



**INTERIM REPORT FOR THE  
FIRST QUARTER  
ENDED 31 MARCH 2014  
(UNAUDITED)**

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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 – 31 March 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

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## 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 31 March 2014, the group comprised 21 companies (31 December 2013: 23). At 31 March 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

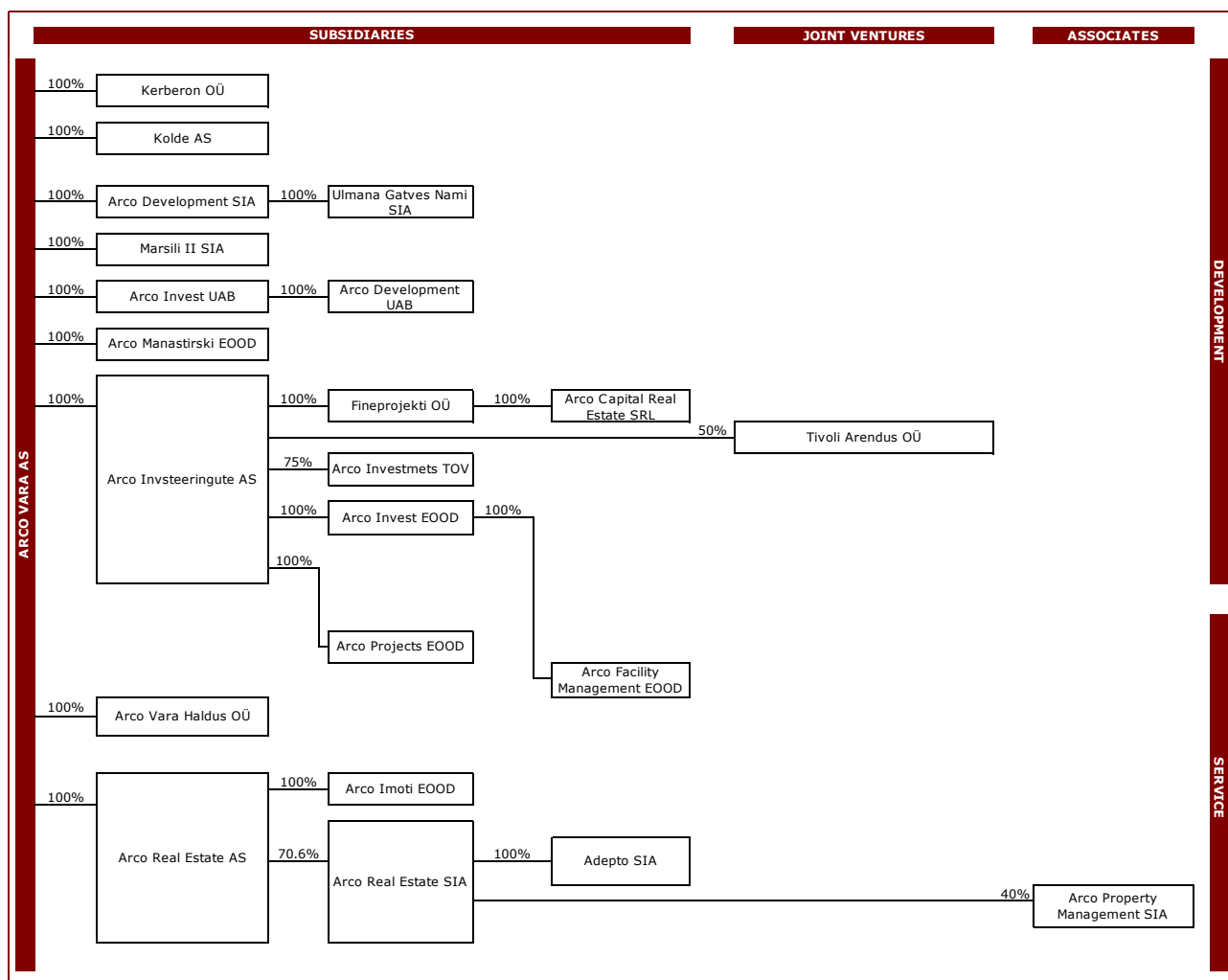
Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

## GROUP STRUCTURE

As at 31 March 2014



## CHANGES IN GROUP STRUCTURE DURING Q1 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 Loksajastus. 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.

## KEY PERFORMANCE INDICATORS

- In Q1 2014, revenue from continuing operations was 1.1 million euros, which was 36% lower compared to the same period of previous year. Revenue of Service division increased by 0.2 million euros or 42% and revenue of Development division declined by 0.8 million euros or 67%.
- Operating profit for Q1 2014 was 0.6 million euros, significant part of which was gain from sale of Arco Ehitus OÜ in amount of 662 thousand euros. Net profit of the group for Q1 2014 was 0.4 million euros. In Q1 2013, net profit was 0.04 million euros.
- Equity to assets ratio continued improvement. As at 31 March 2014, it was 28.4%, compared to 27.2% at 31 December 2013.
- The group net loans have increased by 1.3 million euros in Q1 2014. As at 31 March 2014, the average annual interest rate of loans is 6.0%, no change occurred since the end of year 2013.
- During first 3 month of year 2014, were sold 2 apartments in projects developed in the group. In Q1 2013, was sold 14 apartments and one plot.

	Q1 2014	Q1 2013
In millions of euros		
Revenue from continuing operations	1.1	1.7
Operating profit from continuing operations	0.6	0.3
<b>Net profit from continuing operations</b>	<b>0.4</b>	<b>0.0</b>
Net profit/loss from discontinued operations	0.0	0.0
<b>Net profit for the period</b>	<b>0.4</b>	<b>0.0</b>
<b>EPS (in euro)</b>	<b>0.08</b>	<b>0.01</b>
<b>ROIC (rolling, four quarters)</b>	<b>21.2%</b>	<b>neg</b>
<b>ROE (rolling, four quarters)</b>	<b>62.0%</b>	<b>neg</b>
<b>ROA (rolling, four quarters)</b>	<b>14.4%</b>	<b>neg</b>

	31 March 2014	31 December 2013
In millions of euros		
<b>Total assets at period-end</b>	<b>25.6</b>	<b>25.2</b>
<b>Invested capital at period-end</b>	<b>23.4</b>	<b>21.7</b>
<b>Net loans at period-end</b>	<b>15.4</b>	<b>14.1</b>
<b>Equity at period-end</b>	<b>7.2</b>	<b>6.9</b>
<b>Average loan term (in years, at period-end)</b>	<b>0.3</b>	<b>0.3</b>
<b>Average interest rate of loans (per year, at period-end)</b>	<b>6.0%</b>	<b>6.0%</b>
<b>Number of staff at period-end</b>	<b>180</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' profit before tax and interest expense / 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****Revenue and profit**

	Q1 2014	Q1 2013
In millions of euros		
<b>Revenue</b>		
Development	0.4	1.2
Service	0.8	0.6
Eliminations	-0.1	-0.1
<b>Total revenue</b>	<b>1.1</b>	<b>1.7</b>
<b>Operating profit</b>		
Development	0.0	0.4
Service	0.1	0.0
Eliminations	0.0	0.0
Unallocated items	0.5	-0.2
<b>Total operating profit</b>	<b>0.6</b>	<b>0.2</b>
Finance income and expenses, net	-0.2	-0.2
<b>Net profit</b>	<b>0.4</b>	<b>0.0</b>

**Cash flows**

	Q1 2014	Q1 2013
In millions of euros		
Cash flows from/used in operating activities	-1.1	0.1
Cash flows from/used in investing activities	0.0	1.4
Cash flows from/used in financing activities	1.1	-1.8
<b>Net cash flows</b>	<b>0.0</b>	<b>-0.3</b>
Cash and cash equivalents at beginning of period	0.8	1.8
Cash and cash equivalents at end of period	0.8	1.5

## Group Chief Executive's review

### Introduction

By 2014, the entire Arco Vara group is entirely focused on business activities concerned with production. We do not spend our important resources on resolving past problems or exiting unprofitable projects. The central question is the manufacture and sale of new apartments.

The sales results and profit of the quarter generally meet our expectations. Due to the sale of shareholding in Arco Ehitus, we wrote the final set of assets and obligations with doubtful size off the balance sheet of the group. The real net value of this set depends on how court actions related to Arco Ehitus are resolved.

In the future, we will indicate the group's results based on the principle of sustainability only for the units of the service and development division. The service division is profitable. The development division finished the quarter at zero. Zero is temporarily a good result, considering that the development division is currently in the process of building two apartment buildings in Riga and Sofia, with a total of 17,000 square metres under construction, and there are no sales. We will completely beat the past gap in the production and sales chain from the fourth quarter onwards, i.e. this is when the development division should show stable sales revenue and stable sales revenue is in turn based on the development division constantly working on obtaining immovables which suit residential real estate development, obtaining construction rights, designing and contracting construction.

### The Service Division

The service division is a profitable division with positive cash flows, which consists of three companies in Estonia, Latvia and Bulgaria, which are primarily involved in real estate mediation and valuation (Arco Real Estate AS, Arco Real Estate SIA, Arco Imoti EOOD), two companies in Estonia and Bulgaria which are involved in real estate management (Arco Vara Haldus OÜ and Arco Facility Management EOOD). The operational volumes of the service division are increasing.

We believe that the increase of transaction activity on the target markets of Arco Vara is related to the increase of demand for new residential premises, albeit very moderately. Growth is affected by various factors, including:

- I. Increase of the population's consumer security compared to the crisis of 2007-2010 in all three countries, which directly influences the making of long-term investment decisions;
- II. The population is concentrating in Sofia, Riga and Tallinn, which is observed even when the population is decreasing in other parts of the countries;
- III. Relative stabilization of the banking sector, which is restoring the banks' need to return to its main field of activity, i.e. create and increase functional portfolios of mortgage loans, and
- IV. the physical amortization of the Soviet residential buildings and high maintenance costs opposing the consumers' expectations on modern residential space and low maintenance costs.

Growth may stop if the financing conditions worsen significantly or the consumers' expectations of the future decrease suddenly. At present, there is no indication of such tendencies.

In regards to current processes in Ukraine, it must be noted that they have a negligible effect on the domestic markets of Arco Vara, if the processes remain only in Ukraine. The only influence evident so far is the decrease of residential real estate consumption (visits, wishes to purchase and rent) by Russian residents in Latvia. The influence of this consumer group on the group as a whole is marginal, but their decreased consumption may influence the demand for real estate of the higher price class in Jurmala and Riga city centre. The events in Ukraine will influence the business operations of Arco Vara if it escalates to a level of influencing the economy of important member states of the European Union and thereby on those Estonian, Latvian and Bulgarian companies which provide the income to the sectors of population which are the group's potential clients. In regards to development products, our target group is consumers whose income is above the state average, which is approx. 20% of the population. At the same time, the target group of the service division is over a half of the population.

The number of employees involved in the service division grew by 6 in the first quarter.

### The Development Division

The cycle of the group's development product from obtaining an immovable with no right of construction, planning, designing, constructing to the sale of the final product (apartment, house plot etc.) to the consumer can be measured in years. The production process of the group has gotten gaps in recent years, which today manifests in the fact that the products in stock are sold out and the next final products will be ready to sell from the third quarter onwards.

The first new apartments will be completed by the third quarter of 2014 in Bisumuisa, Riga (GSA 960 m<sup>2</sup> i.e. 960 square metres of apartments on sale) and by the fourth quarter in Sofia, Manastirski stage II (GSA 12,500 m<sup>2</sup>). Based on data of the preliminary sales, we predict both projects to be sold out by the end of 2015 at the latest. The preliminary sales of Manastirski stage II (contracts under the law of obligations secured with client deposits) exceed 40% of the sales volume of the entire stage II as of the day of the quarterly report. Preliminary sales began on 15.11.2013 together with the start of construction.

The group continues simultaneously with other half-finished developments. In the first quarter, the group obtained plots of land with rights of construction in Harku rural municipality at Instituudi tee 7 and 9 (30 apartments, initial GSA 2,100



m2) and the detailed plan of a terraced house at Lehiku tee 23 in Tallinn was initiated (initial GSA 1,100 m2). Works also continue with the detailed plan of Paldiski mnt 70c, Tallinn, the detailed plan of Liimi 1b and obtaining other construction rights or designing conditions. The group will start the construction of Manastirski stage III (existing valid construction rights of apartments on sale with GSA of apartment space on sale as 6,700 m2) after the 80% sale of apartments in Manastirski stage II. All above numbers do not include underground construction rights or underground construction volumes.

We will also review the incoming suggestions for new development projects in Tallinn, Riga and Sofia. The goal of the activities of all companies in the development division is to achieve the rate of return on share capital of at least 20% per year. We do not spend resources and do not take risks with projects with a lower expected rate of return.

### The Loan Burden

The loan burden has increased compared to the end of 2013, but the increase is caused by funding designing or construction works, i.e. all loans are taken for the purpose of production and loans are not taken to cover general expenses, make interest payments or for refinancing.

The group's relationship with credit institutions is good. The construction of Manastirski stage II is completely funded by UniCredit Bulbank. Less than 30% of the loan limit is being used, because it has also been possible to fund the construction with preliminary sales deposits received by clients. The completion of Bisumuisa-1 apartments was funded by the group's own funds until the end of first quarter and it is planned to conclude a loan contract with a Latvian credit institution for the final works in the second quarter.

Over 75% of all loans of the group are formed by a loan from Piraeus Bank, granted for the construction of the building at Madrid Blvd in Sofia. Negotiations are currently in progress for refinancing the loan contract and concluding it as an investment loan with one principal repayment. The intermediate results of the negotiations are formalized in writing both by the bank and by the borrower Arco Invest EOOD, the further progress of the project mainly depends on the activities of Arco Invest EOOD and the group. Earlier, we stated that the borrower and the building's owner Arco Invest EOOD is currently in violation of the loan contract. The entire principal amount of the loan, 12.1 million euros, must be returned by the middle of 2015 pursuant to the valid contract, and monthly repayments to the sum of 150 thousand euros had to begin in January 2014. Piraeus Bank has expressed its willingness to extend the loan contract by four years if the group decreases the principal amount of loan by the sum of up to 1.5 million euros. From the group's point of view, decreasing the principal amount of loan is reasonable, considering the cash flow from rent produced in the building at Madrid Blvd since 2013, to the sum of nearly 1 million euros per year, and the conservative selling value of apartments in the building which are unsold so far (34 units, GSA 3,800 m2) or the additional rent revenue received upon the completion of apartments and renting them out. The group's parent company does not provide the surety to the loan obligation of Arco Invest EOOD to Piraeus Bank, nor does any important development company, and the loan has no other sureties. The group's possible loss in the worst case scenario, which is the sale of the Madrid building in executive proceedings, should not exceed 500 thousand euros. At present, we are focusing on obtaining a profitable result and depending on the willingness of the shareholders, this seems realistic.

### Involving Capital

The biggest challenge of 2014 continues to be involving capital, the preparations for which began in March.

At present, the group has found the means to finance obtaining the immovable at Paldiski mnt 70c, Tallinn, and its planning procedure, construction of Manastirski stage II in Sofia (also called Manastirski AB) and the completion of apartments at Bisumuisa-1 in Riga. The sales revenue for development products in Latvia and Bulgaria will start coming in the third quarter at the earliest. Therefore, the group must "run on fumes" to fund its other development activities until the first quarter of 2015.

So far, the group has managed it, but it has also reached the critical limit of capabilities. Most development projects in the portfolio of Arco Vara or some development projects waiting to enter Arco Vara deserve a capital investment or will simply stay in stock until cash is released from other Bulgarian or Latvian projects.

The involvement of capital in 2014 has three important reasons.

Firstly, the management assesses that in order to start the construction and sales on the immovable at Paldiski mnt 70c in 2015, the bank loan of 1.4 million euros which was taken to fund the obtaining of this immovable must be paid back. Also, enough owners' equity must be invested for the immovable's utility connections, constructing access roads and designing, so as to construct the apartment buildings with the bank's finances. The local government approved the detailed plan on 9 April 2014 and if the product is to be released on the market in 2015, works need to continue immediately. An alternative for the development of Paldiski mnt 70c is to freeze it and wait until finances are released from Manastirski stage II in Bulgaria, which will happen in the second quarter of 2015 at the earliest. This, in turn, means that the group will lose one year with the designing and start of construction. The group's profitability will also worsen again, because stationary assets spend rather than produce.

Secondly, the management finds it reasonable to involve capital to retain control over the building at Madrid Blvd as an object which produces rent revenue and as additional revenue, realize the unsold apartments in the building. The group will only invest to decrease the principal part of the loan on the building pursuant to negotiations with the bank if there is the necessary owners' equity for this (there is none today). The rate of return of owners' equity additionally placed in the Madrid building must be at least 20% per year. Considering that the rent revenue of the building is nearly 1 million euros per year and the interest expenses calculated on the principal part of loan are below 700 thousand euros per year, capital investment with this rate of return is possible, because the building's owner, Arco Invest EOOD, should be capable of paying the parent company the difference between received rent revenue and interest expense paid to the bank. Calculations do not include the possible sales or rent revenue from apartments currently unsold in the building at Madrid Blvd, which would make the project even more profitable. An alternative is to sell the building at Madrid Blvd

quickly or as part of executive proceedings, but this way of selling property is generally not the most profitable for the seller.

Thirdly, the group has negotiated with various people for obtaining various development projects in Tallinn and Riga, the designing and construction of which can begin immediately (construction rights exist) and the predicted rate of return of owners' equity of those projects meets the group's expectations.

If capital involvement is not successful, the group needs to fund all its developments other than Manastirski and Bisumuisa either with foreign capital or freeze other developments until cash is released from the developments of Manastirski stage II and Bisumuisa-1. The possibilities of involving foreign capital are complicated, because the owners' equity, which minimizes the risks of foreign capital, is already largely tied up and development should not be overpowered. Actually, Arco Vara is currently in a circle of slow development, and the right way of breaking out of it is increasing owners' equity by involving capital.

To stabilize the development process, sales revenue and profits, a situation must be achieved where active work is taking place simultaneously in different development projects at different stages of completion. At that, the developed immovable, construction rights, utility connections and the construction project should always be obtained or created with the funds of the group's owners' equity, not with a loan. The group violated this general rule by obtaining the immovable at Paldiski mnt 70c in 2013, for which it used a bank loan, but that decision was extraordinary in many ways. The main thing was to restart developments of volume and a prospective land bank had to be created for that purpose, but there was not enough owners' equity for this.

### Summary

The year has begun according to plans. The first quarter has been profitable thanks to the sale of Arco Ehitus, but the second quarter will generate a loss of approx. 0.3 million euros. The volumes of the service division are increasing and profitable, but insufficient to cover the lack of sales revenue of development products in the first and second quarter. Sales revenue from development will begin to generate only in the third quarter and will again exceed the level necessary for the group to profit in the fourth quarter. The management does not change the turnover prediction of 9 million euros and profit prediction of 0.5 million euros, predicted for 2014. The development projects being constructed today enable to earn sales revenue of up to 10 million euros in the years 2014-2015. Development projects with construction rights are added to it. For the sales revenue of the company to exceed 10 million euros and the profit to exceed 1 million euros in 2016 and beyond, the owners' equity of Arco Vara must be increased in 2014 already, and the involved money must be placed in development. The involved sum should be between 3-5 million euros.

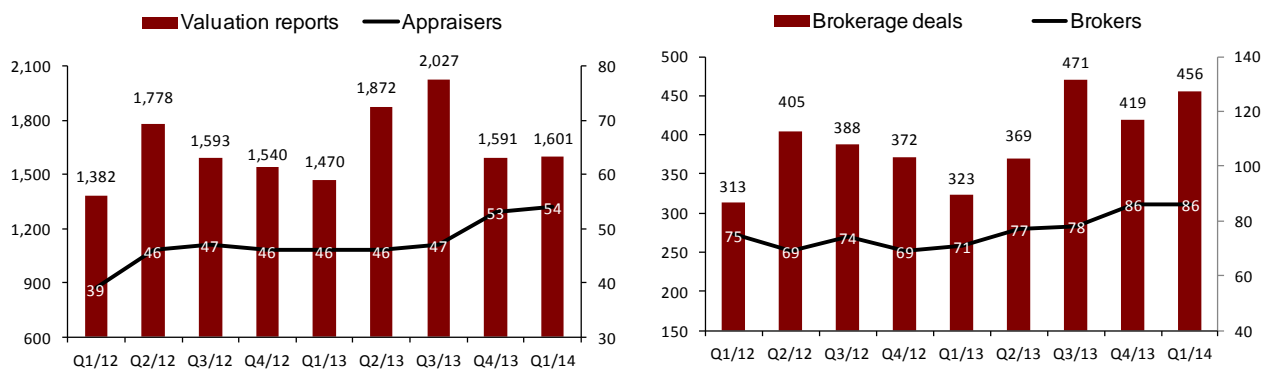
## SERVICE DIVISION

In Q1 2014, revenue of Service division was 845 thousand euros, that included intra-group revenue of 127 thousand euros (Q1 2013: 597 thousand and 62 thousand euros, respectively). Revenue of Service division is increased by as much as 42%. Sales growth came primarily from Latvia and Bulgaria, there first quarter revenue from main activities of real estate agencies, brokerage and valuation of real estate, increased by 44% and 132%, respectively. The sales growth of 17% for Estonian real estate agency was more moderate.

### Revenue of real estate agencies from brokerage activities

	Q1 2014	Q1 2013	Change, %
In thousands of euros			
Estonia	334	285	17%
Latvia	293	203	44%
Bulgaria	146	63	132%
<b>Total</b>	<b>773</b>	<b>551</b>	<b>40%</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. There was also significant increase in the number of brokerage deals and valuation reports, compared to first quarter of previous year.



All three real estate agencies ended up Q1 2014 with a small net profit: Estonian agency's net profit was 9 thousand euros (Q1 2013: 24 thousand euros), Latvian agency's net profit was 17 thousand euros (Q1 2013: 7 thousand euros) and Bulgarian agency's net profit was 41 thousand euros (Q1 2013: 7 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 from the beginning of year 2014. The revenue from real estate management was 45 thousand euros in Q1 2014, but only 13 thousand of which was external revenue (Q1 2013: 35 thousand and 8 thousand, respectively). Revenue from accommodation services amounted to 15 thousand euros in Q1 2014.

The number of staff in Service division has been increased to 167 employees as at 31 March 2014, growing by 6 people during first quarter.

## DEVELOPMENT DIVISION

In Q1 2014, revenue of Development division totalled 397 thousand euros (Q1 2013: 1 205 thousand euros). The decrease of Development division revenue was due to the sale of properties developed in-group. In Q1 2014, was sold only 2 apartments in Bišumuiža-1 project with corresponding revenue of 128 thousand euros. Comparable results of Q1 2013 were 14 sold apartments and 1 plot with corresponding revenue of 882 thousand euros. Operating profit of Development division was 44 thousand euros (Q1 2013: 379 thousand euros). The decrease of operating profit is caused by significantly dropped revenue.

Most of the other revenue of Development division consisted of rental income from commercial and office space of Madrid Blvd building in Sofia, amounted to 246 thousand euros in Q1 2014. In Q1 2013, the rental income was 281 thousand euros, but there was included also revenue of Pärnu Turg OÜ in amount of 46 thousand euros for the first 2 month of year 2013. Pärnu Turg OÜ was sold on 1 March 2013.

In Q1 2014, was continued construction on II stage of Manastriksi Livadi project. At the same time with the start of construction, in Novemebr 2013, was started presale of apartments. And it is turned out to be successful, because more than 40% of apartments are already covered with pre-agreements.

In January 2014, were started works for finalizing construction of the last 14-apartment building (GSA of 960 m<sup>2</sup>) in Bišumuiža-1 project in Latvia, with estimated term at the beginning of Q3 2014. Two last apartments of previous stage in the same project are unsold yet, with selleable area of 210 m<sup>2</sup>.

As at the end Q1 2014, 2 apartments and 33 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 addition 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 31 March 2014, 4 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 31 MARCH 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	S4/S5	-	210	2
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 31 March 2014, the group employed 180 people compared with 178 at the end of 2013. Employee remuneration expenses for Q1 2014 amounted to 0.6 million euros (Q1 2013: 0.5 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 3 months of 2014 amounted to 27 thousand euros compared with 64 thousand euros for Q1 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

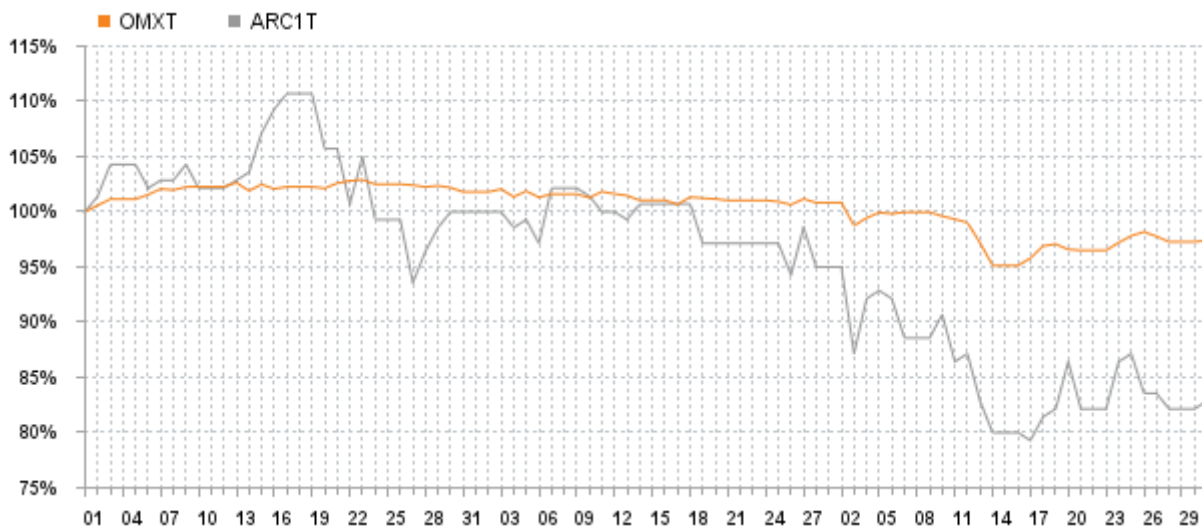
Arco Vara AS has issued a total of 4,741,707 shares. As at 31 March 2014, the company had 1,728 shareholders and the share price closed at 1.16 euros, a 17.14% decrease within three months.

The following charts reflect movements in the price and daily turnover of the Arco Vara share in the first 3 month of 2014

In euros (EUR)



Changes in share price compared with the benchmark index OMX Tallinn in first 3 month of 2014.



Indeks/equity	1 Jan 2014	31 March 2014	+/-%
—OMX Tallinn	817.72	796.54	-2.59
—ARC1T	1.40 EUR	1.16 EUR	-17.14

Major shareholders at 31 March 2014	No of shares	Interest %
AS Baltplast	900,000	19.0%
GAMMA HOLDING OÜ	470,080	9.9%
Osaühing HM Investeeringud	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	262,400	5.5%
FIREBIRD REPUBLICS FUND LTD	205,064	4.3%
Central Securities Depository of Lithuania	147,666	3.1%
LHV PENSIONIFOND XL	110,445	2.3%
Other shareholders	1,199,486	25.3%
<b>Total</b>	<b>4,741,707</b>	<b>100.0%</b>

Holdings of members of the management and supervisory boards at 31 March 2014	Position	No of shares	Interest %
Toomas Tool (AS Baltplast)	member of supervisory board	920,000	19.4%
Arvo Nõges (Gamma Holding OÜ)	member of supervisory board	470,080	9.9%
Hillar-Peeter Luutsalu (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 (Lõhmus Holdings AS)	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>2,536,153</b>	<b>53.5%</b>

## DESCRIPTION OF THE MAIN RISKS

### Credit risk

The group's credit risk exposure is the greatest on real estate development and construction activities. Accordingly, counterparties' settlement behaviour is monitored on an on going basis quarantines and collaterals are also used.

### 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 31 March 2014, the weighted average duration of interest-bearing liabilities was only 0.3 years mainly due to stopping by the group scheduled loan principal repayments to Piraeus bank. As a result, whole loan amount could become redeemable prematurely. At the end of Q1 2014, the group's cash and cash equivalents totalled 0.8 million euros and term deposits with maturities up to 2 years totalled 0.3 million euros. Out of the cash and cash equivalents balance 0.3 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 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. Within Q1 2014, the group's interest-bearing liabilities increased by 1.3 million euros and amounted to 16.2 million euros at 31 March 2014. In Q1 2014, interest payments on interest-bearing liabilities totalled 0.2 million euros. The group's weighted average loan interest rate of 6.0% has not changed in Q1 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 first quarter ended 31 March 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

8 May 2014



## Condensed consolidated interim financial statements

### Consolidated statement of comprehensive income

	Note	Q1 2014	Q1 2013
In thousands of euros			
<b>Continuing operations</b>			
Revenue from rendering of services		985	852
Revenue from sale of own real estate		128	882
<b>Total revenue</b>	2, 3	<b>1,113</b>	<b>1,734</b>
Cost of sales	4	-618	-1,104
<b>Gross profit</b>		<b>495</b>	<b>630</b>
Other income		16	14
Marketing and distribution expenses	5	-100	-64
Administrative expenses	6	-453	-413
Other expenses		-8	-11
Gain on sale of subsidiaries	14	662	98
<b>Operating profit</b>		<b>612</b>	<b>254</b>
Finance income and costs	7	-207	-246
<b>Net profit from continuing operations</b>		<b>405</b>	<b>8</b>
<b>Discontinued operations</b>			
Profit/loss from discontinued operations	14	-13	31
<b>Net profit for the period</b>		<b>392</b>	<b>39</b>
<i>attributable to owners of the parent</i>		387	38
<i>attributable to non-controlling interests</i>		5	1
<b>Total comprehensive income for the period</b>		<b>392</b>	<b>39</b>
<i>attributable to owners of the parent</i>		387	38
<i>attributable to non-controlling interests</i>		5	1
<b>Earnings per share (in euros)</b>	8		
- basic		<b>0.08</b>	0.01
- diluted		<b>0.08</b>	0.01

## Consolidated statement of financial position

Note	31 March 2014	31 December 2013
In thousands of euros		
Cash and cash equivalents	764	818
Receivables and prepayments	9	656
Inventories	10	10,780
Assets belonging to sales group	14	847
<b>Total current assets</b>	<b>13,505</b>	<b>13,101</b>
Investments in equity-accounted investees	1	1
Receivables and prepayments	9	252
Investment property	11	11,331
Property, plant and equipment	458	459
Intangible assets	12	13
<b>Total non-current assets</b>	<b>12,052</b>	<b>12,056</b>
<b>TOTAL ASSETS</b>	<b>25,557</b>	<b>25,157</b>
Loans and borrowings	12	12,589
Payables and deferred income	13	1,746
Provisions	202	172
Liabilities belonging to sales group	14	1,488
<b>Total current liabilities</b>	<b>14,864</b>	<b>15,995</b>
Loans and borrowings	12	2,308
<b>Total non-current liabilities</b>	<b>3,447</b>	<b>2,308</b>
<b>TOTAL LIABILITIES</b>	<b>18,311</b>	<b>18,303</b>
Share capital	3,319	3,319
Statutory capital reserve	2,011	2,011
Other reserves	60	60
Retained earnings	1,834	1,452
<b>Total equity attributable to owners of the parent</b>	<b>7,224</b>	<b>6,842</b>
Equity attributable to non-controlling interests	22	12
<b>TOTAL EQUITY</b>	<b>7,246</b>	<b>6,854</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>25,557</b>	<b>25,157</b>

## Consolidated statement of cash flows

Note	Q1 2014	Q1 2013
In thousands of euros		
Cash receipts from customers	1,691	2,365
Cash paid to suppliers	-2,404	-1,385
Taxes paid	-285	-373
Taxes recovered	122	53
Cash paid to employees	-224	-199
Other cash payments and receipts related to operating activities	-14	-51
Net cash flow of discontinued operations	0	-265
<b>NET CASH FROM/USED IN OPERATING ACTIVITIES</b>	<b>-1,114</b>	<b>145</b>
Purchase of property, plant and equipment	-8	0
Proceeds from sale of property, plant and equipment	0	2
Proceeds from sale of investment property	0	20
Proceeds from sale of a subsidiary	14	1,610
Loans provided	-3	0
Placement of security deposits	-258	-263
Release of security deposits	263	0
Interest received	1	4
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>5</b>	<b>1,373</b>
Proceeds from loans received	12	93
Settlement of loans and finance lease liabilities	12	-1,666
Interest paid	-214	-248
Other payments related to financing activities	-5	-2
<b>NET CASH FROM/USED IN FINANCING ACTIVITIES</b>	<b>1,055</b>	<b>-1,823</b>
<b>NET CASH FLOW</b>	<b>-54</b>	<b>-305</b>
Cash and cash equivalents at beginning of period	818	1,775
<b>Decrease in cash and cash equivalents</b>	<b>-54</b>	<b>-305</b>
Decrease in cash and cash equivalents through sale of a subsidiary	0	-37
Cash and cash equivalents at end of period	764	1,433

## 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 expense for the period	0	0	0	38	38	1	39
<b>Balance as at 31 March 2013</b>	<b>3,319</b>	<b>2,011</b>	<b>0</b>	<b>-1,920</b>	<b>3,410</b>	<b>-4</b>	<b>3,406</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	387	387	5	392
Change in non-controlling interests	0	0	0	-5	-5	5	0
<b>Balance as at 31 March 2014</b>	<b>3,319</b>	<b>2,011</b>	<b>60</b>	<b>1,834</b>	<b>7,224</b>	<b>22</b>	<b>7,246</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 first quarter ended 31 March 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	
	Q1 2014	Q1 2013	Q1 2014	Q1 2013	Q1 2014	Q1 2013	Q1 2014	Q1 2013	Q1 2014	Q1 2013
In thousands of euros										
External revenue	394	1,199	718	535	1	0	-	-	1,113	1,734
Annual change	-67%	57%	34%	6%					-36%	37%
Inter-segment revenues	3	6	127	62	-	-	-130	-68	0	0
<b>Total revenue</b>	<b>397</b>	<b>1,205</b>	<b>845</b>	<b>597</b>	<b>1</b>	<b>0</b>	<b>-130</b>	<b>-68</b>	<b>1,113</b>	<b>1,734</b>
<b>Operating profit/loss</b>	<b>44</b>	<b>379</b>	<b>75</b>	<b>46</b>	<b>493</b>	<b>-170</b>	<b>0</b>	<b>-1</b>	<b>612</b>	<b>254</b>
Of which gain on sale of subsidiaries	0	98	0	0	662	0	-	-	662	98

#### Assets and liabilities by operating segment

Segment	Development		Service		Construction <sup>1</sup>		Unallocated items		Consolidated	
	31 March 2014	31 Dec 2013	31 March 2014	31 Dec 2013	31 March 2014	31 Dec 2013	31 March 2014	31 Dec 2013	31 March 2014	31 Dec 2013
In thousands of euros										
Assets	24,599	23,456	615	557	0	847	343	297	25,557	25,157
Liabilities	16,628	15,324	585	557	0	1,488	1,093	934	18,306	18,303

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

### 3. Revenue

	Q1 2014	Q1 2013
In thousands of euros		
Sale of own real estate	128	882
Brokerage services	670	512
Rental of real estate	246	281
Property management services	33	29
Other revenue	36	30
<b>Total revenue</b>	<b>1,113</b>	<b>1,734</b>

### 4. Cost of sales

	Q1 2014	Q1 2013
In thousands of euros		
Cost of real estate sold	-118	-668
Personnel expenses	-414	-316
Property management costs	-56	-97
Vehicle expenses	-5	-5
Depreciation, amortisation and impairment losses	-3	-3
Other costs	-22	-15
<b>Total cost of sales</b>	<b>-618</b>	<b>-1,104</b>

### 5. Marketing and distribution expenses

	Q1 2014	Q1 2013
In thousands of euros		
Advertising expenses	-52	-44
Personnel expenses	-25	-8
Market research	-5	-2
Brokerage fees	-1	-1
Other marketing and distribution expenses	-17	-9
<b>Total marketing and distribution expenses</b>	<b>-100</b>	<b>-64</b>

### 6. Administrative expenses

	Q1 2014	Q1 2013
In thousands of euros		
Personnel expenses	-192	-194
Services purchased	-92	-57
Office expenses	-82	-87
IT expenses	-38	-23
Legal service fees	-25	-27
Vehicle expenses	-11	-9
Depreciation, amortisation and impairment losses	-8	-6
Other expenses	-5	-10
<b>Total administrative expenses</b>	<b>-453</b>	<b>-413</b>

## 7. Finance income and costs

### Finance income and expenses

	Q1 2014	Q1 2013
In thousands of euros		
Interest expense	-200	-225
Interest income	1	12
Other finance income and costs	-8	-33
<b>Total finance income and costs</b>	<b>-207</b>	<b>-246</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.

	Q1 2014	Q1 2013
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707
Number of ordinary shares potentially to be issued	390,000	0
Net profit attributable to owners of the parent (in thousands of euros)	387	38
<b>Earnings per share (in euros)</b>	<b>0.08</b>	0.01
<b>Diluted earnings per share (in euros)</b>	<b>0.08</b>	0.01

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

	31 March 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)	18	23
Miscellaneous receivables	165	163
<b>Total other receivables</b>	<b>219</b>	<b>219</b>
<b>Accrued income</b>		
Prepaid and recoverable taxes	188	127
Other accrued income	9	9
<b>Total accrued income</b>	<b>197</b>	<b>136</b>
<b>Prepayments</b>	<b>302</b>	<b>159</b>
<b>Total short-term receivables and prepayments</b>	<b>765</b>	<b>656</b>

**Long-term receivables**

	31 March 2014	31 December 2013
In thousands of euros		
Term deposits (with maturities more than 1 year)	240	240
Prepayments	7	12
<b>Total long-term receivables and prepayments</b>	<b>247</b>	<b>252</b>

**10. Inventories**

	31 March 2014	31 December 2013
In thousands of euros		
Properties purchased and being developed for resale	11,953	10,762
Materials and finished goods	7	5
Prepayments for inventories	16	13
<b>Total inventories</b>	<b>11,976</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	1,126
Capitalized borrowing costs	42
Other capitalized costs	17
Cost of sold properties	-114
<b>Balance at 31 March 2014</b>	<b>11,953</b>

**11. Investment property**

In thousands of euros	
<b>Balance at 31 December 2013</b>	<b>11,331</b>
Capitalised development costs	3
<b>Balance at 31 March 2014</b>	<b>11,334</b>

**12. Loans and borrowings**

	As at 31 March 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	15,237	12,710	2,527	14,121	12,576	1,545
Bonds	911	0	911	751	0	751
Finance lease liabilities	22	13	9	25	13	12
<b>Total</b>	<b>16,170</b>	<b>12,723</b>	<b>3,447</b>	<b>14,897</b>	<b>12,589</b>	<b>2,308</b>

In Q1 2014, the group settled loans and borrowings of 71 thousand euros (Q1 2013: 1,666 thousand euros) through cash transactions and raised new loans and borrowings of 1,345 thousand euros (Q1 2013: 93 thousand euros).



Balance of loans and borrowings is increased in Q1 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 982 thousand euros in Q1 2014.

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.

The group stopped scheduled loan principal repayments to Piraeus bank in Bulgaria. As a result, whole loan amount 12 155 thousand euros could become redeemable prematurely. The group started negotiations with the bank to refinance the loan.

### 13. Payables and deferred income

#### Short-term payables and deferred income

	31 March 2014	31 December 2013
In thousands of euros		
<b>Trade payables</b>	<b>294</b>	<b>464</b>
<b>Miscellaneous payables</b>	<b>335</b>	<b>15</b>
<b>Taxes payable</b>		
Value added tax	100	172
Corporate income tax	8	11
Personal income tax	25	20
Social security tax	45	41
Other taxes	274	270
<b>Total taxes payable</b>	<b>452</b>	<b>514</b>
<b>Accrued expenses</b>		
Interest payable	30	8
Payables to employees	130	132
Other accrued expenses	10	38
<b>Total accrued expenses</b>	<b>170</b>	<b>178</b>
<b>Deferred income</b>		
Prepayments received on sale of real estate	688	575
<b>Total deferred income</b>	<b>688</b>	<b>575</b>
<b>Total short-term payables and deferred income</b>	<b>1 939</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

	Q1 2014	Q1 2013
In thousands of euros		
Revenue	0	1,087
Cost of sales	0	-977
Administrative expenses	-13	-77
Other operating income and expenses	0	-2
<b>Net profit/ loss from discontinued operations</b>	<b>-13</b>	<b>31</b>

#### Sales group assets and liabilities

	31.12.2013
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

	Q1 2014	Q1 2013
In thousands of euros		
<b>Joint ventures and associate</b>		
Services purchased	4	0
Provision of loans	3	0
<b>Companies that have a significant interest in the group's parent company</b>		
Services purchased	5	0
Bonds issued	150	0
Paid interest	18	0
<b>Other related parties</b>		
Services sold	1	1
Services purchased	2	7
Paid interest	9	0

**Balances with related parties**

	31 March 2014	31 December 2013
In thousands of euros		
<b>Joint ventures and associate</b>		
Trade payables	3	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	3	3
Bonds issued	650	500
<b>Other related parties</b>		
Trade receivables	1	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 Q1 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 27 thousand euros (in Q1 2013: 64 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 Q1 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.

## **Statement by the chief executive/member of the management board**

The chief executive/member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the first quarter ended 31 March 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

8 May 2014