INTERIM REPORT FOR THE THIRD QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Company name:	Arco Vara AS
Registry number:	10261718
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Telephone:	+372 6 144 630
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E-mail:	info@arcovara.ee
Corporate website:	www.arcorealestate.com
Core activities:	Renting and operating of real estate (EMTAK 6820)
	Activities of real estate agencies (EMTAK 6831)
	Real estate management (EMTAK 6832)
	Construction of buildings (EMTAK 4100)
	Civil engineering (EMTAK 4200)
	Specialised construction activities (EMTAK 4300)
Financial year:	1 January 2013 – 31 December 2013
Reporting period:	1 January 2013 – 30 June 2013
Supervisory board:	Hillar-Peeter Luitsalu, Toomas Tool, Aivar Pilv,
	Stephan David Balkin, Arvo Nõges, Rain Lõhmus,
	Allar Niinepuu
Chief executive:	Tarmo Sild
Auditor:	AS PricewaterhouseCoopers

CONTENTS

Directors' report

ARCO VARA GROUP

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

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

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

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

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

At the end of the third quarter of 2013, the group comprised of 23 companies (30 September 2012: 24). In addition, at 30 September 2013 the group had two joint ventures (30 September 2012: 2) and one associate (30 September 2012: 1).

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

Mission, vision and shared values

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

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

Our core values include:

Partnership – our client is our partner

Reliability – we are reliable, open and honest

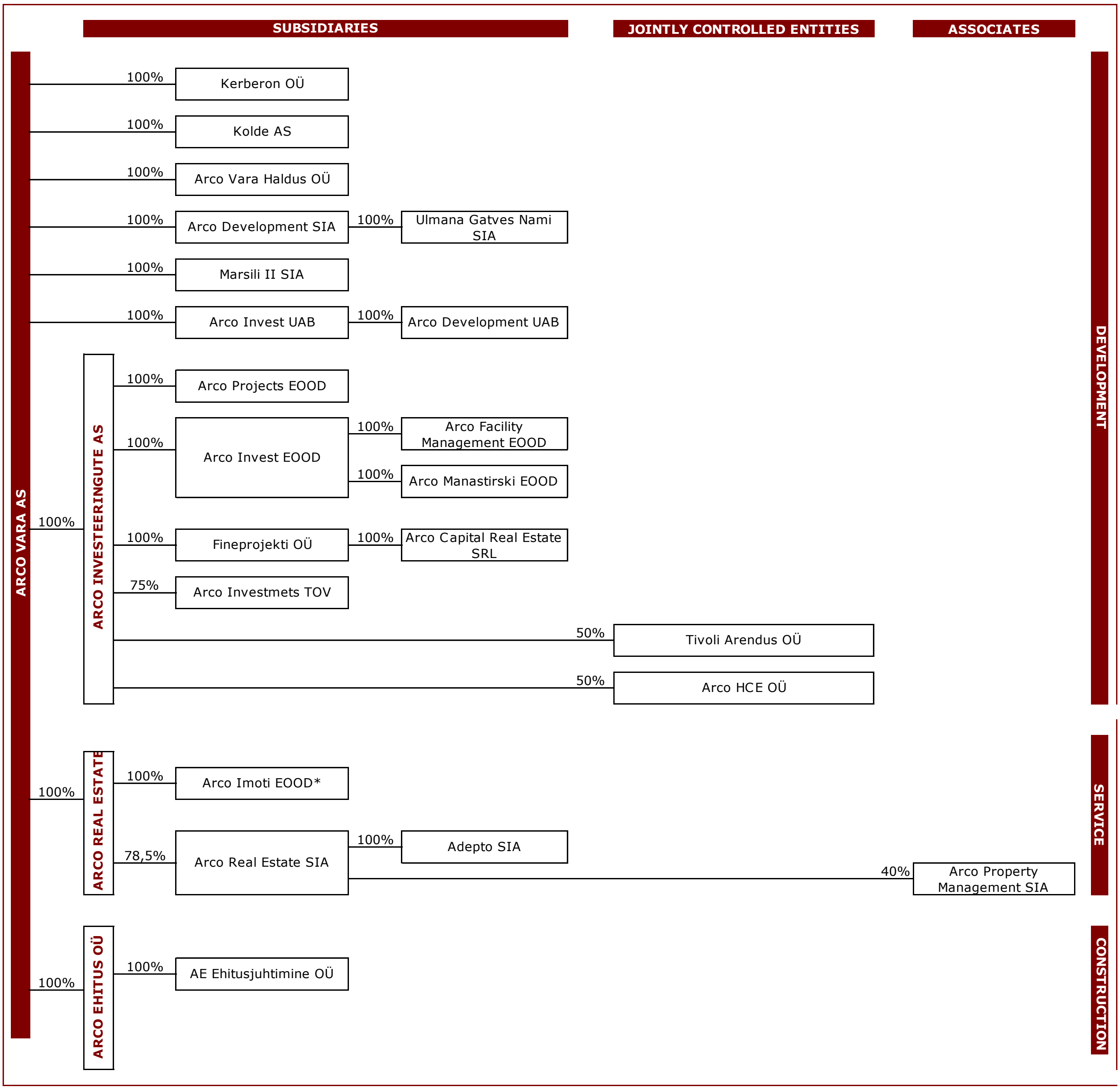
Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

GROUP STRUCTURE

As at 30 September 2013



* - Previously named as Arco Real Estate EOOD. From now on, the name by witch the company is registered in the local commercial register will be used.

CHANGES IN GROUP STRUCTURE DURING 2013

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

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

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

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

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

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

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

On 9 August 2013, the group's Bulgarian subsidiary Arco Invest EOOD established subsidiary Arco Manastirski EOOD with 100% ownership and share capital amounted to 2,676 thousand euros. On 4th September company was sold to Arco Vara AS. The aim of transaction was separate different assets into separate legal entities (Madrid Blvd development and Manastirski Livadi development). The transaction had no impact on the group's financial position or financial performance.

On 30 September 2013, the group's subsidiary T53 Maja OÜ was renamed to Arco Vara Haldus OÜ.

Group continues restructuring and simplification of group structure also in the fourth quarter of 2013. The goal is to have two-tier group structure. Resturcturing must meet two criterias:

i) Direct control of all relevant business entities by parent company;
ii) Separating all development projects into separate companies- i.e. one project, one entity.

As a result all risks, revenues and liabilities of separate projects are kept in individual companies. Due to changes parent company will have direct control of all development projects (as owner and creditor) and other relevant subsidiaries which offer products and services to clients.

KEY PERFORMANCE INDICATORS

- Sales revenue for 9 monts of 2013 was 12.4 million euros, which was 23% lower compared to the same period of last year. Most significant reduction in revenues is related to construction services, which reduced by 57 per cent. Development and services divisions posted increase of 19 per cent and 11 per cent in 3rd Quarter. Sales revenue decreases in Q3 by 4% compared to the same period of last year.
- Operating proft for 9 months 2013 was 2.7 million euros, compared to loss for the same period last year. Third Q3 operating profit was 0.7 million euros, compared to 0.6 million for the same period of 2012.
- Net profit for 9 month of 2013 was 2 million euros. Last year the result was 1.1 million net loss. Net profit of third quarter increased to 0.5 million euros compared to 0.2 million for Q3 2012.
- Earnings per share were 0.42 euros for 9 month 2013 compared to net loss of 0.21 euros per share for 9 month 2012.
- Owners equity to assets ratio shows improvement. As at 30 September 2013, it was 21%, compared to 11% on 31 December 2012.
- Net loans have decreased to 14.5 million euros as of 30 September 2013 (18.4 million euros as at 30 September 2012). Average annual interest rate of loans is 5.9% (as at 30 September 2102 it as 6.5%)
- During nine months 2013 the group sold 59 apartments, plots and commercial areas (9 months 2012: 57).

	9 month 2013	9 month 2012	**Q3 2013**	Q3 2012
In millions of euros				
Revenue	12.4	16.0	4.7	4.9
Operating profit/loss	2.7	0.0	0.7	0.6
Net profit/loss	2.0	-1.1	0.5	0.2
EPS (in euros)	0.42	-0.21	0.09	0.05
Total assets at period-end	25.7	49.1		
Invested capital at period-end	20.4	40.1		
Net loans at period-end	14.5	18.4		
Equity at period-end	5.4	20.3		
Equity to assets ratio at period end	21%	41%		
Average loan term (in years)	1.7	1.9		
Average interest rate of loans (per year)	5.9%	6.5%		
ROIC (rolling, four quarters)	neg	neg		
ROE (rolling, four quarters)	neg	neg		
Number of staff at periood-end	71	103		

FORMULAS USED

Earnings per share (EPS) = net profit attributable to owners of the parent / (weighted average number of ordinary shares outstanding during the period – own shares)
Invested capital = current interest-bearing liabilities + non-current liabilities + equity (at end of period)
Net loans = current interest-bearing liabilities + non-current liabilities – cash and cash equivalents – short-term investments in securities (at end of period)
Equity to assets ratio = equity at end of period / total assets at period end
Average equity = past four quarters' equity at end of period / four
Return on equity (ROE) = past four quarters' net profit / average equity
Average invested capital = past four quarters' current interest-bearing liabilities, non-current liabilities and equity / four
Return on invested capital (ROIC) = past four quarters' profit before tax and interest expense / average invested capital
Number of staff at period-end = number of people working under employment contracts, excludes brokers and apprises that work for the group under service contracts

Group Chief Executive's review

General Comments

Q3 was the quarter for re-launching Arco Vara's volume development projects that will start impacting the group's revenues at the end of 2014. We continued the improvement cycle in the group's work processes, data processing and product development. We also complemented out team with needed competence. Restructuring of the group and cleaning of the balance sheet is reaching the end of the process.

The group is now completely focused on the future and profitability. By keeping this focus, we must overcome the anticipated fall in revenues during 2014, which is caused by decreasing stock and self-inflicted gap in the development process of the previous years. We expect increase of revenues of the services division and maintaining its profitability at current levels, because the brokerage, evaluation and facility management sectors have intense competition on the one hand and on the other we need to do investments into the main assets, which have been postponed in the previous years.

In conjunction with completion of significant part of group's restructuring process, one may note that the group's balance sheet does not include any more any single development project, which could endanger the group's sustainability even in case of complete failure of that project.

Engagement of capital is still high on the agenda, either as project-based approach (such as a targeted bond issue to finance particular development project) or, depending on the readiness of shareholders and the capital markets, as a share issue. Naturally the group must demonstrate strong return on equity.

Develoment division: volume development projects in third quarter

a) We proceeded according to timetable with the project in Tallinn, Paldiski road 70c, which is currently in detail planning stage. Presumed volume is 300 apartment units, presumed gross sellable area (GSA) above grade 24 000 sq.m.

b) We completed the design and finance preparations for the project in Sofia, Manastirski Livadi Stage II with presumed volume of 132 apartment units and gross sellable area above grade of 12 500 sq.m. In order to commence the project, it was necessary to separate the Manasirski and Madrid Blvd. assets and liabilities into different legal entities and complete premature repayment of the Piraeus Bank's outstanding Manastirski loan, which was executed in third quarter. The repayment was partly financed by Arco Vara bond issue (750 000 EUR at 14% interest rate). By publication date of this report, the group has already executed the loan agreement and the construction contract to implement the project. See also stock exchange announcement on 13 November 2013.

c) We will also proceed with Manastirski Livadi Stage III where the group is the owner of the immovable, construction rights and partly completed under grade construction. Presumed project volume is exceeding 70 apartments and GSA above ground is in excess of 6,000 sq.m. The project will be launched in accordance with fulfilment of the internal sales targets of Stage II, presumably by end of 2015;

d) The group continues selling Bisumuiša-1 apartments in Riga. It must be noted however, that the new middle-class apartment market (not the so-called investment apartment market for EU-residence permit) is and remains weak for at least another year. due to big amount of toxic assets in banks' balance sheets. From the consumer's viewpoint, the banks tend to offer finance at foremost for purchase of their own toxic assets. However the group will not change its pricing and is well prepared to continue with slower sales pace without sacrificing profit margins.

e) In Estonia, as at the end of Q3, the group's own production stock has been sold out with an exception of a single apartment in Tallinn, which is due to be sold in Q4. Next consumer residence products will be ready for delivery in 2015 at the earliest.

Work process, research & development and complements to the team

Different units of the group commenced the development of process-specific software and improvement of quality management systems, as well as research of practical implementation of various energy efficiency technologies. As an example, during the design stage we made more than 120 slight improvements into Manastirski Stage II apartments, considering the inputs and feedback that we got from Manastirski Stage I and other peers.

The parent company's team was joined by chief finance officer Marko Err and chief marketing officer Andre Poopuu.

Cleaning of balance sheet

a) We continued efforts to restructure Ahtri 3 project. Unfortunately the parties could not find a satisfactory solution during Q3, but the good will efforts are continuing. Until a final, in- or out-of- court solution is reached, we deem necessary to maintain the 1.9 million provision which was established in conjunction with the guarantee issued by Arco Investeeringute AS in favour of Danske Bank to secure Arco HCE's loan obligations.

b) Arco Ehitus (Arco construction company) continued fulfilment of its obligations under the construction contracts and as of the report date, we have completed the last (Kuusalu) project. Therefore all Arco's construction contracts have been duly performed and completed. We are not seeking new contracts with third parties, because general works or environmental construction does not fall under the group's businss scope. We have long earlier predicted the weak demand on the one side and overcapacity and oversupply on the other side of the Estonian construction sector for the coming years. Arco Ehitus is remaining in the group's balance sheet as legal entity which assets and liabiliies are all related to judicial disputes that originate from previous years. The factual value of overwhelming majority of Arco Ehitus's assets and liabilities will be established as a result of court judgements, once they become issued and enter into force. The biggest creditor of Arco Ehitus, as at the end of Q3 is the group itself. No legal dispute related to Arco Ehitus should significantly affect the group's general operations or profitability.

c) The biggest risk of upcoming quarters is related to attempts to refinance of Piraeus Bank's loan on the Madrid Blvd. project in Sofia, and in case of failure, the probable non-fulfilment of the loan agreement by group's subsidiary Arco Invest EOOD. Although the building's lettable area is 99% occupied and is generating positive cash flow, the predictable sales pace of apartments in the building is not sufficient to meet the obligation to repay 1.8 million euros as principal during 2014. The whole loan becomes due in 2015.

Comment on sale revenues

We noted in Q2 report that the sales revenue decrease is inevitable because (i) completion of construction activities and (ii) the gap in development production of 2011-2012. As a minimum it takes more than 4 years to complete one full production cycle of the group's main product – residential or office property, if one counts the time from the moment of acquisition of the land without building rights, followed by design, construction and selling or letting out.

As there are no new end products in the production pipeline for 2013 and 2014, the decrease of revenue from development products is inevitable. The group is actively searching possibilities to cut through to fast development and sales possibilities for 2014, without compromising expectations to return on equity and also Arco Vara's demands on the quality of the development project.

The groups also sold its last remaining property in Lithuania and reduced its loan liabilities. The positive cashflow from the sales was directed to finance development activities in Bulgaria.

We look positively at increase of sale revenues in services division, considering also the tight competition in Estonian, Latvian and Bulgarian markets and still rather unsure than sure situation among consumers and finance sector. It should be noted that the importance and quality of informational inputs from services division to development division has significantly increased during the first 9 months of 2013.

Comment on profit

The groups target for 2013 was to achieve operating profit. After 9 months, we are making operating profit as well as net profit and all divisions of the group are profitable.

As regards the service division, it should be noted that we have increased expenditure and investments into main assets and work processes improvement (software, team trainings etc), which have been postponed in previous years. In the long run the expenditure and investments should result in further increase of service division's revenue and also increase of profit. It should also bring along the further improvements in the quantity and quality of the input data for development division.

At the end of Q3 I shall still continue pointing out, that in order to change the group's course and maintain profitability, we need to increase the sales volume. While the growth is supported by the service division, the foremost source of growth shall be the continuation and expansion of development business. For that purpose the group must engage more capital.

Comment on loan burden

The group's net loan liabilities decreased in Q3 as the group continues to sell the products of its development division and despite the 750,000 euros bond issue.

More than 80% of the group's loans are related to Bulgarian development projects, of which the biggest outstanding balance (12 million euros) lies with Piraeus Bank's loan to Madrid Blvd project. Neither the parent company nor other subsidiaries which embrace other significant development projects of the group have assumed any financial obligations in relation to that loan.

We expect increase of the loan exposure in 2013 Q4 and during 2014, because the group is planning to expand its development activities and the positive cashflows from the sales of existing stock are not sufficient to finance expansion.

Comments on human resources

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

REVENUE AND PROFIT

In millions of euros	**9 month 2013**	9 month 2012	**Q3 2013**	Q3 2012
Revenue				
Service	2.1	1.9	0.8	0.6
Development	6.8	5.7	2.8	1.9
Construction	3.7	8.6	1.2	2.5
Eliminations	-0.1	-0.2	0.0	-0.1
Total revenue	**12.4**	**16.0**	**4.8**	**4.9**
Operating profit/loss				
Service	0.2	0.6	0.1	0.6
Development	2.6	-0.1	0.4	0.3
Construction	0.4	0.2	0.4	-0.1
Unallocated income and expenses	-0.2	-0.7	-0.1	0.0
Eliminations	-0.3	0.0	-0.1	-0.2
Total operating profit/loss	**2.7**	**0.0**	**0.7**	**0.6**
Finance income and expenses (net)	-0.7	-1.1	-0.2	-0.4
Net profit/loss	**2.0**	**-1.1**	**0.5**	**0.2**

CASH FLOWS

In millions of euros	**9 month 2013**	9 month 2012	**Q3 2013**	Q3 2012
Cash flows from operating activities	-0.2	0.2	0.2	0.5
Cash flows from investing activities	1.4	0.8	0.0	-0.1
Cash flows from financing activities	-2.4	-2.0	-0.4	-1.5
Net cash flows	**-1.2**	**-1.0**	**-0.2**	**-1.1**
Cash and cash equivalents at beginning of period	1.8	2.2	0.8	2.3
Cash and cash equivalents at end of period	**0.6**	**1.2**	**0.6**	**1.2**

During next 12 months the group must pay back 1.45 million euros of loans in Boulevard Residence Madrid in Sofia. After the date of interim report the group has repaid final amount of loan of Bišumuiža-1 in amount of 0,2 mln eurot.

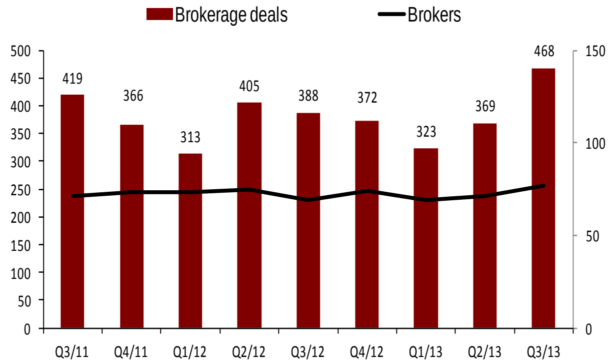
During 9 monts of 2013 the group has made loan repayments in Madrid and Manastirski projects in Sofia and completely paid back loans of Pärnu Turg, Kodukolde and Kastanimaja projects in Estonia.

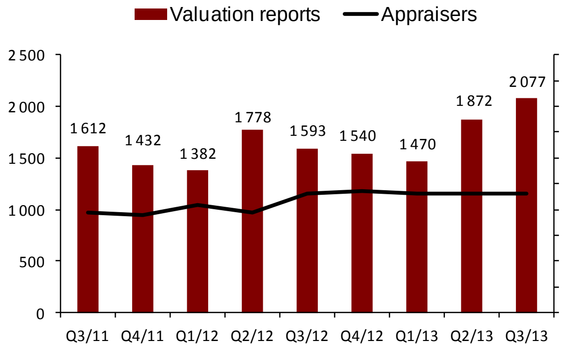
Also sale-related debt reduction has been occurred in Marsili II SIA and loan payment schedule has been set for loan of Arco Real Estate AS.

SERVICE DIVISION

For 9 month 2013, operating profit of Service division was 187 thousand euros compared to 663 thousand euros for the same period of last year. The operating profit decreased compared to the same period of 2012, but the last year's result contained also extraordinary income in amount of 556 thousand euros. Sales revenue has increased from 1.9 million euros for 9 months 2012 to 2.1 million euros for 9 months 2013. Number of brokerage deals has increased by 5% and number of valuation reports has increased by 14%. Number of brokers has increased by 5 to 79 and number of valuators by 2- to 49.

We must stress that number of employees includes only employees who have working agreement with Group. Significant number of brokers and valuatiors are employed as sub-contractors.

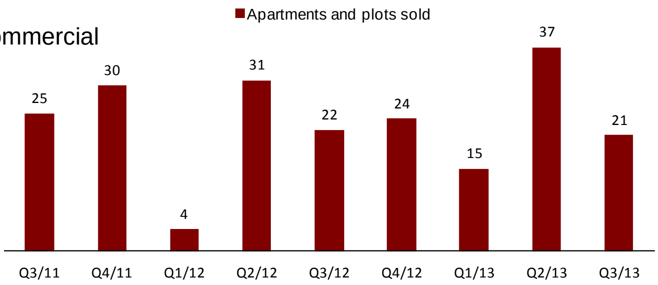




	9 months 2013	9 months 2012	Change, %
Number of completed brokerage transactions	1,160	1,106	5%
Number of valuation reports issued during the period	5,419	4,753	14%
Number of appraisers at end of period[1]	49	47	4%
Number of brokers at end if period[1]	79	74	7%
Number of staff at end of period	49	37	32%

DEVELOPMENT DIVISION

In Q3 2013, total of 16 apartments, 2 plots and 3 commercial areas were sold in Arco Vara projects. 2 plots in Baltezers project and 5 apartments in Bišumuiža-1 project in Latvia, 11 apartments in Kastanimaja project in Estonia and 3 smaller commercial areas in Manastirski project In Bulgaria were sold. Also, a residential property in Lihtuanian capital Vilnius was sold in Q3.



The permit for the construction of a mixed-use residential/commercial building of energy class B called Kastanimaja (Chestnut House) at Tehnika 53 in Tallinn was obtained in January 2012. In Q3 2013, construction work has been completed and the permit of use has been issued for the building. Sales have been successful as all apartements are sold by the publication date of this report.

In Bulgaria, we continue to sell phase I of the Manastirski project. By the publication date of this report, 72 apartments out of the 74 have sold and we have started planning phase II of the Manastirski project. In the commercial/residential building Boulevard Residence Madrid in Sofia we continue to lease out commercial and office premises and to sell and rent out the remaining free apartments.

In Bišumuiža 1 apartment buildings project in Latvia, in February 2013 we extended the construction permit to continue development of the project. By the publication date of this report, the building with 14 apartments and with sellable area of 1,149 square metres has been completed. By the publication date of this report were sold 9 apartments. The last building of the project, also with 14 apartments, is awaiting its turn. The outer shell has already been erected. All apartments in the project's previously completed 7 buildings have been sold.

At the end of September 2013, the division employed 4 people (30 September 2012: 20).

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

CONSTRUCTION DIVISION

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

At the end of Q3 2013, the only projects in the process was construction of the Kuusalu public water and wastewater network with remaining balance of 0.09 million euros.

At the end Q3 2013, the Construction division's order backlog stood at 0.09 million euros compared with 4.5 million euros at the end of the Q3 2012.

At 30 September 2013, the division employed 9 people (30 September 2012: 40 people).

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

Country	Passive m^2	In preparation m^2	Under Construction m^2	In stock m^2	Cash flow m^2	Total m^2
Estonia	**446 555 €**	**79 498 €**	**- €**	**70 539 €**	**- €**	**596 592 €**
building	*- €*	*40 331 €*	*- €*	*93 €*	*- €*	*40 424 €*
land	*446 555 €*	*39 167 €*	*- €*	*70 446 €*	*- €*	*556 168 €*
Latvia	**2 450 €**	**110 951 €**	**960 €**	**40 638 €**	**- €**	**154 999 €**
building	*- €*	*- €*	*960 €*	*960 €*	*- €*	*1 920 €*
land	*2 450 €*	*110 951 €*	*- €*	*39 678 €*	*- €*	*153 079 €*
Bulgaria	**6 651 €**	**15 842 €**	**- €**	**5 674 €**	**7 349 €**	**35 516 €**
building	*6 651 €*	*15 842 €*	*- €*	*5 674 €*	*7 349 €*	*35 516 €*
land	*- €*	*- €*	*- €*	*- €*	*- €*	*- €*
Arco Vara Total	**455 656 €**	**206 291 €**	**960 €**	**116 851 €**	**7 349 €**	**787 107 €**

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

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

In preparation – development projects in the phase of market research, marketing, detailed plan process or design work. In the case of apartment development, the area presented is the gross above-ground building right.

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

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

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

PEOPLE

At the end of Q3 2013, the group employed 71 people compared with 103 at the end of the third quarter of 2012. Employee remuneration expenses for the 9 months of 2013 totalled 2.2 million euros compared with 2.7 million euros for the 9 month of 2012.

The remuneration of the member of the management board/chief executive and the members of the supervisory board of the group's parent company including social security charges for the 9 months of 2013 amounted to 148 thousand euros compared with 176 thousand euros for the 9 month of 2012.

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

SHARE AND SHAREHOLDERS

Arco Vara AS has issued a total of 4,741,707 shares. At 30 September 2013, the company had 1,801 shareholders and the share price closed at 1.26 euros, a 20.25% decrease within nine months.

The following charts reflect movements in the price and daily turnover of the Arco Vara share in the 9 month of 2013

In euros (EUR)

Changes in share price compared with the benchmark index OMX Tallinn in 9 month of 2013

Index/equity	1 January 2013	30 September 2013	+/-%
OMX Tallinn	734.20	836.02	+13.87
ARC1T	1.58 EUR	1.26 EUR	-20.25

Major shareholders as of 30 September 2013	Number of shares	Interest %
LHV Pensionifond XL	110 445	2%
Central Securities Depository of Lithuania	149 171	3%
Firebird Republics Fund LTd	205 064	4%
Lõhmus Holdings AS	252 378	5%
LHV Pensionifond L	310 000	7%
Alarmo Kapital OÜ	324 188	7%
Osaühing HM Investeeringud	450 000	9%
Gamma Holding OÜ	470 080	10%
AS Baltplast	1 282 990	27%
Other	1 187 391	25%
Total	**4,741,707**	**100%**

Holdings of members of the management and supervisory boards at 30 September 2013	Position	Number of shares held	Interest %
Tarmo Sild (Alarmo Kapital OÜ)	member of the management board	324,188	7%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	chairman of the supervisory board	459,507	10%
Toomas Tool (OÜ Baltplast)	member of the supervisory board	1,282,990	27%
Rain Lõhmus (Lõhmus Holdings AS, LHV pension funds M, L, XL)	member of the supervisory board	470,080	10%
Arvo Nõges (Gamma Holding OÜ)	member of the supervisory board	687,523	15%
Stephan David Balkin	member of the supervisory board	-	0%
Aivar Pilv	member of the supervisory board	-	0%
Total		**3,224,288**	**68%**

DESCRIPTION OF THE MAIN RISKS

Credit risk

Credit risk exposure is the greatest at the Construction and Development division. Accordingly, counterparties' settlement behaviour is monitored on on going basis quarantines and collaterials are also used.

Liquidity risk

The group's free funds are placed in overnight or short-term fixed-interest term deposits with the largest banks operating in Estonia. Owing to high refinancing risk, cash flow management is critical. The group's cash and cash equivalents balance is constantly smaller than the balance of loans that require refinancing in the next 12 months. At 30 September 2013, the weighted average duration of interest-bearing liabilities was 1.7 years, which means that on average all loans need to be refinanced within less than two years. At the end of the third quarter of 2013 the group's cash and cash equivalents totalled 0.6 million euros and term deposits with maturities extending from 3 to 12 months totalled 0.3 million euros. Out of the above balance 0.5 million euros was under the group's own control and the rest was in accounts with restricted withdrawal opportunities (mostly accounts of designated purpose where withdrawals require the banks' consent). Liquidity and refinancing risks continue to be the most significant risks for the group.

Interest rate risk

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

In 9 month 2013, the group's interest-bearing liabilities decreased by 3.6 million euros to 15.1 million euros at 30 September 2013. In 9 month 2013, interest payments on interest-bearing liabilities totalled 0.7 million euros. Compared with 30 September 2012, the weighted average interest rate as at 30 September 2013 decreased from 6.5% to 5.9%, mainly thanks to a decrease in the interest rates negotiated on refinancing the bank loans of the group's Bulgarian development company.

Currency risk

Purchase and sales contracts are mostly signed in local currencies: euros (EUR), Latvian lats (LVL) and Bulgarian levs (BGN).Real Estate sales are nominated in euros due to that company has low currency risk asset- liability structure. The group is not protected against currency devaluations. Most liquid funds are held in short-term deposits denominated in euros.

The chief executive/member of the management board confirms that the directors' report of Arco Vara AS for the third quarter and nine months ended 30 September 2013 provides a true and fair view of the development, financial performance and financial position of the group as well as a description of the main risks and uncertainties.

Tarmo Sild

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

15 November 2013

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	**9 month 2013**	9 month 2012	**Q3 2013**	Q3 2012
In thousands of euros					
Revenue from rendering of services		6,478	11,564	2,238	3,448
Revenue from sale of own real estate		5,925	4,455	2,503	1,494
Total revenue	3	**12,403**	**16,019**	**4,741**	**4,942**
Cost of sales	4	-9,284	-13,787	-3,485	-4,175
Gross profit		**3,119**	**2,232**	**1,256**	**767**
Other income	7	230	884	17	675
Marketing and distribution expenses	5	-191	-203	-65	-60
Administrative expenses	6	-1,420	-2,009	-454	-625
Other expenses	7	-97	-755	-43	-19
Gain on transactions involving subsidiaries and joint ventures		1,098	-176	0	-176
Operating profit/loss		**2,739**	**-27**	**711**	**562**
Finance income	8	20	71	1	26
Finance costs	8	-758	-1,120	-258	-376
Profit/loss for the period		**2,001**	**-1,076**	**454**	**212**
Profit/loss for the period attributable to		**2,001**	**-1,076**	**454**	**212**
Owners of the parent		*1,984*	*-1,008*	*443*	*224*
Non-controlling interests		*17*	*-68*	*11*	*-12*
Total comprehensive income/expense for the period attributable to		**2,001**	**-1,076**	**454**	**212**
Owners of the parent		*1,984*	*-1,008*	*443*	*224*
Non-controlling interests		*17*	*-68*	*11*	*-12*
Earnings per share (in euros)	**9**	**0.42**	**-0.21**	**0.09**	**0.05**

Consolidated statement of financial position

	Note	**30 September 2013**	31 December 2012
In thousands of euros			
Cash and cash equivalents		570	1,775
Receivables and prepayments	10	2,213	3,094
Inventories	11	10,672	11,701
Total current assets		**13,455**	**16,570**
Investments in equity-accounted investees		1	1
Investment property	12	11,682	14,097
Property, plant and equipment		507	540
Intangible assets		18	21
Total non-current assets		**12,208**	**14,659**
TOTAL ASSETS		**25,663**	**31,229**
Loans and borrowings	13	1,724	16,838
Payables and deferred income	14	3,149	6,645
Provisions		2,089	3,084
Total current liabilities		**6,962**	**26,567**
Loans and borrowings	13	13,333	1,231
Payables and deferred income	14	0	64
Total non-current liabilities		**13,333**	**1,295**
TOTAL LIABILITIES		**20,295**	**27,862**
Share capital	9	3,319	3,319
Statutory capital reserve		2,011	2,011
Retained earnings		26	-1,958
Total equity attributable to owners of the parent		**5,356**	**3,372**
Equity attributable to non-controlling interests		12	-5
TOTAL EQUITY		**5,368**	**3,367**
TOTAL LIABILITIES AND EQUITY		**25,663**	**31,229**

Consolidated statement of cash flows

	Note	9 month 2013	9 month 2012	Q3 2013	Q3 2012
In thousands of euros					
Cash receipts from customers		11,854	20,430	3,954	6,410
Cash paid to suppliers		-9,163	-17,476	-2,822	-4,776
Taxes paid		-1,940	-1,819	-608	-797
Taxes recovered		183	418	48	77
Cash paid to employees		-910	-1,260	-276	-410
Other cash payments and receipts related to operating activities		-190	-105	-75	-28
NET CASH USED IN/FROM OPERATING ACTIVITIES		**-166**	**188**	**221**	**476**
Purchase of property, plant and equipment and intangible assets		-18	-27	-9	-8
Proceeds from sale of property, plant and equipment		35	7	29	1
Proceeds from sale of investment property		20	1,160	0	11
Proceeds from sale of a subsidiary		1,610	0	0	0
Loans provided		-37	-308	-29	-72
Repayment of loans provided		0	2	0	1
Placement of security deposits		-263	0	0	0
Interest received		5	14	1	8
Other payments related to investing activities		0	-48	0	-19
NET CASH FROM/USED IN INVESTING ACTIVITIES		**1,352**	**800**	**-8**	**-78**
Proceeds from loans received	12	2,881	2,230	1,461	1,485
Settlement of loans and finance lease liabilities	12	-4,484	-2,823	-1,558	-2,339
Interest paid		-742	-1,389	-285	-651
Other payments related to financing activities		-9	-16	0	-4
NET CASH USED IN FINANCING ACTIVITIES		**-2,354**	**-1,998**	**-382**	**-1,509**
NET CASH FLOW		**-1,168**	**-1,010**	**-169**	**-1,111**
Cash and cash equivalents at beginning of period		1,775	2,209	739	2,310
Decrease in cash and cash equivalents		-1,168	-1,010	-169	-1,111
Decrease in cash and cash equivalents through sale of a subsidiary		-37	0	0	0
Cash and cash equivalents at end of period		**570**	**1,199**	**570**	**1,199**

Consolidated statement of changes in equity

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Share capital	Statutory capital reserve	Retained earnings	Total		
In thousands of euros						
Balance as at 31 December 2011	**3,319**	**2,011**	**16,306**	**21,636**	**-447**	**21,189**
Acquisition of non-controlling interests	0	0	-300	-300	512	**212**
Total comprehensive expense for the period	0	0	-1,008	-1,008	-68	**-1,076**
Balance as at 30 September 2012	**3,319**	**2,011**	**14,998**	**20,328**	**-3**	**20,325**
Balance as at 31 December 2012	**3,319**	**2,011**	**-1,958**	**3,372**	**-5**	**3,367**
Total comprehensive income for the period	0	0	1,984	1,984	17	**2,001**
Balance as at 30 September 2013	**3,319**	**2,011**	**26**	**5,356**	**12**	**5,368**

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 third quarter and nine months ended 30 September 2013 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the consolidated annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

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

2. Segment information

The group has the following reportable operating segments:
Development – development of residential and commercial real estate environments and long-term investment in real estate;
Service – real estate services: real estate brokerage, valuation, management and short-term investment in real estate;
Construction – general and sub-contracting and construction supervision in the field of general construction and environmental engineering.

Revenue and operating profit by operating segment

Segment	**Development**		**Service**		**Construction**		**Unallocated items**		**Eliminations**		**Consolidated**	
	9 month 2013	**9 month 2012**	**9 month 2013**	**9 month 2012**	**9 month 2013**	**9 month 2012**	**9 month 2013**	**9 month 2012**	**9 month 2013**	**9 month 2012**	**9 month 2013**	**9 month 2012**
In thousands of euros												
External revenue	6,796	5,686	1,948	1,717	3,657	8,615	2	1	0	0	12,403	16,019
Annual change	*20%*	*-67%*	*13%*	*10%*	*-58%*	*-33%*					*-23%*	*-49%*
Inter-segment revenue	13	24	129	210	0	0			-142	-234	0	0
Total revenue	**6,809**	**5,710**	**2,077**	**1,927**	**3,657**	**8,615**	**2**	**1**	**-142**	**-234**	**12,403**	**16,019**
Operating profit/loss	**2,626**	**-119**	**187**	**663**	**435**	**186**	**-231**	**-712**	**-278**	**-45**	**2,739**	**-27**

Segment	**Development**		**Service**		**Construction**		**Unallocated items**		**Eliminations**		**Consolidated**	
	Q3 2013	**Q3 2012**	**Q3 2013**	**Q3 2012**	**Q3 2013**	**Q3 2012**	**Q3 2013**	**Q3 2012**	**Q3 2013**	**Q3 2012**	**Q3 2013**	**Q3 2012**
In thousands of euros												
External revenue	2,782	1,864	736	581	1,222	2,497	1	0	0	0	4,741	4,942
Annual change	*49%*	*-38%*	*27%*	*6%*	*-51%*	*-41%*					*-4%*	*-37%*
Inter-segment revenue	3	11	36	55	0	0	0	0	-39	-66	0	0
Total revenue	**2,785**	**1,875**	**772**	**636**	**1,222**	**2,497**	**1**	**0**	**-39**	**-66**	**4,741**	**4,942**
Operating profit/loss	**391**	**255**	**95**	**604**	**377**	**-53**	**-105**	**-49**	**-47**	**-195**	**711**	**562**

Assets and liabilities by operating segment

Segment	Development		Service		Construction		Unallocated items		Consolidated	
	30 Sept 2013	31 Dec 2012	30 Sept 2013	31 Dec 2012	30 Sept 2013	31 Dec 2012	30 Sept 2013	31 Dec 2012	30 Sept 2013	31 Dec 2012
In thousands of euros										
Assets	23,028	27,605	574	486	1,610	2,310	451	828	25,663	31,229
Liabilities	17,339	23,382	523	623	1,621	2,746	812	1,111	20,295	27,862

3. Revenue

	9 month 2013	9 month 2012	**Q3 2013**	Q3 2012
In thousands of euros				
Sale of real estate	5,925	4,455	2,503	1,494
Construction services	3,636	8,708	1,209	2,493
Brokerage services	1,894	1,614	714	566
Rental services	764	1,045	240	336
Property management services	82	130	27	32
Other revenue	102	67	48	21
Total revenue	**12,403**	**16,019**	**4,741**	**4,942**

4. Cost of sales

	9 month 2013	9 month 2012	**Q3 2013**	Q3 2012
In thousands of euros				
Cost of real estate sold	-4,825	-3,923	-2,200	-1,266
Construction services purchased	-2,620	-7,717	-696	-2,252
Personnel expenses	-1,423	-1,525	-479	-503
Property management costs	-255	-394	-59	-91
Vehicle expenses	-89	-126	-24	-37
Depreciation, amortisation and impairment losses	-13	-15	-4	-5
Inventory write-down expenses	-3	0	0	0
Other costs	-56	-87	-23	-21
Total cost of sales	**-9,284**	**-13,787**	**-3,485**	**-4,175**

5. Marketing and distribution expenses

	9 month 2013	9 month 2012	**Q3 2013**	Q3 2012
In thousands of euros				
Advertising expenses	-113	-118	-33	-42
Personnel expenses	-31	-29	-15	-10
Brokerage fees	-6	-23	-2	-4
Market research	-6	-4	-3	-1
Other marketing and distribution expenses	-35	-29	-12	-3
Total marketing and distribution expenses	**-191**	**-203**	**-65**	**-60**

6. Administrative expenses

In thousands of euros	**9 month 2013**	9 month 2012	**Q3 2013**	Q3 2012
Personnel expenses	-728	-1 136	-231	-333
Office expenses	-344	-412	-115	-134
Legal and consulting fees	-221	-254	-68	-97
Vehicle expenses	-35	-97	-13	-20
Depreciation, amortisation and impairment losses	-36	-47	-12	-14
Other expenses	-56	-63	-15	-27
Total administrative expenses	**-1,420**	**-2,009**	**-454**	**-625**

7. Other income and expenses

Other income

In thousands of euros	**9 month 2013**	9 month 2012	**Q3 2013**	Q3 2012
Gain on sale property, plant and equipment	11	0	7	0
Gain on sale investment property	0	2	0	0
Gain on sale of other assets	0	192	0	1
Other income	219	690	10	674
Total other income	**230**	**884**	**17**	**675**

Other expenses

In thousands of euros	**9 month 2013**	9 month 2012	**Q3 2013**	Q3 2012
Late payment interest and penalty charges	-60	-24	-35	-14
Write-down of receivables	-16	-1	-2	-1
Loss on changes in the fair value of investment property	-3	0	0	0
Loss on sale property, plant and equipment	-1	-2	0	-2
Loss on sale investment property	0	-712	0	0
Miscellaneous expenses	-17	-16	-6	-2
Total other expenses	**-97**	**-755**	**-43**	**-19**

8. Finance income and costs

Finance income

In thousands of euros	**9 month 2013**	9 month 2012	**Q3 2013**	Q3 2012
Interest income	20	71	1	26
Total finance income	**20**	**71**	**1**	**26**

Finance costs

In thousands of euros	**9 month 2013**	9 month 2012	**Q3 2013**	Q3 2012
Interest expenses	-659	-1,005	-230	-334
Foreign exchange loss	-5	-6	-2	-1
Other finance costs	-94	-109	-26	-41
Total finance costs	**-758**	**-1,120**	**-258**	**-376**

9. 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.

	9 month 2013	9 month 2012	**Q3 2013**	Q3 2012
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)	1,984	-1,008	443	224
Earnings per share (in euros)	**0.42**	-0.21	**0.09**	0.05
Diluted earnings per share (in euros)	**0.39**	-0.21	**0.09**	0.05

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 390,000 ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2016.

10. Receivables and prepayments

	30 September 2013	31 December 2012
In thousands of euros		
Trade receivables		
Receivables from customers	1,693	2,214
Allowance for doubtful receivables	-463	-463
Total trade receivables	**1,230**	**1,751**
Other receivables		
Loans provided	60	580
Term deposits (with maturities from 3 to 12 months)	284	19
Miscellaneous receivables	305	202
Total other receivables	**649**	**801**
Accrued income		
Interest receivable	2	230
Due from customers under long-term construction contracts	175	0
Prepaid and recoverable taxes	65	112
Other accrued income	25	12
Total accrued income	**267**	**354**
Prepayments made	**67**	**188**
Total receivables and prepayments	**2,213**	**3,094**

11. Inventories

	30 September 2013	31 December 2012
In thousands of euros		
Real estate purchased and being developed for resale	10,591	11,090
Materials and goods for sale	68	92
Prepayments for inventories	13	519
Total inventories	**10,672**	**11,701**

12. Investment property

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

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

13. Loans and borrowings

	30 September 2013			31 December 2012		
	Total	*Of which current portion*	*Of which non-current portion*	**Total**	*Of which current portion*	*Of which non-current portion*
In thousands of euros						
Bank loans	14,278	1,712	12,566	18,032	16,824	1,208
Bonds	751	0	751	0	0	0
Finance lease liabilities	28	12	16	37	14	23
Total	**15,057**	**1,724**	**13,333**	**18,069**	**16,838**	**1,231**

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

In the first 9 months of 2013, the group settled loans and borrowings of 4,484 thousand euros (9 month 2012 : 2,823 thousand euros) through cash transactions and raised new loans and borrowings of 2,881 thousand euros (9 month 2012: 2,230 thousand euros).

In nine month 2013, the group’s loans and borrowings also decreased through non-cash transactions:

- by 447 thousand euros through the sale of Pärnu Turg OÜ (see also note 12);
- by 963 thousand euros that customers who purchased real estate property paid directly to banks.

On 21 August 2013, Arco Vara AS issued bonds as targeted issue in total amount of 750 thousand euros. The bonds maturity date is 21 August 2016 and annual interest rate is 14%. See also note 15.

14. Payables and deferred income

Short-term payables and deferred income

In thousands of euros	**30 September 2013**	31 December 2012
Trade payables	**1,698**	**2,050**
Miscellaneous payables	**7**	**739**
Taxes payable		
Corporate income tax	172	220
Value added tax	174	291
Social security tax	48	61
Personal income tax	26	33
Other taxes	136	91
Total taxes payable	**556**	**696**
Accrued expenses		
Interest payable	3	91
Payables to employees	101	217
Other accrued expenses	1	29
Total accrued expenses	**105**	**337**
Deferred income		
Prepayments received on sale of real estate	782	2,080
Due to customers under long-term construction contracts	0	742
Other deferred income	1	1
Total deferred income	**783**	**2,823**
Total short-term payables and deferred income	**3,149**	**6,645**

Long-term payables

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

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

In thousands of euros	**9 month 2013**	9 month 2012
Joint venturas and associate		
Services sold	1	2
Loans provided	37	308

Conversion of receivables to equity	0	959
Companies with a significant ownership interest in the group's parent company		
Services purchased	24	0
Bonds issue	500	0
Paid interest	8	0
Other related parties		
Services sold	0	95
Services purchased	21	240
Settlement of other liabilities	0	309
Repayment of loans provided	0	633
Prepayments made	0	62
Loans received	0	207
Repayment of loans received	0	52
Bonds issue	251	0
Paid interest	4	0

Balances with related parties

	30 September 2013	31 December 2012
EUR tuhandetes		
Joint venturas and associate		
Loans provided	42	6
Companies with a significant ownership interest in the group's parent company		
Trade receivables [1]	0	4
Short-term loan receivables [1]	0	376
Short-term interest receivables [1]	0	136
Issued bonds	500	0
Trade payables	2	0
Other related parties		
Short-term loan receivables [1]	0	175
Short-term interest receivables [1]	0	93
Other short-term receivables [1]	0	7
Trade payables	0	3
Issued bonds	251	0

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

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

In June 2013, the group's partner in joint venture company Tivoli Arendus OÜ purchased the properties belonging to Tivoli Arendus OÜ at a public auction. Through the transaction, Arco Vara AS disposed of the surety guarantee it had provided to the loan commitments of Tivoli Arendus OÜ and, thus, the group could reverse a provision of 1,000 thousand euros that had been recognised in 2012.

On 21 August 2013, Arco Vara AS issued bonds as targeted issue in total amount of 750 thousand euros. The bonds maturity date is 21 August 2016 and annual interest rate is 14%. Whole issue was subscribed by key management personnel and by the companies that have a significant interest in the group's parent company. The issued bonds are guaranteed with mortgage on property in Sofia that belongs to the subsidiary of Arco Vara AS.

In the first 9 months of 2013, the remuneration provided to the group's key management personnel, i.e. the chief executive/member of the management board and the members of the supervisory board of the group's parent company, including social security charges, amounted to 148 thousand euros (9 month 2012: 176 thousand euros). The remuneration provided to the chief executive/member of the management board is based on his service contract. 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 that 1,000 euros (net amount) per month. The payment of the renumeration 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 the first half of 2013.

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 390,000 ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2016.

In favor of chief executive/member of management board is issued convertible bond, which gives him the right to subscribe up to 390,000 ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2016. See also note 9.

16. Contingent assets and liabilities

Claims and statements of claim related to Arco Ehitus OÜ

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

Bank guarantees for construction activities

Group entities' obligations under construction contracts are secured with various guarantees and surety bonds. Banks have issued the letters of guarantee required by customers against mortgages. The guarantees expire within up to three years. The group considers the probability of the realisation of the guarantees and surety bonds remote. Therefore, relevant provisions have not been recognised in the statement of financial position. As at 30 September 2013, bank guarantees provided to customers totalled 789 thousand euros (31 December 2012: 1,434 thousand euros).

17. Subsequent events

On 13 November 2013, was concluded loan agreement in amount of 4.4 million euros between Unicredit Bulbank and Arco Manastriski EOOD for financing the construction of Manastiski A and B buildings.

On 14 November 2013 was concluded construction contract in amount of 3.9 million euros between Komfort EOOD and Arco Manastirski EOOD for construction of apartment building of blocks A and B in Manastriski project.

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 third quarter and nine months ended 30 September 2013.

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

15 November 2013