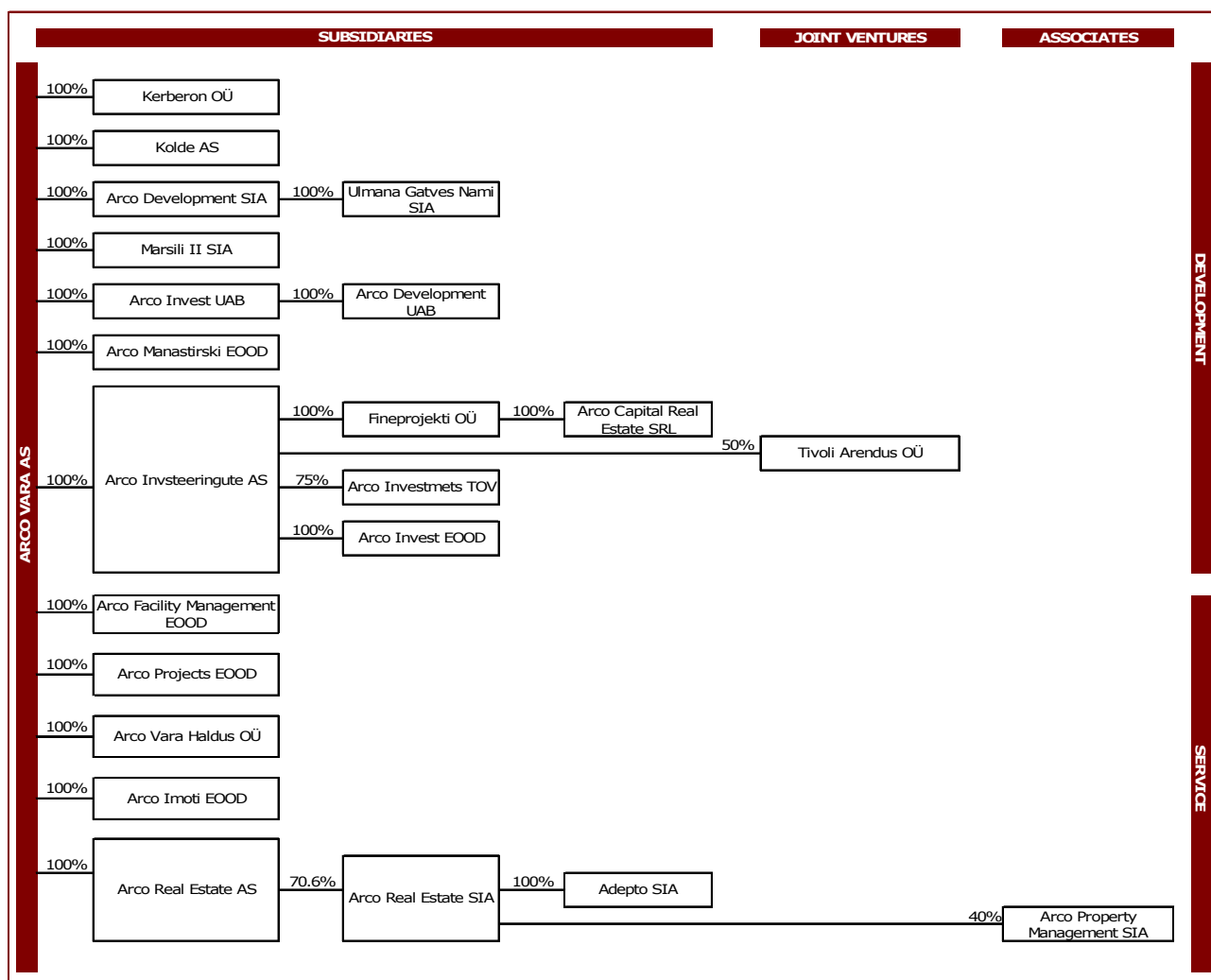
Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

## GROUP STRUCTURE

As at 30 June 2014



## CHANGES IN GROUP STRUCTURE DURING 6 MONTHS 2014

**On 14 February 2014**, Arco Vara AS divested its 100% share in Arco Ehitus OÜ to the company Stratcorp OÜ. The sale price of the share included two parts:

- 1) 10 thousand euros paid on transfer of the share;
- 2) 30% out of the amount, that Arco Ehitus OÜ will gain from actions brought by Arco Ehitus OÜ through Ministry of Education and Research and OÜ Loksa Haljastus. Income tax is deducted from proceeds.

The group's gain on the transaction amounted to 652 thousand euros not considering the impact of sale price. As a result of the divestment, the group's liabilities decreased by 1,020 thousand euros and its assets declined by 368 thousand euros.

**On 19 March 2014**, the chairman of the management board of Arco Real Estate SIA realised his option to gain additional ownership share in the company. As a result, the group's ownership interest in Arco Real Estate SIA declined from 78.5% to 70.6% and non-controlling interest in the group's equity increased by 5 thousand euros.

**On 24 April 2014**, Arco Real Estate AS divested its 100% share in Bulgarian subsidiary Arco Imoti EOOD to the group's parent company Arco Vara AS.

**On 25 April 2014**, Arco Investeeringute AS divested its 100% share in Bulgarian subsidiary Arco Projects EOOD to the group's parent company Arco Vara AS.

**On 25 April 2014**, Arco Invest EOOD divested its 100% share in Bulgarian subsidiary Arco Projects EOOD to the group's parent company Arco Vara AS.

**In May 2014**, the group's management adopted a decision to start liquidation of the group's subsidiary Fineprojekti OÜ.

## KEY PERFORMANCE INDICATORS

- In 6 months 2014, revenue from continuing operations was 2.2 million euros, which was 3 million euros lower compared to the same period of previous year. Revenue of Service division increased by 19% and revenue of Development division declined by 80%. In Q2 2014, total revenue was 1.1 million euros (in Q2 2013: 3.5 million euros). Decline of revenue in Q2 was also related to Development division, where decrease of revenue amounted to 2.4 million euros compared to the same period of previous year. The main reason for revenue decrease is because the group's development projects are in such stage, where revenue is not accrued yet. Increase of revenue from Development division is expected in second half of 2014.
- Operating loss for Q2 2014 from continuing operations was 0.1 million euros, compared to the operating profit of 1.7 million euros in the same period of previous year. The group's net loss amounted to 0.4 million euros in Q2 2014. In Q2 2013, the net profit was 1.5 million euros. In 6 months 2014, the group's operating profit amounted to 0.5 million euros and net profit of 0.03 million euros. In previous year the corresponding profit figures were 2.0 million euros and 1.5 million euros. Profit figures are worse mainly due to the temporary drop in revenue from development division and non-recurrent events (sale of subsidiaries in Q1 2013 and Q1 2014, also reversal of provisions in Q2 2013)
- Equity to assets ratio has decreased slightly compared to the year end 2013. As at 30 June 2014, it was 26% (31 December 2013: 27.2%). The reason is increase of the group's assets during construction activities, which have been financed by loan capital.
- The group net loans have increased by 2.2 million euros in 6 months 2014 due to financing development activities through bank loans. As at 30 June 2014, the average annual interest rate of loans is 5.9%, a decrease by 0.1 percentage point since the end of year 2013.
- During first 6 months 2014, were sold 3 apartments in projects developed in the group (in 6 months 2013 was sold 35 apartments and 2 plots), that includes one apartment in Q2 2014 (21 apartments and one plot in Q2 2013).

	6 months 2014	6 months 2013	Q2 2014	Q2 2013
In millions of euros				
Revenue from continuing operations	2.2	5.2	1.1	3.5
Operating profit/loss from continuing operations	0.5	2.0	-0.1	1.7
<b>Net profit/loss from continuing operations</b>	<b>0.0</b>	<b>1.5</b>	<b>-0.4</b>	<b>1.5</b>
Net profit/loss from discontinued operations	0.0	0.1	0.0	0.0
<b>Net profit/loss for the period</b>	<b>0.0</b>	<b>1.5</b>	<b>-0.4</b>	<b>1.5</b>
<b>EPS (in euros)</b>	<b>0.00</b>	<b>0.32</b>	<b>-0.08</b>	<b>0.32</b>
<b>ROIC (rolling, four quarters)</b>	<b>8.5%</b>	<b>neg</b>		
<b>ROE (rolling, four quarters)</b>	<b>29.0%</b>	<b>neg</b>		
<b>ROA (rolling, four quarters)</b>	<b>7.4%</b>	<b>neg</b>		

	30 June 2014	31 December 2013
In millions of euros		
<b>Total assets at period-end</b>	<b>26.4</b>	<b>25.2</b>
<b>Invested capital at period-end</b>	<b>23.8</b>	<b>21.7</b>
<b>Net loans at period-end</b>	<b>16.3</b>	<b>14.1</b>
<b>Equity at period-end</b>	<b>6.9</b>	<b>6.9</b>
<b>Average loan term (in years, at period-end)</b>	<b>2.7</b>	<b>0.3</b>
<b>Average interest rate of loans (per year, at period-end)</b>	<b>5.9%</b>	<b>6.0%</b>
<b>Number of staff at period-end</b>	<b>186</b>	<b>178</b>

### FORMULAS USED

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

**CONTINUING OPERATIONS*****Statement of comprehensive income***

	6 months 2014	6 months 2013	Q2 2014	Q2 2013
In millions of euros				
<b>Revenue</b>				
Development	0.8	4.0	0.4	2.8
Service	1.6	1.4	0.8	0.8
Eliminations	-0.2	-0.2	-0.1	-0.1
<b>Total revenue</b>	<b>2.2</b>	<b>5.2</b>	<b>1.1</b>	<b>3.5</b>
<b>Operating profit</b>				
Development	0.1	2.2	0.0	1.9
Service	0.1	0.1	0.1	0.0
Eliminations	0.4	-0.1	-0.1	0.0
Unallocated items	-0.1	-0.2	-0.1	-0.2
<b>Total operating profit</b>	<b>0.5</b>	<b>2.0</b>	<b>-0.1</b>	<b>1.7</b>
Finance income and expenses, net	-0.5	-0.5	-0.3	-0.2
<b>Net profit</b>	<b>0.0</b>	<b>1.5</b>	<b>-0.4</b>	<b>1.5</b>

***Cash flows***

	6 months 2014	6 months 2013	Q2 2014	Q2 2013
In millions of euros				
Cash flows from/used in operating activities	-1.9	-0.4	-0.8	-0.5
Cash flows from/used in investing activities	0.1	1.4	0.1	0.0
Cash flows from/used in financing activities	1.6	-2.0	0.5	-0.1
<b>Net cash flows</b>	<b>-0.2</b>	<b>-1.0</b>	<b>-0.2</b>	<b>-0.6</b>
Cash and cash equivalents at beginning of period	0.8	1.8	0.8	1.4
Cash and cash equivalents at end of period	0.6	0.8	0.6	0.8

## Group Chief Executive's review

### Introduction

The sales result and net loss of Q2 2014 meet the expectations of the group's management. The majority of sales revenue, over 85%, came from sale of services and income from rent. The sale of development products is becoming more active and the development division will start turning a profit again in the third quarter due to completing the construction of apartments in the Bisumuisa project in Riga and delivering the apartments sold in advance, and will speed up in the fourth quarter due to completing the second stage of Manastirski in Sofia and starting to deliver apartments to buyers.

### The service division and developments in real estate markets

The service division has positive cash flow and is profitable, consisting of three companies primarily involved in mediating and assessing real estate in Estonia, Latvia and Bulgaria (Arco Real Estate AS, Arco Real Estate SIA, Arco Imoti EOOD), two companies involved in real estate management in Estonia and Bulgaria (Arco Vara Haldus OÜ and Arco Facility Management EOOD) and a company involved in managing rental apartments at Madrid Blvd (Arco Projects EOOD). The service division does not include Arco Invest EOOD, the owner of the Madrid Blvd building. The operating volume and profit of the service division as a whole remained stable compared both to the same period of the previous quarter and the previous year. The sale of mediating branches in Latvia and Bulgaria increased, the sale of the Estonian branch decreased.

Based on transaction information received from various branches of the service division, the following trends concerning residential space in big cities can be generalized:

In Sofia, the demand for cheaper real estate suitable for investment has increased this year as replacement for bank deposits due to the recent instability of two savings banks of Bulgaria. The number of transactions on the market has increased by 20% in the second quarter compared to the first quarter, and this fluctuation cannot be explained with other short- or long-term factors. The increase of transaction activity has notably increased the income of the Bulgarian mediation branch. In Sofia, a total of 5,617 real estate transactions were made in the second quarter, approximately over 75% of which are transactions with residential space.

The activity of the market in Riga remains unchanged. A total of 2,714 real estate transactions were made in the first quarter and 2,713 transactions in the second quarter, approximately over 75% of which are transactions with residential space. The demand is stimulated by the increased concentration of the population and by slight economic growth, but is hindered by the low willingness of banks to finance purchase transactions, relatively low purchasing power, and the stricter requirements to investments by citizens of the CIS in regards to obtaining real estate with a residential permit adopted in second quarter. Compared to Tallinn, transactions made with new real estate have a relatively large proportion, exceeding 12%.

In Tallinn, the supply of developers has increased the demand in price levels of the start of 2014. A total of 2,810 transactions were made in the first quarter, whereas 2,673 transactions were made in the second quarter. The factors promoting the continued increase of supply (number of construction permits issued, number of new developments started and amount of unsold supplies) are a majority compared to factors supporting the increase of demand. Also, we do not foresee the alleviation of the financing conditions of banks or the increase of income of the consumers. This explains the decrease of transaction activity of the real estate market of the second quarter, including residential spaces. The group predicts an adjustment of prices. In the same time, the prices of the quality real estate property in very good location may continue to rise. The pressure of consumers to increase the quality of offered products as well as the increase of volume on the rental market as the continuation of this trend. The above trends also affect the decisions of the development division of the group in selecting future projects.

### The Development division

The construction works of second stage of Manastirski in Sofia (blocks AB) went according to plan. The speed of advance sales exceeds our expectations: by the end of the 2nd quarter, over 55% of total volume to be sold are covered with contracts for advance sale. Put briefly, the advance sales have now ensured sales revenue for the group which is sufficient for completely repaying the obligations taken or to be taken to finance Manastirski AB. The revenue from apartments sold in the future – approximately 45% of the project volume – is cash flow for the group. The goal is to sell out all products of Manastirski AB by the end of 2015 at the latest.

The building of Madrid Blvd in Sofia continues to earn income from rent for the group, forming over 22% of the group's revenue of the first half of the year 2014. If the equity capital is successfully increased, the plan is to decrease the loan liability of the building by 1.2 million euros and thereby achieve the extension of the term for repaying the remaining principal amount of loan until December 2017 and the continued earning of rental income.

In Riga, the more extensive construction works of apartments at Bisumuisa ended in the second quarter, the authorisations for use of apartments and delivery of apartments sold in advance to clients must take place in third quarter. By the time of publishing the intermediate report, 6 apartments remain without a contract for advance sale. The goal is to sell all products of the project by the end of 2015 at the latest.

In Tallinn, the proceedings for the detailed plan of the project at Paldiski mnt 70c continued, the goal is to have the plan enter into force during 2014. The plan has been approved by Tallinn city government. The detailed plans of Liimi 1b and

Lehiku tee 21-23 are also developing, the group hopes to get these plans entered into force by the end of 2015 at the latest.

The group concluded a contract for designing a product with approx. 30 apartments in Harku, Instituudi tee 7,9. Construction and advance sales are predicted to begin in the third quarter of 2015.

The activity volumes and profit of the development division largely depend on increasing the equity capital of the group, which will take place in August this year. The involved funds will be necessary to extend the loan contract of the building at Madrid Blvd and to continue earning income from rent, as well as to invest equity capital necessary for developing Paldiski mnt 70c in Estonia.

### Summary

The year has continued according to plan. The first quarter was profitable thanks to the sale of Arco Ehitus, the second quarter generated a loss of 0.4 million euros as predicted. The volumes of the service division are increasing and profitable, but insufficient to cover the lack of sales revenue from development products in the first and second quarter and the group's overhead costs. Sales revenue from the development will only be generated in the third quarter and will exceed the level required for overall profit of the company in the fourth quarter. The management board is not changing the supply prediction of 9 million euros and profit prediction of 0.5 million euros for the year 2014. The management board finds the most important goal for the third quarter to be the successful increase of the equity capital and involving 3.5 million euros for the group in this way.



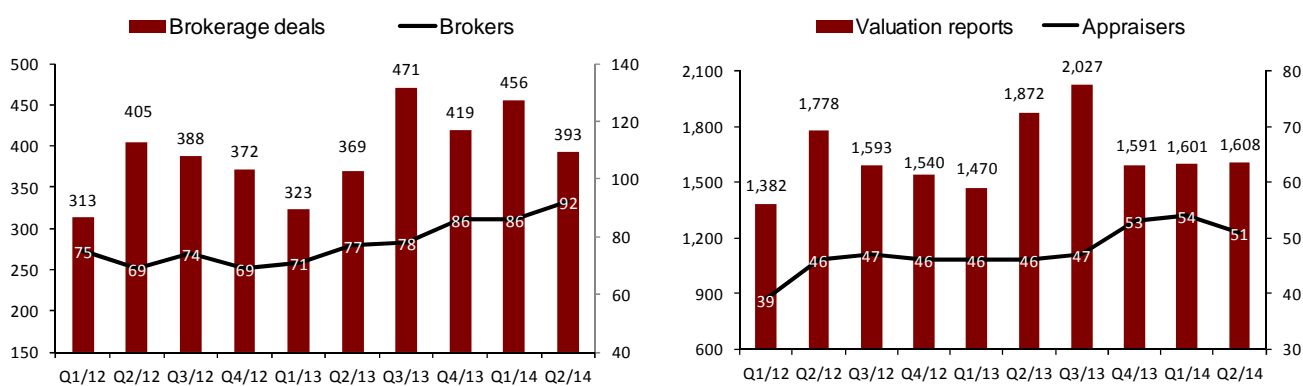
## SERVICE DIVISION

In Q2 2014, revenue of service division was 765 thousand euros, that included intra-group revenue of 101 thousand euros (Q2 2013: 760 thousand and 75 thousand euros, respectively). In 6 months, revenue is increased by 19% compared to the same period of previous year and amounted to 1,610 thousand euros (includes intra-group revenue of 228 thousand euros). Sales growth came primarily from Latvia and Bulgaria, there 6 months revenue from main activities of real estate agencies, brokerage and valuation of real estate, increased by 23% and 90%, respectively. 6 months revenue of Estonian real estate agency is decreased by 5% compared to the same period of previous year. If we compare second quarters of 2013 and 2014, then the decline is even 21%.

### Revenue of real estate agencies from brokerage activities

	6m 2014	6m 2013	change	Q2 2014	Q2 2013	change
In thousands of euros						
Estonia	634	667	-5%	300	382	-21%
Latvia	567	460	23%	274	257	7%
Bulgaria	264	139	90%	118	76	55%
<b>Total</b>	<b>1,465</b>	<b>1,266</b>	<b>16%</b>	<b>692</b>	<b>715</b>	<b>-3%</b>

The revenue growth of Latvian and Bulgarian agencies was caused both by general increased activity on the market and strongly seizing the market by increasing the number of employees. In Latvia, the growth is actually slowed down in second quarter. The reason behind the decline in revenue of Estonian real estate agency is rapid price rise in real estate market during last two years, and this has led to the decline in the number of transactions during last few months.



All three real estate agencies ended up 6 months 2014 with a net profit: Estonian agency's net profit was 14 thousand euros (6 months 2013: 77 thousand euros), Latvian agency's net profit was 26 thousand euros (6 months 2013: 30 thousand euros) and Bulgarian agency's net profit was 67 thousand euros (6 months 2013: 10 thousand euros).

In addition to brokerage and valuation services, the service division also provides real estate management service in Estonia and Bulgaria, as well as accommodation service in Bulgaria. Separate real estate management company Arco Vara Haldus OÜ started its activities in Estonia since the beginning of year 2014. The revenue from real estate management was 90 thousand euros in 6 months 2014, but only 27 thousand of which was external revenue (6 months 2013: 65 thousand and 16 thousand, respectively). Revenue from accommodation services amounted to 35 thousand euros in 6 months 2014. In the first half of 2013, the accommodation services were not provided yet.

The number of staff in service division has been increased to 172 employees as at 30 June 2014, growing by 11 people during 6 months.

## DEVELOPMENT DIVISION

In Q2 2014, revenue of Development division totalled 405 thousand euros (Q2 2013: 2,805 thousand euros) and 802 thousand euros in 6 months (4,016 thousand euros in 6 months 2013). The decrease of Development division revenue was due to the dropped sale of properties developed in-group. In Q2 2014, was sold only one apartment in Bisumuisa-1 project and revenue from sale of real estate properties was 135 thousand euros. Comparable results of Q2 2013 were 21 sold apartments and 1 plot with corresponding revenue of 2,540 thousand euros. Operating profit of Development division was 64 thousand euros in 6 months 2014 (6 months 2013: 2,259 thousand euros). The decrease of operating profit is caused by significantly dropped revenue. In Q2 2013, had been gained also from reversal of provision in amount of 1,000 thousand euros.

Most of other revenue of Development division consisted of rental income from commercial and office space of Madrid Blvd building in Sofia in amount of 484 thousand euros in 6 months 2014 (6 months 2013: 474 thousand euros).

In Q2 2014, was continued construction on II stage of Manastriksi Livadi project. At the same time with the start of construction, in November 2013, was started presale of apartments. And it is turned out to be successful, because more than 55% of apartments are already covered with pre-agreements.

At the end of Q2 2014, were practically finished with the works for finalizing construction of the last 14-apartment building (GSA of 960 m<sup>2</sup>) in Bisumuiza-1 project in Latvia. The authorisations for use of apartments and delivery of apartments sold in advance to clients must take place in third quarter. At the date of publication of interim report, 9 apartments out of 14 were covered with pre-agreements. The last apartment of previous stage in the same project are unsold yet, with selleable area of 105 m<sup>2</sup>.

As at the end Q2 2014, 2 apartments and 31 parking spaces have not been sold in the apartment building of Manastirski Livadi C-block (also named as Manastirski I stage) in Bulgaria. Madrid complex contains 34 unsold apartments and 120 parking spaces. 11 apartments and all parking spaces, out of all unsold Madrid properties, are rented out.

In February 2014, the group acquired as an additon to the land bank, two land plots with building right for 2 apartment buildings (30 apartments with estimated GSA of 2,100 m<sup>2</sup>) near Tallinn, at Instituudi tee 7 and 9 in Harku.

In Bulgaria, the group has a land bank in the form of Manastirski Livadi D-block (also named as Manastirski III stage), which enables to build an apartment building with approximately 70 apartments (GSA of 6,600 m<sup>2</sup>). The group's long-term goal is to create a land bank for all three countries which enables the development of at least 1,000 apartments. At present, the group has a land bank suitable for constructing about 500 apartments.

As at 30 June 2014, 5 people were employed in the development division.

Find out more about the projects at: [www.arcorealestate.com/arendus](http://www.arcorealestate.com/arendus).

## SUMMARY TABLE OF ARCO VARA'S PROJECTS AS AT 30 JUNE 2014

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	S4/S5	4,445	12,500	145
Manastirski C	Manastirski, Sofia	Apartments	S5	-	204	2
Manastirski D	Manastirski, Sofia	Apartments	S3	2,223	6,600	78
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	16
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	3,800	34
Bisumuiza-1	Kometas 2, Riga	Apartments	S5	-	105	1
Bisumuiza-1	Kometas 4, Riga	Apartments	S4/S5	2,118	960	14
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	37,238	17
Marsili residential plots	Marsili, near Riga	Residential plots	S2	120,220	<120,220>	<68>
Instituudi 7, 9	Instituudi tee 7,9 Harku	Apartments	S3	5,003	2,100	30
PM 70C	Paldiski mnt 70C, Tallinn	Apartments	S2	28,498	<27500>	<345>
Lehiku carpet building	Lehiku 21,23 Tallinn	Apartments	S2	5,915	<1100>	<5>
Liimi	Liimi 1b, Tallinn	Lease: Office	S2	2,463	<6500>	<1>
Viimsiranna	Haabneeme, Viimsi vald	Office/Mix	S3	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: Landplot acquired
- S2: Building Rights Procedure
- S3: Design and Preparation Works
- S4: Construction
- S5: Marketing and Sale
- S6: Facility Management and/or Lease

## PEOPLE

As at 30 June 2014, the group employed 186 people compared with 178 at the end of 2013. Employee remuneration expenses for 6 months 2014 amounted to 1.2 million euros (in 6 months 2013: 1.2 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 for the first 6 months of 2014 amounted to 54 thousand euros compared with 121 thousand euros for 6 months 2013.

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

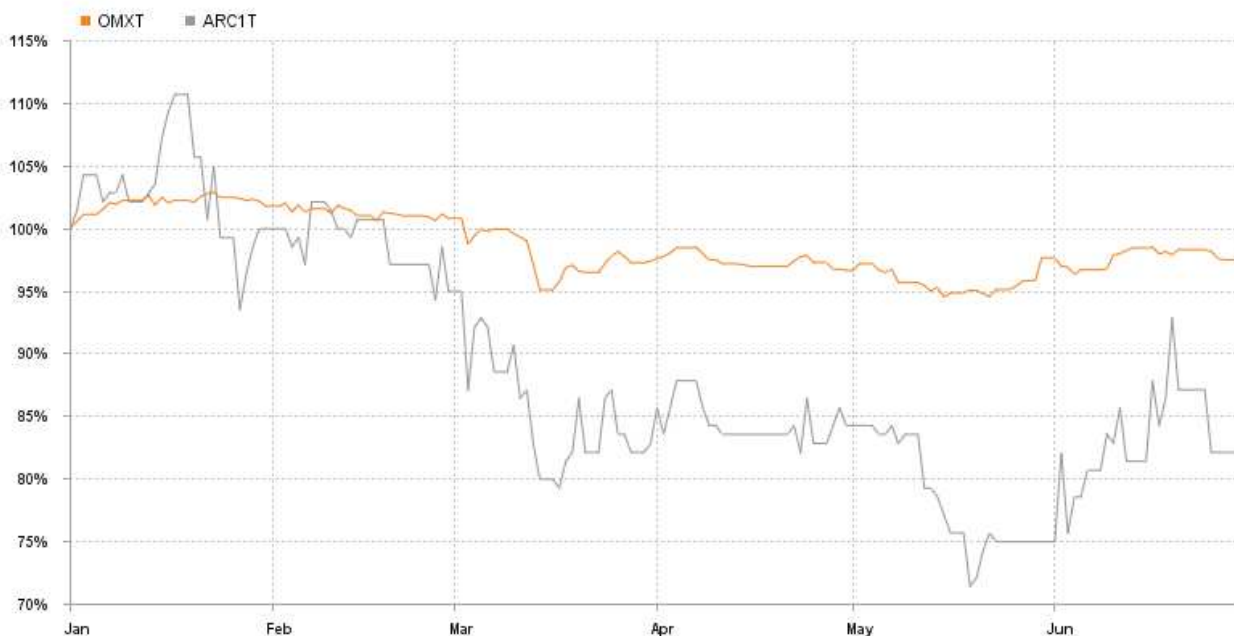
Arco Vara AS has issued a total of 4,741,707 shares. As at 30 June 2014, the company had 1,708 shareholders and the share price closed at 1.15 euros, a 17.86% decrease within six months.

The following charts reflect movements in the price and daily turnover of the Arco Vara share in the first 6 months of 2014

In euros (EUR)



Changes in share price compared with the benchmark index OMX Tallinn in first 6 months of 2014.



Indeks/equity	1 Jan 2014	30 June 2014	+/--%
— OMX Tallinn	817.72	802.26	-1.89

Indeks/equity	1 Jan 2014	30 June 2014	+/-%
—ARC1T	1.40 EUR	1.15 EUR	-17.86

Major shareholders at 30 June 2014	No of shares	Interest %
AS Baltplast	897,999	18.9%
Gamma Holding Investment OÜ	500,585	10.6%
HM Investeeringud OÜ	450,000	9.5%
Alarmo Kapital OÜ	374,188	7.9%
AS Lõhmus Holdings	312,378	6.6%
LHV PENSIONIFOND L	310,000	6.5%
OÜ Rimonne Baltic	255,500	5.4%
FIREBIRD REPUBLICS FUND LTD	205,064	4.3%
Central Securities Depository of Lithuania	147,419	3.1%
LHV PENSIONIFOND XL	110,445	2.3%
Other shareholders	1,178,129	24.8%
<b>Total</b>	<b>4,741,707</b>	<b>100.0%</b>

Holdings of members of the management and supervisory boards at 30 June 2014	Position	No of shares	Interest %
Toomas Tool (AS Baltplast)	member of supervisory board	897,999	18.9%
Arvo Nõges (Gamma Holding OÜ)	member of supervisory board	500,585	10.6%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	chairman of supervisory board	459,507	9.7%
Tarmo Sild ja Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	374,188	7.9%
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	312,378	6.6%
Stephan David Balkin	member of supervisory board	-	-
Aivar Pilv	member of supervisory board	-	-
<b>Total</b>		<b>2,544,657</b>	<b>53.7%</b>

## DESCRIPTION OF THE MAIN RISKS

### Liquidity risk

The group's free funds are placed on current accounts or short-term deposits with the banks operating in Estonia, Latvia and Bulgaria. 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 2014, the weighted average duration of interest-bearing liabilities was 2.7 years. At the end of Q2 2014, the group's cash and cash equivalents totalled 0.6 million euros and term deposits with maturities up to 2 years totalled 0.1 million euros. Out of the cash and cash equivalents balance 0.2 million euros 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 months 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 6 months 2014, the group's interest-bearing liabilities increased by 2 million euros and amounted to 16.9 million euros at 30 June 2014. In 6 months 2014, interest payments on interest-bearing liabilities totalled 0.4 million euros. The group's weighted average loan interest rate is 5.9%. This is a decrease by 0.1 percentage point in 6 months 2014.

### Currency risk

Purchase and sales contracts are mostly signed in local currencies: euros (EUR), and Bulgarian levs (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 short-term deposits denominated in euros. Devaluation risk decreased since the beginning of year 2014 because Republic of Latvia transferred to euro.

**The chief executive/member of the management board confirms that the directors' report of Arco Vara AS for the second quarter and six months ended 30 June 2014 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

7 August 2014

## Condensed consolidated interim financial statements

### Consolidated statement of comprehensive income

	Note	6 months 2014	6 months 2013	Q2 2014	Q2 2013
In thousands of euros					
<b>Continuing operations</b>					
Revenue from rendering of services		1,908	1,805	923	953
Revenue from sale of own real estate		263	3,422	135	2,540
<b>Total revenue</b>	2, 3	<b>2,171</b>	<b>5,227</b>	<b>1,058</b>	<b>3,493</b>
Cost of sales	4	-1,249	-3,597	-631	-2,493
<b>Gross profit</b>		<b>922</b>	<b>1,630</b>	<b>427</b>	<b>1,000</b>
Other income		19	185	3	171
Marketing and distribution expenses	5	-174	-126	-74	-62
Administrative expenses	6	-915	-792	-462	-379
Other expenses		-37	-25	-29	-14
Gain on transactions involving joint ventures		0	1,000	0	1,000
Gain on sale of subsidiaries	14	662	98	0	0
<b>Operating profit/loss</b>		<b>477</b>	<b>1,970</b>	<b>-135</b>	<b>1,716</b>
Finance income and costs	7	-435	-481	-228	-235
<b>Net profit/loss from continuing operations</b>		<b>42</b>	<b>1,489</b>	<b>-363</b>	<b>1,481</b>
<b>Discontinued operations</b>					
Profit/loss from discontinued operations	14	-13	58	0	27
<b>Net profit/loss for the period</b>		<b>29</b>	<b>1,547</b>	<b>-363</b>	<b>1,508</b>
<i>attributable to owners of the parent</i>		22	1,541	-365	1,503
<i>attributable to non-controlling interests</i>		7	6	2	5
<b>Total comprehensive income/expense for the period</b>		<b>29</b>	<b>1,547</b>	<b>-363</b>	<b>1,508</b>
<i>attributable to owners of the parent</i>		22	1,541	-365	1,503
<i>attributable to non-controlling interests</i>		7	6	2	5
<b>Earnings per share (in euros)</b>	8				
- basic		<b>0.00</b>	0.32	<b>-0.08</b>	0.32
- diluted		<b>0.00</b>	0.32	<b>-0.07</b>	0.32

## Consolidated statement of financial position

Note	30 June 2014	31 December 2013
In thousands of euros		
Cash and cash equivalents	640	818
Receivables and prepayments	9 583	656
Inventories	10 13,255	10,780
Assets belonging to sales group	14 0	847
<b>Total current assets</b>	<b>14,478</b>	<b>13,101</b>
Investments in equity-accounted investees	1	1
Receivables and prepayments	9 145	252
Investment property	11 11,336	11,331
Property, plant and equipment	455	459
Intangible assets	12	13
<b>Total non-current assets</b>	<b>11,949</b>	<b>12,056</b>
<b>TOTAL ASSETS</b>	<b>26,427</b>	<b>25,157</b>
Loans and borrowings	12 1,761	12,589
Payables and deferred income	13 2,390	1,746
Provisions	222	172
Liabilities belonging to sales group	14 0	1,488
<b>Total current liabilities</b>	<b>4,373</b>	<b>15,995</b>
Loans and borrowings	12 15,171	2,308
<b>Total non-current liabilities</b>	<b>15,171</b>	<b>2,308</b>
<b>TOTAL LIABILITIES</b>	<b>19,544</b>	<b>18,303</b>
Share capital	3,319	3,319
Statutory capital reserve	2,011	2,011
Other reserves	60	60
Retained earnings	1,469	1,452
<b>Total equity attributable to owners of the parent</b>	<b>6,859</b>	<b>6,842</b>
Equity attributable to non-controlling interests	24	12
<b>TOTAL EQUITY</b>	<b>6,883</b>	<b>6,854</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>26,427</b>	<b>25,157</b>



## Consolidated statement of cash flows

Note	6 months 2014	6 months 2013	Q2 2014	Q2 2013
In thousands of euros				
Cash receipts from customers	3,259	5,526	1,568	3,161
Cash paid to suppliers	-4,483	-4,197	-2,079	-2,812
Taxes paid	-536	-967	-251	-594
Taxes recovered	349	135	227	82
Cash paid to employees	-427	-428	-203	-229
Other cash payments and receipts related to operating activities	-46	-73	-32	-22
Net cash flow of discontinued operations	0	-379	0	
<b>NET CASH FROM/USED IN OPERATING ACTIVITIES</b>	<b>-1,884</b>	<b>-383</b>	<b>-770</b>	<b>-528</b>
Purchase of property, plant and equipment	-15	-9	-7	-9
Proceeds from sale of property, plant and equipment	0	2	0	0
Proceeds from sale of investment property	0	20	0	0
Proceeds from sale of a subsidiary	14	1,610	0	0
Loans provided	-3	-8	0	-8
Placement of security deposits	-327	-263	-69	0
Release of security deposits	452	0	189	0
Interest received	2	4	1	0
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>119</b>	<b>1,356</b>	<b>114</b>	<b>-17</b>
Proceeds from loans received	12	2,581	1,420	1,327
Settlement of loans and finance lease liabilities	12	-545	-2,926	-474
Interest paid	-426	-457	-212	-209
Other payments related to financing activities	-23	-9	-18	-7
<b>NET CASH FROM/USED IN FINANCING ACTIVITIES</b>	<b>1,587</b>	<b>-1,972</b>	<b>532</b>	<b>-149</b>
<b>NET CASH FLOW</b>	<b>-178</b>	<b>-999</b>	<b>-124</b>	<b>-694</b>
Cash and cash equivalents at beginning of period	818	1,775	764	1,433
<b>Decrease in cash and cash equivalents</b>	<b>-178</b>	<b>-999</b>	<b>-124</b>	<b>-694</b>
Decrease in cash and cash equivalents through sale of a subsidiary	0	-37	0	0
Cash and cash equivalents at end of period	640	739	640	739

## Consolidated statement of changes in equity

	Equity attributable to owners of the parent					Non-controlling interests	Total equity
	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands of euros							
<b>Balance as at 31 December 2012</b>	<b>3,319</b>	<b>2,011</b>	<b>0</b>	<b>-1,958</b>	<b>3,372</b>	<b>-5</b>	<b>3,367</b>
Total comprehensive income for the period	0	0	0	1,541	1,541	6	1,547
<b>Balance as at 30 June 2013</b>	<b>3,319</b>	<b>2,011</b>	<b>0</b>	<b>-417</b>	<b>4,913</b>	<b>1</b>	<b>4,914</b>
<b>Balance as at 31 December 2013</b>	<b>3,319</b>	<b>2,011</b>	<b>60</b>	<b>1,452</b>	<b>6,842</b>	<b>12</b>	<b>6,854</b>
Total comprehensive income for the period	0	0	0	22	22	7	29
Change in non-controlling interests	0	0	0	-5	-5	5	0
<b>Balance as at 30 June 2014</b>	<b>3,319</b>	<b>2,011</b>	<b>60</b>	<b>1,469</b>	<b>6,859</b>	<b>24</b>	<b>6,883</b>

## 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 2014 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 2013, 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 and long-term investment in real estate;

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

#### Revenue and operating profit by operating segment

Segment	Development		Service		Unallocated items		Eliminations		Consolidated	
	6m 2014	6m 2013	6m 2014	6m 2013	6m 2014	6m 2013	6m 2014	6m 2013	6m 2014	6m 2013
In thousands of euros										
External revenue	787	4,006	1,382	1,220	2	1			2,171	5,227
Annual change	-80%	5%	13%	7%					-58%	5%
Inter-segment revenues	15	10	228	137			-243	-147	0	0
<b>Total revenue</b>	<b>802</b>	<b>4,016</b>	<b>1,610</b>	<b>1,357</b>	<b>2</b>	<b>1</b>	<b>-243</b>	<b>-147</b>	<b>2,171</b>	<b>5,227</b>
<b>Operating profit/loss</b>	<b>64</b>	<b>2,259</b>	<b>132</b>	<b>68</b>	<b>359</b>	<b>-126</b>	<b>-78</b>	<b>-231</b>	<b>477</b>	<b>1,970</b>
<i>Of which gain on sale of subsidiaries</i>	0	98	0	0	662	0			662	98

Segment	Development		Service		Unallocated items		Eliminations		Consolidated	
	Q2 2014	Q2 2013	Q2 2014	Q2 2013	Q2 2014	Q2 2013	Q2 2014	Q2 2013	Q2 2014	Q2 2013
In thousands of euros										
External revenue	393	2,807	664	685	1	1			1,058	3,493
Annual change	-86%	-8%	-3%	8%					-70%	-5%
Inter-segment revenues	12	4	101	75			-113	-79	0	0
<b>Total revenue</b>	<b>405</b>	<b>2,811</b>	<b>765</b>	<b>760</b>	<b>1</b>	<b>1</b>	<b>-113</b>	<b>-79</b>	<b>1,058</b>	<b>3,493</b>
<b>Operating profit/loss</b>	<b>20</b>	<b>1,880</b>	<b>57</b>	<b>22</b>	<b>-134</b>	<b>44</b>	<b>-78</b>	<b>-230</b>	<b>-135</b>	<b>1,716</b>

**Assets and liabilities by operating segment**

Segment	Development		Service		Construction <sup>1</sup>		Unallocated items		Consolidated	
	30 June 2014	31 Dec 2013	30 June 2014	31 Dec 2013	30 June 2014	31 Dec 2013	30 June 2014	31 Dec 2013	30 June 2014	31 Dec 2013
In thousands of euros										
Assets	25,664	23,456	600	557	0	847	163	297	26,427	25,157
Liabilities	17,845	15,324	536	557	0	1,488	1,163	934	19,544	18,303

<sup>1</sup> - As at 31 December 2013, presented in statement of financial position as sales group assets and liabilities

**3. Revenue**

	6 months 2014	6 months 2013	Q2 2014	Q2 2013
In thousands of euros				
Sale of own real estate	263	3,422	135	2,540
Real estate brokerage and valuation	1,285	1,181	615	669
Rental of real estate	485	519	239	238
Property management services	66	53	33	24
Other revenue	72	52	36	22
<b>Total revenue</b>	<b>2,171</b>	<b>5,227</b>	<b>1,058</b>	<b>3,493</b>

**4. Cost of sales**

	6 months 2014	6 months 2013	Q2 2014	Q2 2013
In thousands of euros				
Cost of real estate sold	-237	-2,625	-119	-1,957
Personnel expenses	-795	-734	-381	-418
Property management costs	-149	-187	-93	-90
Vehicle expenses	-9	-11	-4	-6
Depreciation, amortisation and impairment losses	-6	-5	-3	-2
Inventory write-down	0	-3	0	-3
Other costs	-53	-32	-31	-17
<b>Total cost of sales</b>	<b>-1,249</b>	<b>-3,597</b>	<b>-631</b>	<b>-2,493</b>

**5. Marketing and distribution expenses**

	6 months 2014	6 months 2013	Q2 2014	Q2 2013
In thousands of euros				
Advertising expenses	-93	-80	-41	-36
Personnel expenses	-34	-16	-9	-8
Market research	-6	-3	-1	-1
Brokerage fees	-1	-4	0	-3
Other marketing and distribution expenses	-40	-23	-23	-14
<b>Total marketing and distribution expenses</b>	<b>-174</b>	<b>-126</b>	<b>-74</b>	<b>-62</b>

## 6. Administrative expenses

	6 months 2014	6 months 2013	Q2 2014	Q2 2013
In thousands of euros				
Personnel expenses	-369	-402	-177	-208
Services purchased	-182	-79	-90	-22
Office expenses	-177	-181	-95	-94
IT expenses	-79	-40	-41	-17
Legal service fees	-62	-39	-37	-12
Vehicle expenses	-20	-18	-9	-9
Depreciation, amortisation and impairment losses	-16	-12	-8	-6
Other expenses	-10	-21	-5	-11
<b>Total administrative expenses</b>	<b>-915</b>	<b>-792</b>	<b>-462</b>	<b>-379</b>

## 7. Finance income and costs

	6 months 2014	6 months 2013	Q2 2014	Q2 2013
In thousands of euros				
Interest expense	-419	-429	-219	-204
Interest income	2	19	1	7
Other finance income and costs	-18	-71	-10	-38
<b>Total finance income and costs</b>	<b>-435</b>	<b>-481</b>	<b>-228</b>	<b>-235</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 dilutive potential ordinary shares.

	6 months 2014	6 months 2013	Q2 2014	Q2 2013
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707	4,741,707	4,741,707
Number of ordinary shares potentially to be issued	390,000	0	390,000	0
Net profit/loss attributable to owners of the parent (in thousands of euros)	22	1,541	-365	1,503
<b>Earnings per share (in euros)</b>	<b>0.00</b>	0.32	<b>-0.08</b>	0.32
<b>Diluted earnings per share (in euros)</b>	<b>0.00</b>	0.32	<b>-0.07</b>	0.32

According to the decision of the annual general shareholders' meeting of Arco Vara AS, held on 1 July 2013, one convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the chief executive of the group's parent company the right to subscribe up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2016. As at 31 December 2013, an equity reserve was created in amount of 60 thousand euros for the option associated with the bond.

## 9. Receivables and prepayments

### Short-term receivables and prepayments

	30 June 2014	31 December 2013
In thousands of euros		
<b>Trade receivables</b>		
Receivables from customers	69	164
Allowance for doubtful trade receivables	-22	-22
<b>Total trade receivables</b>	<b>47</b>	<b>142</b>

<b>Other receivables</b>		
Loans provided	36	33
Term deposits (with maturities from 3 to 12 months)	0	23
Miscellaneous receivables	162	163
<b>Total other receivables</b>	<b>198</b>	<b>219</b>
<b>Accrued income</b>		
Prepaid and recoverable taxes	147	127
Other accrued income	9	9
<b>Total accrued income</b>	<b>156</b>	<b>136</b>
<b>Prepayments</b>	<b>182</b>	<b>159</b>
<b>Total short-term receivables and prepayments</b>	<b>583</b>	<b>656</b>

**Long-term receivables**

	30 June 2014	31 December 2013
In thousands of euros		
Term deposits (with maturities more than 1 year)	138	240
Prepayments	7	12
<b>Total long-term receivables and prepayments</b>	<b>145</b>	<b>252</b>

**10. Inventories**

	30 June 2014	31 December 2013
In thousands of euros		
Properties purchased and being developed for resale	13,230	10,762
Materials and finished goods	9	5
Prepayments for inventories	16	13
<b>Total inventories</b>	<b>13,255</b>	<b>10,780</b>

**Properties purchased and being developed for resale**

In thousands of euros	
<b>Balance at 31 December 2013</b>	<b>10,762</b>
Properties purchased for development	120
Construction costs of apartment buildings	2,430
Capitalized borrowing costs	110
Other capitalized costs	34
Cost of sold properties	-226
<b>Balance at 30 June 2014</b>	<b>13,230</b>

**11. Investment property**

In thousands of euros	
<b>Balance at 31 December 2013</b>	<b>11,331</b>
Capitalised development costs	5
<b>Balance at 30 June 2014</b>	<b>11,336</b>

## 12. Loans and borrowings

	As at 30 June 2014			As at 31 December 2013		
	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	16,002	1,749	14,253	14,121	12,576	1,545
Bonds	911	0	911	751	0	751
Finance lease liabilities	19	12	7	25	13	12
<b>Total</b>	<b>16,932</b>	<b>1,761</b>	<b>15,171</b>	<b>14,897</b>	<b>12,589</b>	<b>2,308</b>

In 6 months 2014, the group settled loans and borrowings of 545 thousand euros (in 6 months 2013: 2,926 thousand euros) through cash transactions and raised new loans of 2,581 thousand euros (in 6 months 2013: 1,420 thousand euros).

Balance of loans and borrowings is increased in first 6 months 2014 mainly due to loan used for financing the construction of Manastirski Livadi project II stage in Bulgaria. The open limit of the loan was used in amount of 2,007 thousand euros in 6 months 2014. There was also made repayments of the same loan in total amount of 252 thousand euros.

On 21 March 2013, Arco Vara AS issued bonds as targeted issue in total amount of 160 thousand euros. The bonds maturity date is 20 June 2015 and annual interest rate is 9.8%. See also note 15.

In June 2014, the group agreed with Piraeus bank the changes in terms of the bank loan raised by the group's Bulgarian subsidiary. As a result, 1,200 thousand euros will be payable in year 2014 and the repayment term of the remaining loan amount of 10,954 thousand euros was prolonged up to December 2017.

## 13. Payables and deferred income

	30 June 2014	31 December 2013
In thousands of euros		
<b>Trade payables</b>	<b>503</b>	<b>464</b>
<b>Miscellaneous payables</b>	<b>319</b>	<b>15</b>
<b>Taxes payable</b>		
Value added tax	106	172
Corporate income tax	56	11
Personal income tax	18	20
Social security tax	33	41
Other taxes	273	270
<b>Total taxes payable</b>	<b>486</b>	<b>514</b>
<b>Accrued expenses</b>		
Interest payable	89	8
Payables to employees	126	132
Other accrued expenses	12	38
<b>Total accrued expenses</b>	<b>227</b>	<b>178</b>
<b>Deferred income</b>		
Prepayments received on sale of real estate	855	575
<b>Total deferred income</b>	<b>855</b>	<b>575</b>
<b>Total short-term payables and deferred income</b>	<b>2,390</b>	<b>1,746</b>

## 14. Sale of a subsidiary

On 14 February 2014, Arco Vara AS divested its 100% share in Arco Ehitus OÜ to the company Stratcorp OÜ. The sale price of the share included two parts:

1) 10 thousand euros paid on transfer of the share;

2) 30% out of the amount, that Arco Ehitus OÜ will gain from actions brought by Arco Ehitus OÜ through Ministry of Education and Research and OÜ Loksa Haljastus. Income tax is deducted from proceeds.

The group's gain on the transaction amounted to 652 thousand euros not considering the impact of sale price. As a result of the divestment, the group's liabilities decreased by 1,020 thousand euros and its assets declined by 368 thousand euros.

#### Effect of subsidiary's sale on the group's statement of financial position

In thousands of euros	
Decrease in cash	-18
Decrease in receivables	-300
Decrease in inventory and property, plant and equipment	-50
Decrease in liabilities and prepayments collected	1,020
<b>Total effect on the group's net assets</b>	<b>652</b>

Through the sale of Arco Ehitus OÜ, the group completed the exit from construction activities. That was one of the targets for the group during 2013. Therefore, construction business line income and expenses are presented as discontinued operations, and construction business line assets and liabilities are presented as sales group assets and liabilities.

#### Components of net profit/loss from discontinued operations

	6 months 2014	6 months 2013	Q2 2014	Q2 2013
In thousands of euros				
Revenue	0	2,435	0	1,348
Cost of sales	0	-2,202	0	-1,226
Administrative expenses	-13	-174	0	-96
Other operating income and expenses	0	-1	0	1
<b>Net profit/loss from discontinued operations</b>	<b>-13</b>	<b>58</b>	<b>0</b>	<b>27</b>

#### Sales group assets and liabilities

31 Decemebr 2013	
In thousands of euros	
Cash and cash equivalents	80
Receivables and prepayments	717
Inventories	44
Property, plant and equipment and intangible assets	6
<b>Total sales group assets</b>	<b>847</b>
Liabilities and prepayments	1,488
<b>Total sales group liabilities</b>	<b>1,488</b>

## 15. 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

	6 months 2014	6 months 2013
In thousands of euros		
<b>Joint ventures and associate</b>		
Revenue	0	1



Services purchased	12	0
Provision of loans	3	8
<b>Companies that have a significant interest in the group's parent company</b>		
Services purchased	12	0
Bonds issued	150	0
Paid interest	39	0
<b>Other related parties</b>		
Services sold	2	0
Services purchased	2	19
Paid interest	18	0

**Balances with related parties**

	30 June 2014	31 December 2013
In thousands of euros		
<b>Joint ventures and associate</b>		
Trade payables	2	0
Short-term loan receivables	36	33
Short-term interest receivables	1	1
<b>Companies that have a significant interest in the group's parent company</b>		
Trade payables	6	3
Bonds issued	650	500
<b>Other related parties</b>		
Trade receivables	0	0
Trade payables	0	7
Bonds issued	251	251

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 6 months 2014, 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 54 thousand euros (in 6 months 2013: 121 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 since July 2013. According to the resolution 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. The group's key management personnel was not provided or paid any other remuneration or benefits (bonuses, termination benefits, etc) in first 6 months 2014.

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.

## 16. Events after the reporting date

The extraordinary general meeting of shareholders of Arco Vara AS held on 4 July 2014 adopted the decision to approve the issuance of 3.5 million new shares with the nominal value of 0.7 euros per share and the issuance price of 1 euro per share, therefore the amount of share premium will be 0.3 euros per share. The subscription period will be from 8 August until 29 August 2014 and pre-emptive right of subscription have shareholders who are in the list of Arco Vara AS shareholders as at 7 August 2014.

The share capital would increase by 2,450 thousand euros and new share capital amounts to 5,769 thousand euros if share issue succeeds in planned volume. The increased share capital will consist of 8 241 707 shares with the nominal value of 0.7 euros per share. The owners' equity of the group would increase by 3.5 million euros as a result of full-scale share issue.

## 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 2014.

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  
+3726144630  
[info@arcovara.ee](mailto:info@arcovara.ee)

7 August 2014