Offering of up to 3,500,000 Ordinary Shares in Arco Vara AS

Offer Price EUR 1.00

Offer Period 8 August 2014 – 29 August 2014

Arco Vara AS (the **Company**), a limited liability company incorporated in Estonia, is publicly offering up to 3,500,000 ordinary shares (the **Offer Shares**) to retail investors in Estonia (the **Retail Offering**). Simultaneously with the Retail Offering, the Offer Shares will be privately offered to institutional investors in and outside of Estonia (the **Institutional Offering**, together with the Retail Offering, the **Offering**). The Institutional Offering will not constitute a public offering of the Offer Shares under the laws of any jurisdiction. The Institutional Offering will be made on the basis of a separate offering circular and therefore this document (the **Prospectus**) relates only to the Retail Offering. The Institutional Offering will be made outside the United States in reliance on Regulation S under the United States Securities Act of 1933, as amended and in the United States to qualified institutional buyers (QIBs), as defined in and in reliance on Rule 144A under the Securities Act.

The existing ordinary shares of the Company are listed and admitted to trading on the main list of the NASDAQ OMX Tallinn Stock Exchange. The Company will, simultaneously with the Offering, apply for the listing of the Offer Shares on the main list of the NASDAQ OMX Tallinn Stock Exchange on the basis of this Prospectus. It is estimated that the trading with the Offer Shares will commence on or about 17 September 2014.

In the course of the Retail Offering, the Offer Shares are offered only to the existing shareholders, employees and members of the Management and Supervisory Board of the Company and its Subsidiaries (as defined in this Prospectus) on the terms and conditions described in this Prospectus. The Offer Shares are offered at the Offer Price indicated above.

The Company reserves the right to cancel the Offering or change the terms and conditions thereof as described in this Prospectus.

By participating in the Offering, you acknowledge that investing in shares involves risks. While every care was taken to ensure that this Prospectus presents a fair and complete overview of the risks related to the Offer Shares and the Offering, the value of your investment may be adversely affected by circumstances that are either not evident at the date hereof or not reflected in this Prospectus.

THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, ON THE ACCOUNT OR BENEFIT FOR, U.S. PERSONS (AS DEFINED IN THE REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

Global Lead Manager and Book-runner:

25 July 2014

TABLE OF CONTENTS

1. INTRODUCTORY INFORMATION

1.1. Applicable Law

The Retail Offering is conducted in accordance with and governed by the Estonian laws implementing the Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC and in accordance with the Commission Regulation No 809/2004 of 29 April 2004 implementing the Directive 2003/71/EC, in particular the Annex XXV thereof. Before reading this Prospectus, please take notice of the following important introductory information.

1.2. Persons Responsible and Limitations of Liability

The person responsible for the information given in this Prospectus is Arco Vara AS (the **Company**). The Company accepts responsibility for the fullness and correctness as of the date hereof of the information contained in this Prospectus. Having taken all reasonable care to ensure that such is the case, the Company believes that the information contained in this Prospectus is, to the best of the Company's knowledge, in accordance with the facts, and contains no omission likely to affect its import.

Arco Vara AS

Management Board

Tarmo Sild

Without prejudice to the above, no responsibility is accepted by the persons responsible for the information given in this Prospectus solely on the basis of the summary of this Prospectus, unless such summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

Furthermore, the Global Lead Manager (as defined hereafter) expressly disclaims any liability based on the information contained in this Prospectus, the summary of this Prospectus or individual parts thereof and will not accept any responsibility for the correctness, completeness or import of such information. No information contained in this Prospectus or disseminated by the Company in connection with the Offering may be construed to constitute a warranty or representation, whether express or implied, made by the Global Lead Manager to any third parties. In addition to the above, the Global Lead Manager accepts no responsibility or liability for the equal treatment of Management (as defined below) and employees in the allocation and settlement process of the Offer Shares in accordance with the provisions of the preferential allocation to the Management and employees as described under the Section "Preferential Allocation to Management and Employees".

Neither the Company nor the Global Lead Manager will accept any responsibility for the information pertaining to the Offering, the Company or its operations, where such information is disseminated or otherwise made public by third parties either in connection with this Offering or otherwise.

By participating in the Offering, you agree that you are relying on your own examination and analysis of this Prospectus (including the financial statements of the Company which form an indispensable part of this Prospectus) and any information on the Company that is available in the public domain. You also acknowledge the risk factors that may affect the outcome of such investment decision (as presented under the Section "Risk Factors" below).

Please note that in the case of a dispute related to this Prospectus or the Offering, the plaintiff may have to resort to the jurisdiction of the Estonian courts and consequently a need may arise for the plaintiff to cover relevant state fees and translation costs in respect of this Prospectus or other relevant documents.

1.3. Presentation of Information

Approximation of Numbers. Numerical and quantitative values in this Prospectus (e.g. monetary values, percentage values etc.) are presented with such precision which is deemed by the Company to be sufficient in order to convey adequate and appropriate information on the relevant matter. From time to time, quantitative values have been rounded up to the nearest reasonable decimal or whole value in order to avoid excessive level of detail. As a result, certain values presented as percentages do not necessarily add up to 100% due to the effects of approximation. Exact numbers may be derived from the consolidated financial statements of the Group, to the extent that the relevant information is reflected therein.

Currencies. In this Prospectus, financial information is presented either in euro (EUR), the official currency of the Republic of Estonia, the Republic of Latvia and the EU Member States in the Eurozone. Certain information may from time to time be expressed in currencies other than euro. Such currencies may include the Bulgarian levs (BGN) and Estonian kroons (EEK).

Date of Information. This Prospectus is drawn up based on information which was valid as of 14 July 2014. Where not expressly indicated otherwise, all information presented in this Prospectus (including the consolidated financial information of the Group, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs as of the aforementioned date. Where information is presented as of a date other than 14 July 2014, this is identified by either specifying the relevant date or by the use of expressions "the date of this Prospectus", "to date", "until the date hereof" and other similar expressions, which must all be construed to mean the date of this Prospectus (25 July 2014).

Documents on Display. In addition to this Prospectus, the following documents (or copies thereof), where applicable, may be inspected: (a) the Articles of Association of the Company; (b) the audited consolidated financial statements of the Group for the latest 2 financial years; (c) unaudited interim consolidated financial statements for the 3 months ended 31 March 2014 (Q1); (d) the real estate appraisal report by Newsec Valuations EE OÜ, dated 31 March 2014, (e) the real estate appraisal report by SIA Newsec Valuations LV, dated 31 March 2014; (f) the real estate appraisal report by P.DANOS & ASSOCIATES S.A., dated 24 March 2014 as well as (g) information published as company announcements via the information system of the NASDAQ OMX Tallinn Stock Exchange and available at http://www.nasdaqomxbaltic.com/market/?pg=details&instrument=EE3100034653&list=2&tab=trading. The unaudited interim consolidated financial statements for the 6 months ended 30 June 2014 (Q2) will be disclosed and made available on or about 7 August 2014. All the documents on display as described herein may be obtained from the website of the Company at www.arcorealestate.com in the Section "Investor Relations".

Third Party Information and Market Information. For portions of this Prospectus, certain information may have been sourced from third parties. Such information is accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Certain information with respect to the markets in which the Company and its subsidiaries operate is based on the best assessment made by the Management (as defined below). With respect to the industry in which the Company and its subsidiaries are active and certain jurisdictions in which they conduct their operations, reliable market information is often not available or is incomplete. While every reasonable care was taken to provide best possible assessments of the relevant market situation and the information on the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigation of the relevant markets or employ a professional consultant.

Updates. The Company will update the information contained in this Prospectus only to such extent and at such intervals and by such means as required by the applicable law or considered necessary and appropriate by the Management (as defined below). The Company is under no obligation to update or modify forward-looking statements included in this Prospectus (please see the Section "Forward-Looking Statements" below).

Table of Definitions. In this Prospectus, capitalized terms have the meaning ascribed to them hereunder, with the exception of such cases where the context evidently requires to the contrary, whereas the singular shall include plural and vice versa. Other terms may be defined elsewhere in the Prospectus.

BGN	shall mean the official currency of Bulgaria, the lev pegged to euro at the rate of 1.95583 lev for 1 euro.
Company	shall mean Arco Vara AS (whereas a reference to "us", "our" and "we" should be construed to represent a reference to the Company).
ECRS	shall mean the Estonian Central Register of Securities.
EEK	shall mean the official currency of Estonia, the Estonian kroon, used before Estonia's accession to the Eurozone in 2011, pegged to the euro at the rate of 15.6466 EEK for 1 EUR.
ERM II exchange rate mechanism	shall mean the European Exchange Rate Mechanism (ERM) II, a part of the European Monetary System created to reduce variability and achieve monetary stability in Europe, in preparation for Economic and Monetary Union and the introduction of a single currency, the euro, fixing the exchange rates of the local currencies of the members of the European Union, replacing the initial system of ERM, and to help the non-euro countries prepare themselves for the participation in the Eurozone. The convergence criterion on exchange rate stability requires participation in ERM II (please see http://ec.europa.eu/economy_finance/euro/adoption/erm2/index_en.htm for further details).
EUR	shall mean the official currency of Eurozone countries, including Estonia and Latvia, the euro.
Eurozone	shall mean the economic and monetary union (EMU) of the European Union member states, which have adopted euro as their single official currency.
Financial Statements	shall mean the audited consolidated financial statements of the Group for the latest 2 financial years and the unaudited interim consolidated financial statements for the 3 months ended 31 March 2014 (Q1) as incorporated into this Prospectus by reference and indexed in the Section "Index of Financial Statements".
GDP	shall mean gross domestic product, the market value of all officially recognized final goods and services produced within a country in a year, or other given period of time.
GFA	shall mean gross floor area (please see the Section "Investments" for further

details).

GLA	shall mean gross leasable area (please see the Section “Investments” for further details).
Global Lead Manager	shall mean AS LHV Pank (an Estonian credit institution, register code 10539549).
Group	shall mean the Company and all its Subsidiaries.
GSA	shall mean gross sellable area (please see the Section “Investments” for further details.
IAS	shall mean the International Accounting Standards as adopted by the European Union.
IFRS	Shall mean the International Financial Reporting Standards as adopted by the European Union.
Institutional Offering	shall mean the offering of the Offer Shares to institutional investors worldwide in reliance on certain exemptions found in the national securities legislation of each relevant country, which does not constitute a public offering of the Offer Shares in any jurisdiction.
Maastricht Criteria	shall mean conditions that member states of the European Union must fulfil to join in economic and monetary union and to use the euro as official currency. There are four conditions, all aimed at growing convergence of EMU participants – (i) price stability; (ii) government budgetary and borrowing situation; (iii) exchange rates; and (iv) long-term interest rates.
Management	shall mean the Management Board of the Company.
MEEK	shall mean millions of Estonian kroons.
MEUR	shall mean millions of euro.
NATO	shall mean the North Atlantic Treaty Organisation (NATO), an intergovernmental military alliance based on the North Atlantic Treaty which was signed on 4 April 1949.
New Shares	shall mean up to 3,500,000 new ordinary shares of the Company with the nominal value of EUR 0.7 to be issued in connection with this Offering.
OECD	shall mean the Organisation for Economic Co-operation and Development (OECD), an international economic organisation of 34 countries founded in 1961 to stimulate economic progress and world trade.
Offering	shall mean the Retail Offering and the Institutional Offering together.
Offer Shares	shall mean the Shares of the Company that are being offered to investors in the course of the Offering, registered in the ECRS under ISIN code EE3800046759.
Offer Period	shall mean the period within which investors will have the opportunity to

	submit Subscription Undertakings.
Offer Price	shall mean the final price per each Offer Share, which shall be a fixed price of EUR 1.00.
Prospectus	shall mean this registration document.
Retail Offering	shall mean the offering of the Offer Shares to the existing shareholders, employees and members of the Management and Supervisory Board of the Company and its Subsidiaries, which is a public offering of securities in the essence of the Estonian Securities Market Act.
Section	shall mean a section of this Prospectus.
Share(s)	shall mean the Offer Shares and other existing ordinary shares of the Company with the nominal value of EUR 0.7, registered in the ECRS under ISIN code EE3100034653.
Share Capital Increase	shall mean the increase of share capital of the Company by up to EUR 2,450,000 and issuing up to 3,500,000 Shares (the New Shares) with the nominal value of EUR 0.7 for the Offer Price resolved by the General Meeting of shareholders held on 4 July 2014 as convened by the Management on 11 June 2014[1].
Shareholder(s)	shall mean natural or legal person(s), holding the Share(s) of the Company at any relevant point of time.
SPV	shall mean a special purpose vehicle, a legal entity whose operations are limited to a specific project or transaction.
Subscription Price	shall equal to the Offer Price, i.e. EUR 1.00.
Subscription Undertaking	shall mean the order submitted by an investor for the purchase of the Offer Shares in accordance with the terms and conditions of the Offering.
Subsidiaries	shall mean the subsidiaries of the Company as listed in the Section "Group Structure and Group Companies".
Summary	shall mean the summary of this Prospectus.
TEUR	shall mean thousands of euro.

1.4. Financial and Operational Information

The audited consolidated financial statements of the Group for the latest 2 financial years, i.e. financial years ended on 31 December 2013 and on 31 December 2012 have been prepared in accordance with IFRS as adopted by the European Union and were published through the information system of the NASDAQ OMX Tallinn Stock Exchange. These financial statements are incorporated into this Prospectus by reference. These consolidated financial statements of the Group were audited by AS PricewaterhouseCoopers (having its registered address at Pärnu mnt 15, 10141 Tallinn, Estonia). AS PricewaterhouseCoopers is a member of the Estonian Auditing Board. Apart from these financial

[1] Available at:https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=613570&messageId=760477.

statements, this Prospectus contains no other information, which would be audited. AS PricewaterhouseCoopers are members of the Estonian Board of Auditors. In the period covered by the Financial Statements included in this Prospectus, there were no events of resignation or dismissal of an auditor appointed to audit the financial statements of the Company or the Group.

The Prospectus also includes the interim consolidated financial statements of the Group for the 3 months ended 31 March 2014 prepared in accordance with IAS 34 “Interim Financial Reporting”, which were published through the information system of the NASDAQ OMX Tallinn Stock Exchange. This information has neither been audited nor reviewed by an independent auditor.

In addition to the above-referred financial statements, this Prospectus includes the discussion relating to the results of the operations of the Group for the financial year ended 31 December 2013 compared to the financial year ended 31 December 2012, which is presented in the Section “Results of Operations and Outlook”.

1.5. Comparability of Financial Information

In February 2014, with the divestment of Arco Ehitus OÜ, the Group completed the exit from construction operations, which had been one of the targets for the Group during 2013. Consequently, in the consolidated financial statements of the Group for the financial year ended on 31 December 2013 the construction operations’ income and expenses are presented as discontinued operations, and the construction operations’ assets and liabilities are presented as sales group assets and liabilities (measured at carrying values estimated to approximate fair value less cost to sell).

In comparison to the previously issued consolidated financial statements for the financial year ended on 31 December 2012, the results of operations from continuing operations for the year ended on 31 December 2012 have been adjusted to reflect the results of the divestment of the previously consolidated Arco Ehitus OÜ, in order to ensure comparability of both periods presented. The consolidated statement of comprehensive income for the financial year ended on 31 December 2012 has been reclassified to deconsolidate the results of the previously consolidated Arco Ehitus OÜ, to report them as discontinued operations for both periods presented. For the purposes of the consolidated statement of financial position, the assets and liabilities of Arco Ehitus OÜ are deconsolidated in the period from which the entity qualified as a disposal the Group held for sale. Accordingly, the consolidated statement of financial position data as at 31 December 2012 (i.e. prior to asset disposal qualification) includes this subsidiary on a fully consolidated basis. The consolidated statement of cash flows reflects both the continuing and discontinued operations. According to the requirements of IFRS 5 ‘Non-current Assets Held for Sale and Discontinued Operations’, depreciation and amortization of the assets to be disposed of ceases on the reclassification date.

The revised presentation had no impact on previously presented net results or shareholders’ equity.

Accordingly, in order to present the financial information in the Prospectus on a fully comparable basis, the consolidated results of the Group for the financial year ended on 31 December 2012 have been derived from the comparative data presented in the consolidated financial statements of the Group as of and for the financial year ended on 31 December 2013.

1.6. Forward-Looking Statements

This Prospectus includes forward-looking statements (notably under the Sections “Summary”, “Risk Factors”, “Dividend Policy”, “Business” and “Results of Operations and Outlook”). Such forward-looking statements are based on current expectations and projections about future events, which are in turn made on the basis of the best judgment of the Management. Certain statements are based on the beliefs of the Management as well as assumptions made by and information currently available to the Management. Any forward-looking statements included in this Prospectus are subject to risks, uncertainties and assumptions about the future operations of the Group, the macro-economic environment and other similar factors.

In particular, such forward-looking statements may be identified by use of words such as "strategy", "expect", "plan", "anticipate", "believe", "will", "continue", "estimate", "intend", "project", "goals", "targets" and other words and expressions of similar meaning. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements contained in this Prospectus whether as a result of such changes, new information, subsequent events or otherwise.

The validity and accuracy of any forward-looking statements is affected by the fact that the Group operates in a highly competitive business. This business is affected by changes in domestic and foreign laws and regulations (including those of the European Union), taxes, developments in competition, economic, strategic, political and social conditions, consumer response to new and existing products and technological developments and other factors. The Group's actual results may differ materially from the Management's expectations because of the changes in such factors. Other factors and risks could adversely affect the operations, business or financial results of the Group (please see "Risk Factors" for a discussion of the risks which are identifiable and deemed material at the date hereof).

1.7. Use of Prospectus

This Prospectus is prepared solely for the purposes of the Retail Offering and may not be construed as a warranty or a representation to any person not participating or not eligible to participate in the Retail Offering. No public offering of Shares is conducted in any jurisdiction other than Estonia and consequently the dissemination of this Prospectus in other countries may be restricted or prohibited by law. You may not use this Prospectus for any other purpose than for making the decision to participate or refrain from participating in the Retail Offering. You may not copy, reproduce (other than for private and non-commercial use) or disseminate this Prospectus without express written permission from the Company.

2. SUMMARY

This Summary is a brief overview of the information disclosed in this Prospectus. This summary is made up on the basis of the applicable disclosure requirements known as “Elements”. These Elements are numbered in the Sections A – E (A.1 – E.7). This Summary contains all Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in this Summary with the mention of “not applicable”.

Section A – Introduction and Warnings

Element	Title	Disclosure
A.1	Introduction and warnings	This summary should be read as introduction to the Prospectus and any decision to invest in the Shares should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in a Prospectus is brought before a court, the plaintiff might, under Estonian legislation, have to bear the costs of translating the prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the Summary, including any translation thereof, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Shares.
A.2	Use of Prospectus for subsequent resale of Shares	Not applicable; the Prospectus cannot be used for the resale of the Shares.

Section B – Issuer

Element	Title	Disclosure
B.1	Legal and commercial name	The registered business name of the Company is Arco Vara AS.
B.2	Domicile/ legal form/ legislation/ country of incorporation	The Company has been established and is currently operating in Estonia under the laws of the Republic of Estonia in the form of a public limited company (in Estonian: *aktsiaselts* or *AS*) and is established for an indefinite term.
B.3	Description and key factors of	The Group operates in two vertically integrated business segments – real estate services business segment (i.e. the provision of real estate advisory, facility management, brokerage and appraisal services) and real

	current operations and principal activities, categories of products and/ or services. Principal markets	estate development business segment. The Group's operations in the real estate development business segment are focused on the development of residential real estate. The Group operates in three target markets – Estonia, Latvia and Bulgaria, whereas in all three target markets the Group operates in both business segments referred to above. As at the date of this Prospectus, the key factors of the operations of the Group are the following: (i) turnaround period – the history of the Group may be divided into three periods – period of aggressive expansion (1992 – 2007), period of financial crisis and slow recovery (2008 – 2012) and turnaround period (2013). During the turnaround period the Group's focus and strategy were redefined and operations of the Group restructured in order to pursue profitable growth of the Group in the future; (ii) residential real estate markets in Estonia, Latvia and Bulgaria are recovering in terms of transaction volumes and prices.
B.4a	Significant recent trends affecting the industry	Following the global financial crisis in 2007 and 2008, all the target markets of the Group (Estonia, Latvia and Bulgaria) experienced sharp economic downturns. Latvia and Estonia successfully undertook the process of internal devaluation to restructure their respective economies. Since 2010 and 2011 all the countries have recovered and registered varying rates of positive real GDP growth in year on year terms. The residential real estate prices in all the target markets of the Group (Estonia, Latvia and Bulgaria) are, in local currencies, indicating growth.
B.5	Group description. Position of the Company within the Group	The Company is the ultimate holding company of the Group. The Company has 18 Subsidiaries and holds a shareholding in two joint ventures. In Estonia, the Group is operating via five Subsidiaries and one joint venture. Two Subsidiaries, i.e. Arco Real Estate AS and Arco Vara Haldus OÜ, are engaged in the real estate services business segment (i.e. the provision of real estate advisory, facility management, brokerage and appraisal services). Arco Investeeringute AS is a holding company. Kerberon OÜ and Kolde AS are the SPVs engaged in ongoing real estate development projects. Joint venture Tivoli Arendus OÜ is a SPV where the Company holds an indirect shareholding of 50% and which was established for the purpose of the Tivoli real estate development project (development project of residential quarter located at Narva mnt 67, Tallinn), which by the date of this Prospectus has been terminated. In Latvia, the Group is operating via five Subsidiaries and one joint venture (40% shareholding in Arco Property Management SIA). Arco Real Estate SIA and Arco Property Management SIA are engaged in real estate services business segment (i.e. the provision of real estate advisory, facility management, brokerage and appraisal services). Arco Development SIA is the main real estate development company of the Group in Latvia and the owner and developer of the Bišumuiža-1 project. Mārsili II SIA is the owner of Mārsili land plots near Riga, Latvia (partially developed private housing land plots). Ulmaņa Gatves Nami SIA and

		Adepto SIA are dormant companies with no independent operations. In Bulgaria, the Group has altogether five Subsidiaries. Three Subsidiaries, i.e. Arco Imoti EOOD, Arco Facility Management EOOD and Arco Projects EOOD are engaged in the real estate services business segment (i.e. the provision of real estate advisory, facility management, brokerage and appraisal services). Arco Projects EOOD is providing short-term and long-term lease services of certain apartments of the Madrid Boulevard project in Sofia, Bulgaria. Arco Manastirski EOOD is the real estate development SPV engaged in the development of the Manastirski project. Arco Invest EOOD is the real estate development SPV that owns and develops the Boulevard Residence Madrid project in Sofia, Bulgaria. Although the Group has Subsidiaries in other geographical markets, such as in Ukraine and Lithuania, the Group has terminated its operations in these countries already in 2009 and 2008, respectively. The respective subsidiaries are in dormant status and have no business operations as at the date of this Prospectus. Such Subsidiaries may own certain assets; however, such assets are not material for the Group. In 2008, the Group also terminated its operations in Romania and the Romanian Subsidiaries have been transferred out of the Group in the course of restructuring of the corporate structure of the Group with the aim of making the operations of the Group more transparent.
B.6	Persons, directly or indirectly having interest in the Company's capital or voting rights notifiable under Estonian law and the amount of such interest. Voting rights of major shareholders. Direct or indirect control of the company	The Shareholders holding over 5% of all the Shares for the Company are, as at the date of this Prospectus, the following: (i) AS Baltplast, holding 897,999 Shares, representing 18.9383% of all the Shares prior to the Offering; (ii) Gamma Holding Investment OÜ, holding 500,585 Shares, representing 10.5571% of all the Shares prior to the Offering; (iii) OÜ HM Investeeringud, holding 450,000 Shares, representing 9.4902% of all the Shares prior to the Offering; (iv) Alarmo Kapital OÜ, holding 374,188 Shares, representing 7.8914% of all the Shares prior to the Offering: (v) Lõhmus Holdings AS, holding 312,378 Shares, representing 6.5879% of all the Shares prior to the Offering; (vi) LHV Pensionifond L, holding 310,000 Shares, representing 6.5377% of all the Shares prior to the Offering; (vii) Rimonne Baltic OÜ, holding 251,200 Shares, representing 5.2977% of all the Shares prior to the Offering. Gamma Holding Investment OÜ, Alarmo Kapital OÜ, OÜ HM Investeeringud, Lõhmus Holdings AS and AS Baltplast are under the control of one or several member of the Management and Supervisory Board of the Company; however, according to the knowledge of the Management, none of these companies have control over the Company. To the best of knowledge of the Management, there are no shareholders' agreements executed between the Shareholders in respect of their shareholdings in the Company, except for the shareholders' agreement

		between AS Lõhmus Holdings (a company under the control over Mr Rain Lõhmus, the member of the Supervisory Board) and OÜ Gamma Holding (a company under the control of Mr Arvo Nõges, the member of the Supervisory Board) and the shareholders' agreement between OÜ Alarmo Kapital (a company under the control of Mr Tarmo Sild, the sole member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board of the Company) and OÜ HM Investeeringud (a company under the control of Mr Hillar-Peeter Luitsalu, the member of the Supervisory Board). AS Lõhmus Holdings and OÜ Gamma Holding have executed a shareholders' agreement under which they have mutual pre-emptive rights to acquire the Shares held by them as at 10 June 2013. The agreement is valid until 30 June 2016 or until the price per Share rises above the level agreed between the parties. OÜ Alarmo Kapital and OÜ HM Investeeringud have executed a shareholders' agreement under which OÜ Alarmo Kapital has the pre-emptive right to acquire the Shares held by OÜ HM Investeeringud. Such pre-emptive right may be exercised until 30 June 2016. In addition to the above, the agreement contains a voting agreement according to which OÜ HM Investeeringud is obliged to exercise its voting rights at the General Meetings of shareholders of the Company in the same manner as OÜ Alarmo Kapital.

B.7	Selected historical key financial information. Narrative description of significant change to the Company's financial condition and operating results subsequent to the period covered by selected historical key financial information[2]	**In TEUR**	**2013**	**2012**
		Revenue from rendering services	3,791	3,899
		Revenue from sale of own real estate	6,937	7,032
		Total revenue	10,728	10,931
		Gross profit	3,278	-3,310
		Profit/ loss for the period	3,427	-18,034
		Total assets	25,157	31,229
		Total equity	6,854	3,367
		Net cash from operating activities	290	2,339
		Net cash from investing activities	1,672	738
		Net cash from financing activities	-2,802	- 3,511
		Net cash flow	-840	-434
		In TEUR (unaudited)	**Q1 2014**	**Q1 2013**
		Revenue from rendering services	985	852

[2] Source: Financial Statements.

Revenue from sale of own real estate	128	882
Total revenue	1,113	1,734
Gross profit	495	630
Profit/ loss for the period	392	39
Total assets	25,557	28,996
Total equity	7,246	3,406
Net cash from operating activities	-1,114	145
Net cash from investing activities	5	1,373
Net cash from financing activities	1,055	-1,823
Net cash flow	-54	-305

As to the changes in the financial position of the Company and the Group, over the period of previous two and a half years the main priorities have been maintaining liquidity and starting investment into new projects. The Group's equity on a consolidated basis has increased since 31 December 2012 and by the date of this Prospectus reached MEUR 7.2. The value of total assets has decreased to MEUR 25.6, whereas the main reasons thereof have been the sale of inventory and the reduction of cash and cash equivalents. During 2012 and 2013, the Group decreased significantly its liabilities by selling stock, which resulted in negative value of cash from financing activities. During 2014, the Group has started the development of new inventory and has financed this with increased debt.

B.8	Selected key *pro forma* financial information	Not applicable; the Financial Statements reflect adequately the financial information of the Group and there is no need for *pro forma* financial information.
B.9	Profit forecast	Not applicable; no profit forecast has been made.
B.10	Qualifications in the audit report on the historical financial information	The audit report of AS PricewaterhouseCoopers on the Group's consolidated financial statements as at and for the year ended 31 December 2012 included the following emphasis of matter: "We draw attention to Note 33 in the financial statements which describes the uncertain conditions related to the Group's ability to continue as a going concern and management's action plan to ensure the Group's ability to discharge its liabilities in the normal course of business. Our opinion is not qualified in respect of this matter." The audit report of AS PricewaterhouseCoopers on the Group's consolidated financial statements as at and for the year ended 31 December 2013 included the following emphasis of matter: "We draw attention to Note 33 to these consolidated financial statements, which describes the circumstances around the ability of the Group's significant

		subsidiary Arco Invest EOOD to refinance its borrowings and continue as a going concern, and describes the magnitude of the effect on the Group's financial position if this subsidiary will not be able to realize its assets and discharge its liabilities in the normal course of business. Our opinion is not qualified in respect of this matter."
B.11	Working capital	As at 31 December 2013, the total consolidated working capital of the Group was TEUR -2,894. The Company intends to use the revenue from the sale of the apartments of the Manastirski project and the Bišumuiža 1 project and part of the proceeds from the Offering for partial repayment of the outstanding loan of Piraeus Bank Bulgaria PLC, which was granted to Arco Invest EOOD, the fully-owned Bulgarian Subsidiary of the Company, which is currently in default. This should result in a positive cash-flow and sufficient working capital generated from the operations of the Group on a consolidated basis.

Section C – Securities

Element	Title	Disclosure
C.1	Type and class of securities and security identification number	The Company has only one type and class of shares, the ordinary shares (the Shares) with a nominal value of EUR 0.7. The Shares are registered in the Estonian Central Register of Securities under ISIN code EE3100034653. The Offer Shares (registered under a temporary ISIN code EE3800046759) will rank equally with all the outstanding Shares of the Company.
C.2	Currency of the issue	EUR
C.3	Number of shares issued and fully paid/issued but not fully paid. Par value per share	The current registered share capital of the Company is EUR 3,319,194.90, which is divided into 4,741,707 Shares.
C.4	Rights attached to the securities	The rights of the Shareholders are the following: (i) right to participate in the corporate governance of the Company – the Shareholders are entitled to take part in the corporate governance of the Company through the General Meeting of shareholders, where they can exercise their powers to decide on certain important corporate matters. The General Meeting is the highest governing body of the Company; (ii) right to information – pursuant to the Estonian Commercial Code, the Shareholders have the right to receive information on the activities of a company from the Management Board at the General Meeting;

		(iii) right to subscribe for new Shares – pursuant to the Estonian Commercial Code, the existing Shareholders of the Company have, upon the increase of the share capital of the Company and the issue of the new shares of the Company, the preferential right to subscribe for new shares of the Company proportionally to their existing shareholding in the Company; (iv) right to dividends – all the Shareholders of the Company have the right to participate in the distribution of profit of the Company and have the right to receive dividends proportionally to their shareholding in the Company.
C.5	Restrictions on free transferability of securities	Not applicable; there are no restrictions on free transferability of the Shares.
C.6	Admission to trading /name of regulated market	As at the date of this Prospectus, the Shares are listed and admitted to trading on the main list of the NASDAQ OMX Tallinn Stock Exchange. The Company intends to apply for the listing of the New Shares on the main list of the NASDAQ OMX Tallinn Stock Exchange as soon as possible after the registration of the New Shares in the Estonian Commercial Register. The expected date of listing the New Shares on the main list of the NASDAQ OMX Tallinn Stock Exchange is on or about 17 September 2014.
C.7	Dividend policy	The Offer Shares will give rights to dividends declared by the Company (if any) for the financial year beginning on 1 January 2014 and for the subsequent financial years. It must be noted that certain Subsidiaries are parties to financing arrangements, terms and conditions of which restrict payment of dividends; nevertheless, such restrictions are not applicable in respect of payment of dividends by the Company.

Section D – Risks

Element	**Title**	**Disclosure**
D.1	Key risks specific to the Company or the industry	Risks related to Re-organisation of Group. During the last two years there have been significant changes in the Group. Such changes in the corporate structure, operations and strategy of the Group involve several risks, such as contractual risks – the Company and its Subsidiaries have provided certain contractual representations and warranties in respect of the disposed assets, which, if found untrue or misleading, may result in contractual claims against the Company or a respective Subsidiary. In addition to the contractual risks, the corporate restructuring as such may trigger certain claims of creditors of the Company and the Subsidiaries (either statutory or contractual), which may have adverse effect on the business, financial condition and the results of operations of the Group. High Concentration of Risks related to Small Number of Projects. The Group's projects in the real estate development business segment require significant investments and are time-consuming. Due to these

circumstances, the Group may get involved in a limited number of projects, which in turn results in a high concentration of business risks.

Dependency on Availability of Credit and Consumer Preferences. The residential housing market is influenced by several factors beyond the control of the Group companies, such as demographic variables, general economic climate, level and changes in personal income and consumer prices and, most importantly, by the availability of credit and by consumer preferences. The vast majority of all the transactions made in the housing market involve bank financing, which makes the operating results of the company dependent on the availability of credit to consumers and the terms thereof.

Appraisal Risk. Newsec Valuations EE OÜ, SIA Newsec Valuations LV and P.DANOS & ASSOCIATES S.A. have appraised certain core real estate of the Group's real estate portfolio. These appraisal reports rely on several assumptions and are subject to several qualifications, which may turn out to be inaccurate, which in turn may have adverse effect on the financial results of the operations of the Group, including profitability. Furthermore, the market value of the real estate in the Group's portfolio may fluctuate in both directions in the future due to circumstances beyond the control of the Company.

Credit Risk. The time period between the execution of a transaction and the full payment of the purchase price may vary from several months to a year or more, which exposes the operations of the Group to third party credit risks.

Liquidity Risk. The liquidity risk is one of the most important risks of the business of the Company. All free funds of the Group are held on current accounts and short-term deposits of the banks operating in the target markets of the Group – Estonia, Latvia and Bulgaria. The access to the funds held as short-term deposits may be limited to certain specific time periods or require the consent of the respective bank. The total amount of the Group's consolidated cash and cash equivalents is constantly less than the total amount of loans that come due during the upcoming 12 months. There is no assurance that the refinancing needed to ensure the necessary liquidity can be obtained or obtained on the terms suitable for the Company.

Interest Rate Risk. The interest rates on most of the loans taken by the Group entities are based on the EURIBOR base rate which is determined as of the quotation date occurring in each 3 or 6 months from the date of the relevant loan agreement. Therefore, increases in the European Central Bank interest rates (and, consequently, increases of the EURIBOR base rate) will lead to a corresponding increase in the financial costs of the Group.

Currency Risk. The Group has exposure to fluctuations in currency exchange rates.

Financing Risk. The Group operates in a capital intense industry and needs substantial working capital to support the acquisition and development of real estate. The Group's internally generated cash-flow from the real estate services business segment and the cash-flow received from the sales of real estate projects may not be sufficient for covering the Group's financing needs. The Group has substantial indebtedness. This may restrict the Group's access to external debt financing. The lack of sufficient financing may have an adverse effect on the financial position and operations of the Group.

Default under Piraeus Bank Loan. On 11 August 2008, Arco Invest EOOD, the fully-owned Bulgarian Subsidiary of the Company entered into the Agreement for Investment Credit No 702/2008 with Piraeus Bank Bulgaria PLC, whereas Arco Investeeringute AS, Arco Facility Management EOOD and Arco Imoti EOOD, the fully-owned Subsidiaries of the Company, act as co-debtors under the agreement. In accordance with the terms of the agreement (as amended from time to time), Arco Invest EOOD was granted a loan in the principal amount of up to EUR 16,500,000. As at the date of this Prospectus, Arco Invest EOOD is in default of its obligations to the bank arising from the agreement in the total amount of EUR 848,453.49. On 2 June 2014, the parties to the agreement executed an annex to the agreement on the extension of the repayment term until 30 December 2017. Such an agreement on the extension of the repayment term is; however, conditional and will enter into force upon partial repayment of the overdue principal and interest and default interest. The Management intends to comply with the conditions of the annex by using part of the proceeds of the Offering. All future repayments of the loan are planned to be covered on the account of the proceeds received from the currently on-going real estate development projects.

Dependency on Cash-Flows from Subsidiaries. The Company is a holding company conducting its operations through its subsidiaries. The Company itself does not own significant assets other than investments into the Subsidiaries. Therefore, in order to be able to pay dividends to its shareholders and meet its own obligations, the Company is dependent on the receipt of management fees and dividends from its Subsidiaries.

Management Risk. As from the end of 2009, the Management Board comprises of one member and therefore the management of the Company is, to some extent, dependent on one person only. However, in addition to the Management Board, the Company's operations are managed on a daily basis by heads of departments and other senior personnel.

Contractual Risks. Several Group entities have entered into financing agreements (loans, leasing) with various financial institutions. Such financing agreements include the customary covenants, restrictions and obligations (among other things, restrictions on further financing, payment of dividends, changes in the Group' corporate structure or the nature of its business, etc. without the consent of the financial institutions) and cross-default provisions. In case of default, the financial institutions may in some cases unilaterally change the interest rates, claim contractual penalty or demand immediate repayment.

Dependency on Construction Contractors. In the beginning of 2014, the Group divested its shareholding in Arco Ehitus OÜ and by doing that terminated its operations in the construction business segment. Since then the Group relies on contractors and subcontractors in the real estate development projects of the Group. Due to that the results of operations of the Group depend on the ability of the construction contractors and subcontractors to comply with the terms of the agreements executed with them. Delays in completing construction may result in additional costs and expenses for the Group, which may not be fully recoverable form contractors and subcontractors. Furthermore, breaches of construction agreements by contractors and subcontractors may trigger the breach of sale agreements executed by the Group with purchasers.

Control over Joint Ventures. The Group holds interests in two joint ventures. Since the Group does not have full control over such joint ventures, especially given that there are no shareholders' agreements in place in respect of such joint ventures, the management decisions and activities may be influenced by third parties. Furthermore, the Group has no control over the financial behaviour and solvency of its joint venture partners.

Outstanding Tax Liability of Arco Invest EOOD. The Bulgarian National Revenue Agency has an outstanding tax claim against Arco Invest EOOD, the fully-owned Bulgarian Subsidiary of the Company, in the approximate amount of EUR 333,676 (the amount determined as at 31 March 2014). Therefore the Bulgarian tax authorities may initiate enforcement proceedings against Arco Invest EOOD in respect of the referred tax liability.

Tax Risks Related to Intra-Group Transactions. There have been several intra-Group transactions executed among the Group companies, including granting loans and transactions of sale of real estate. Although the Group companies have taken reasonable care to make sure that all such intra-Group transactions have been effectuated on market terms, it cannot be fully excluded that competent tax authorities may conclude that values of such transactions or other terms thereof are not in compliance with general market practises for unrelated parties. Such a conclusion by the competent tax authority may result in tax implications, which in turn may have an adverse effect on the financial condition of the relevant Group companies or the results of operations thereof.

Risks Related to Ongoing Court Proceedings. Some Group companies are involved in ongoing court proceedings in Estonia, Latvia and Bulgaria. As at the date of this Prospectus, the final results of such court proceedings cannot be estimated with full certainty and therefore the court decisions, once taken and entered into force, may have adverse effect on the financial condition and results of operations of the respective Group companies.

Risks Related to Enforcement of Collateral. The Company has secured the obligations of several Subsidiaries, including certain statutory construction warranty obligations of Arco Ehitus OÜ, which is no longer a Subsidiary of the Company, with sureties, letters of comfort and other collateral. Therefore the Company is exposed to the liability arising from the potential failure of the respective Subsidiaries to comply with their secured obligations.

Dependence on Key Personnel. The Group's performance is reliant upon the efforts, diligence, skill and network of business contacts of its key personnel (including the members of the Management and Supervisory Boards of the Subsidiaries). The Group may not always be able to impose competition covenants or other contractual restrictions on key personnel to ensure their continuing engagement with the respective Group companies.

Dependence on IT Systems. Although real estate services and development are generally not considered to be high-tech or technology-intensive industries, rapidly developing technology is nevertheless one of the determining factors of success in this field of business. Failures or significant disruptions to the Group's IT systems could prevent it from conducting its operations efficiently. Furthermore, should the Group experience a significant security breakdown or other disruption to its IT systems, sensitive information could be compromised and its operations could be disrupted which in turn could harm its relationship with its customers and suppliers, or otherwise have a material adverse effect on the Group's business, results of operations and financial condition.

Fluctuation of Real Estate Prices. The real estate prices are influenced by several macroeconomic factors, whereas such fluctuations in unfavourable direction may have material adverse effect on the Group's business, result of operations and profitability.

Cyclical Nature of Real Estate Sector. The real estate sector is cyclical by its nature and its profitability tends to fluctuate due to changes in the general macroeconomic conditions, rental yields, interest rates, personal income, inflation, availability of credit, etc. The real estate sector may be adversely affected if the economy slows down or enters recession.

Competitive Market. The Group operates in a highly competitive market. The highly competitive business environment of the real estate sector may have adverse effect on the results of operations and profitability of the Group.

Illiquid Market. The real estate market in general may be characterised by limited liquidity. There is no assurance that the Group will be able to sell its real estate development projects on favourable commercial terms or sell them at all.

Dependency on Discretionary Decisions of Public Authorities. Real estate development and construction sectors are subject to extensive regulatory requirements and several administrative proceedings, which may be unpredictable due to discretionary decisions. Such dependency on the discretionary decisions of public authorities may result in material delays in the envisaged time schedule and overruns in the budget of a project or may cause changes to be made into the project or even lead to the abandoning of the project.

Exposure to Civil Liability. Under Estonian, Latvian and Bulgarian law, a construction contractor is, as a general, rule subject to a statutory warranty obligation for a period of two years as from the end of the construction works. The Group seeks to mitigate the civil liability related risks by creating special reserves and by obtaining insurance coverage for such risks; however, these measures may not always be sufficient.

Exposure to Environmental Liability. The real estate and construction sectors are inherently subject to laws and regulations for environmental protection. Such laws and regulations cover a wide range of different aspects of environmental protection, such as protection of ambient air,

		pollution, use of water, waste handling, etc. In the opinion of the Management, the Group has taken adequate measures to mitigate the risks associated with environmental liability, such as introducing internal procedures to ensure compliance with applicable environmental laws and regulations and mitigating the environmental pollution risks contractually upon the acquisition of land by using respective representations and warranties and legal remedies; however, there cannot be full certainty that this is sufficient to mitigate the relevant risks. Seasonality. The real estate market as a whole is subject to seasonal fluctuations. Such fluctuations are particularly characteristic to the residential real estate market. The volumes of real estate transactions tend to increase in autumn and spring. Winter and summer are usually low season for real estate market. The Group companies make continuous efforts to consider such seasonal fluctuations while planning their operations; nevertheless, such seasonality trends can never be estimated with full certainty and therefore they may have adverse effect on the financial position and the results of operations of the Group.
D.3	Key risks specific to the shares	Cancellation of Offering. Best efforts will be made by the Company and the Global Lead Manager and Book-runner of the Offering to ensure that the Offering is successful; however, the Company and the Global Lead Manager and Book-runner cannot provide any assurance that the Offering will be successful and that the investors will receive the Offer Shares they subscribed for. The Company shall be entitled to cancel the Offering. Volatility and Limited Liquidity of Securities Listed on NASDAQ OMX Tallinn Stock Exchange. The Shares are listed on the main list of the NASDAQ OMX Tallinn Stock Exchange and an application has been made to the NASDAQ OMX Tallinn Stock Exchange for the Offer Shares to be admitted to trading. Though every effort will be made to ensure that listing will occur, the Company cannot provide any assurance that the Offer Shares will be admitted to trading. The NASDAQ OMX Tallinn Stock Exchange is substantially less liquid and more volatile than established markets such as those in other countries with highly developed securities markets. The relatively small market capitalization and low liquidity of the NASDAQ OMX Tallinn Stock Exchange may impair the ability of shareholders to sell the Shares on the NASDAQ OMX Tallinn Stock Exchange, or could increase the volatility of the price of the Shares. Payment of Dividends. The Company is under no lasting and definite obligation to pay regular dividends to its shareholders and no representation can be made with respect to the payment and amount of future dividends. Lack of Adequate Analyst Coverage. There is no guarantee of continued analyst research coverage for the Company.

Section E – Offer

Element	**Title**	**Disclosure**
E.1	Total net proceeds.	The Company is looking to engage additional capital in the amount of up to MEUR 3.5.

	Estimate of total expenses of the offering (including estimated expenses charged to the investor)	The total amount of costs related to the Offering ranges between TEUR 100 and TEUR 250. No expenses are charged to the investor by the Company.
E.2a	Reasons for the offering/use of proceeds/estimated net amount of proceeds	The primary purpose of the Offering is to strengthen the equity position of the Company. The Company is looking to engage additional capital in the amount of up to MEUR 3.5. The total amount of costs related to the Offering ranges between TEUR 100 and TEUR 250, which will be deducted from the proceeds of the Offering before using the proceeds as described below. Firstly, the Company is currently contemplating investments into the Paldiski mnt 70c project with the contemplated GSA of 27,500 m^2. Secondly, the amount of up to MEUR 1.2 is planned to be used for the repayment of outstanding loan currently in default to Piraeus Bank Bulgaria PLC. The loan has been taken in connection with the Boulevard Residence Madrid project in Sofia, Bulgaria. Finally, the remaining part of the net proceeds of the Offering are planned to be used in new real estate development projects.
E.3	Terms and conditions of the offering	Retail Offering and Institutional Offering. In the course of the Offering, the Shares are being offered to Estonian and international institutional investors (the Institutional Offering) and to the existing Shareholders of the Company, as well as to the employees and members of the Management Board and the Supervisory Board of the Company and its Subsidiaries (Retail Offering and, together with the Institutional Offering, the Offering). In the course of the Offering, the Company ensures that all the existing Shareholders of the Company are entitled to acquire the Offer Shares in the volume corresponding to the number of Shares held by them as at 7 August 2014 at 23:59 local time in Estonia, i.e. the Shareholders' preferential right to subscribe for and acquire the New Shares proportionally to their existing shareholding in the Company arising from the Estonian Commercial Code is honoured. For the avoidance of doubt, the existing Shareholders' right to participate in the Retail Offering is not limited to the maximum extent of the proportion of Shares held by them as at 7 August 2014 at 23:59 local time in Estonia, i.e. the existing Shareholders may subscribe for more Offer Shares than the volume corresponding to the proportion of Shares held by them as at 7 August 2014 at 23:59 local time in Estonia. In the course of the Offering up to 3,500,000 Shares of the Company (the Offer Shares) are offered. The division of the Offer Shares between the Institutional Offering and the Retail Offering has not been predetermined. The number of the Offer Shares included in the Institutional Offering and in the Retail Offering will be decided by the Company in consultation with the Global Lead Manager. Right to Participate in Retail Offering. The Retail Offering is directed only

		to the existing shareholders of the Company who have been entered into the list of shareholders of the Company as kept by the ECRS as at 7 August 2014 at 23:59 local time in Estonia. In addition to the existing Shareholders of the Company, the Retail Offering is also directed to the employees and members of the Management Board and the Supervisory Board of the Company and its Subsidiaries. Offer Price. The Offer Price is a fixed price of EUR 1.00 per each Offer Share. Offer Period. The investors may submit the subscription undertakings for the Offer Shares (each a Subscription Undertaking) during the Offer Period, which commences on 8 August 2014 at 09:00 local Estonian time and terminates on 29 August 2014 at 17:00 local Estonian time. Subscription Undertakings. The Subscription Undertakings may be submitted only during the Offer Period. An investor participating in the Retail Offering may apply to subscribe for the Offer Shares only at the Offer Price (the Subscription Price). Multiple Subscription Undertakings by one investor, if submitted, shall be merged for the purposes of allocation. All investors participating in the Retail Offering can submit Subscription Undertakings denominated only in euro. An investor bears all costs and fees charged by the respective custodian of the ECRS accepting the Subscription Undertaking in connections with the submission of the Subscription Undertaking. Payment. By submitting a Subscription Undertaking, an investor authorises and instructs the institution operating the investor's cash account connected to its/his/her securities account (which may or may not also be the investor's custodian) to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with these terms and conditions. The transaction amount to be blocked will be equal to the Subscription Price multiplied by the Maximum Amount. An investor may submit a Subscription Undertaking only when there are sufficient funds on the cash account connected to its/his/her ECRS securities account or its/his/her securities account to cover the whole transaction amount. Cancellation of Offering. The Company has reserved the right to cancel the Offering in the part not subscribed for in the course of the Offering. Any cancellation of the Offering will be announced through the NASDAQ OMX Tallinn Stock Exchange. All rights and obligations of the parties in relation to the cancelled part of the Offering will be considered terminated at the moment when such announcement is made public. Distribution and Allocation. The Company together with the Global Lead Manager will decide on the allocation of the Offer Shares after the expiry of the Offer Period, and no later than on 1 September 2014. Preferential Allocation to Management and Employees. All the employees of the Company and any of its Subsidiaries that choose to participate in the Retail Offering will be fully allocated the Offer Shares in the total amount up to 400,000 Offer Shares. Settlement and Trading. The Offer Shares allocated to investors will be transferred to their securities accounts on or about 4 September 2014 through the "delivery versus payment" (DVP) method simultaneously with

		the transfer of payment for such Offer Shares. Trading with the Offer Shares is expected to commence on the NASDAQ OMX Tallinn Stock Exchange on or about 17 September 2014. Return of Funds. If the Offering or a part thereof is cancelled in accordance with the terms and conditions described in this Prospectus, if the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Offer Shares applied for, the funds blocked on the investor's cash account, or a part thereof (the amount in excess of payment for the allocated Offer Shares) will be released by the respective custodian not later than on or about 4 September 2014. The Company shall not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked.
E.4	Interests material to the offering/ conflicting interests	Not applicable; there are interests or conflicting interests material to the Offering.
E.5	Name of persons or entity offering to sell the security. Lock-up agreements: parties involved; period of lock-up	Not applicable; there is no other person than the Company offering to sell the Shares. The Company and OÜ Alarmo Kapital (a company under the control of Mr Tarmo Sild, the sole member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board of the Company) have agreed that, without the prior written consent of the Global Lead Manager, it will not offer, sell, contract to sell, or otherwise dispose of any Shares owned by it at any time or any securities convertible into or exercisable or exchangeable for Shares, or enter into any swap or other agreement or any transaction to transfer the economic consequence of ownership of the Shares, or publicly announce an intention to effect any such transaction, during the period commencing on the date of this Prospectus and ending 360 days after the commencement of trading in the Offer Shares on the NASDAQ OMX Tallinn Stock Exchange.
E.6	Immediate dilution	As at the date of this Prospectus, the number of the Shares of the Company is 4,741,707. The amount of the Offer Shares is up to 3,500,000. Therefore, the number of the Shares of the Company after the successful registration of the Share Capital Increase will be up to 8,241,707, provided; however, that the number of the Offer Shares is not changed. Therefore, the shareholdings in the Company prior to the Offering will be diluted by up to 42.47% as a result of the Offering, unless a Shareholder subscribes for and is allocated the number of Shares corresponding to the proportion of its shareholding in the course of the Offering.
E.7	Estimated expenses charged to the investor by the Company	No expenses are charged to the investor by the Company.

3. RISK FACTORS

This overview of the various risk factors related to the Company's business represents what we, in accordance with the best judgement of the Management, consider to be of material importance in relation to our present and future operations. While we consider the following to be a fair, full and comprehensive disclosure of all relevant risk factors, this overview (either in conjunction with the Summary or alone) is not a substitute for the rest of the Prospectus and should not be perceived as such. We emphasise that a full and accurate assessment of our operations may only be made on the basis of the entire Prospectus. Furthermore, the operations of the Company may be affected by risks that are either not known or have not materialised by the date of this Prospectus. Should such risks emerge, the value of the investment made in Shares of the Company may suffer.

3.1. Business Risks

Risks related to Re-organisation of Group. During the last two years there have been significant changes in the corporate structure of the Group. In addition to the intra-group restructuring carried out for simplifying the corporate structure of the Group, the Group has disposed of its shareholdings in several subsidiaries and real estate projects. The Group has also closed down its operations in certain geographic markets where the Group has operated in the past, such as Lithuania, Ukraine and Romania. Furthermore, at the beginning of 2014, due to the changes in the overall strategy of the Group, the Group terminated its operations in the construction business segment by selling its 100% shareholding in Arco Ehitus OÜ and since then the Group has been operating in two business segments – the real estate services business segment (i.e. the provision of real estate advisory, facility management, brokerage and appraisal services) and the real estate development business segment. Please see detailed information on the changes in the corporate structure of the Group, the history of the development of the Group and the changed strategy of the Group in the Sections "History of Group" and "Strategy". The above changes in the corporate structure, operations and strategy of the Group involve several risks, such as contractual risks – the Company and its Subsidiaries have provided certain contractual representations and warranties in respect of the disposed assets, which, if found to be untrue or misleading, may result in contractual claims against the Company or a respective Subsidiary. The Management has taken due care in order to limit such contractual risks to a minimum; however, there may be circumstances beyond the control of the Company and its Subsidiaries, which may result in a breach of executed agreements. In addition to the contractual risks, the corporate restructuring as such may trigger certain claims of creditors of the Company and the Subsidiaries (either statutory or contractual), which may have an adverse effect on the business, financial condition and the results of operations of the Group.

High Concentration of Risks related to Small Number of Projects. The Group's projects in the real estate development business segment require significant investments and are time-consuming. The process of making an initial investment into a real estate development project until the sale thereof may take up to several years. Due to these circumstances, the Group may get involved in a limited number of projects, which in turn results in a high concentration of business risks. Currently the Group is involved in four real estate development projects, which means that the financial results of the Group's real estate development business segment depend on the successful sale of these four real estate development projects.

Dependency on Availability of Credit and Consumer Preferences. The Group's projects in the real estate development business segment are residential housing market projects. The residential housing market is influenced by several factors beyond the control of the Group companies, such as demographic variables (family size, the age composition of the family, the number of first and second children, net migration (immigration minus emigration), non-family household formation, the number of double-family households, death rates, divorce rates, and marriages, the general macroeconomic climate, level and changes in personal income and consumer prices and, most importantly, by the availability of credit and by consumer preferences. The vast majority of all the transactions made in the housing market involve bank financing, which makes the operating results of the company dependent on the availability of credit to consumers and the terms thereof.

Appraisal Risk. Newsec Valuations EE OÜ, SIA Newsec Valuations LV and P.DANOS & ASSOCIATES S.A. have appraised certain core real estate of the Group's real estate portfolio. Such appraisal reports have been incorporated into this Prospectus by reference and are made available for examination as described in the Section "Presentation of Information". These appraisal reports rely on several assumptions and are subject to several qualifications. Due to such assumptions and qualifications and the limited amount of publicly available market data and analysis of the Group's target markets (i.e. Estonia, Latvia and Bulgaria) the appraisal of the Group's real estate portfolio may turn out to be inaccurate, which in turn may have adverse effect on the financial results of the operations of the Group, including profitability. Furthermore, the market value of the real estate in the Group's portfolio may fluctuate in both directions in the future due to circumstances beyond the control of the Company.

Credit Risk. The time period between the execution of a transaction and the full payment of the purchase price may vary from several months to a year or more, which exposes the operations of the Group to third party credit risks. In order to mitigate these risks the Company assesses its exposure to third party credit risk on a constant basis and if necessary collateral arrangements are used.

Liquidity Risk. The liquidity risk is one of the most important risks of the business of the Company. All free funds of the Group are held on current accounts and short-term deposits of the banks operating in the target markets of the Group – Estonia, Latvia and Bulgaria. The access to the funds held as short-term deposits may be limited to certain specific time periods or require the consent of the respective bank. The total amount of the Group's consolidated cash and cash equivalents is constantly less than the total amount of loans that come due during the upcoming 12 months. There is no assurance that the refinancing needed to ensure the necessary liquidity can be obtained or obtained on the terms suitable for the Company.

Interest Rate Risk. The interest rates on most of the loans taken by the Group entities are based on the EURIBOR base rate which is determined as of the quotation date occurring in each 3 or 6 months from the date of the relevant loan agreement. Therefore, increases in the European Central Bank interest rates (and, consequently, increases of the EURIBOR base rate) will lead to a corresponding increase in the financial costs of the Group. However, in the opinion of the Management, relying on current trends, such increases are not likely to have a significant effect on the overall results of operations as the fixed part of interest consists of at least 2/3 of total interest payment. Currently the Group is not using hedging instruments to mitigate interest rate risk.

Currency Risk. The Group has exposure to fluctuations in currency exchange rates. The Group's consolidated reporting currency is euro; however, part of its revenues is earned in Bulgarian levs (currently pegged to euro). Therefore, significant changes in the exchange rate of the Bulgarian lev could have a significant adverse effect on the results of operations and the financial position of the Group. Currently the Group is not using hedging instruments to mitigate exchange rate risk.

Financing Risk. The Group operates in a capital intense industry and needs substantial working capital to support the acquisition and development of real estate. The Group's internally generated cash-flow from the real estate services business segment and the cash-flow received from the sales of real estate projects may not be sufficient for covering the Group's financing needs. The Group has substantial indebtedness (please see the Section "Capitalization and Indebtedness" for further details). This may restrict the Group's access to external debt financing. The lack of sufficient financing may have an adverse effect on the financial position and operations of the Group.

Default under Piraeus Bank Loan. On 11 August 2008, Arco Invest EOOD, the fully-owned Bulgarian Subsidiary of the Company entered into the Agreement for Investment Credit No 702/2008 with Piraeus Bank Bulgaria PLC, whereas Arco Investeeringute AS, Arco Facility Management EOOD and Arco Imoti EOOD, the fully-owned Subsidiaries of the Company, act as co-debtors under the agreement. In accordance with the terms of the agreement (as amended from time to time), Arco Invest EOOD was granted a loan in the principal amount of up to EUR 16,500,000. The purpose of the loan was the financing of the Boulevard Residence Madrid project in Sofia, Bulgaria (please see the Section “Projects and Properties” for further details). Due to the global financial crisis of 2007 – 2008, the subsequent sovereign debt crisis and changed market situation resulting therefrom, Arco Invest EOOD is presently in default of meeting the terms of the repayment schedule of the agreement. As at the date of this Prospectus, Arco Invest EOOD is in default of its obligations to the bank arising from the agreement in the total amount of EUR 848,453.49. On 2 June 2014, the parties to the agreement executed an annex to the agreement on the extension of the repayment term until 30 December 2017. Such an agreement on the extension of the repayment term is; however, conditional and will enter into force upon partial repayment of the overdue principal and interest and default interest. The Management intends to comply with the conditions of the annex by using part of the proceeds of the Offering. All future repayments of the loan are planned to be covered on the account of the proceeds received from the currently on-going real estate development projects (please see the Section “Projects and Properties” for further details). Should Arco Invest EOOD fail to comply with the conditions of the annex, the bank may enforce the collateral securing the loan. The loan is secured by mortgage over real estate of the Boulevard Residence Madrid project (please see the Section “Projects and Properties” for further details), commercial pledge over the assets of Arco Invest EOOD, financial collateral of the bank accounts of Arco Invest EOOD, pledge of all the shares of Arco Invest EOOD, pledge of all existing and future receivables of Arco Invest EOOD. In addition to the referred collateral, the loan is secured by a letter of comfort issued by the Company and Arco Investeeringute AS, Arco Facility Management EOOD and Arco Imoti EOOD acting as co-debtors under the agreement. The enforcing of the collateral by the bank may result in bankruptcy of Arco Invest EOOD and have material adverse effect on the financial position and results of operations of Arco Investeeringute AS, Arco Facility Management EOOD and Arco Imoti EOOD..

Dependency on Cash-Flows from Subsidiaries. The Company is a holding company conducting its operations through its subsidiaries. The Company itself does not own significant assets other than investments into the Subsidiaries. Therefore, in order to be able to pay dividends to its shareholders and meet its own obligations, the Company is dependent on the receipt of management fees and dividends from its Subsidiaries. According to Estonian law, a company may only pay dividends or make other distributions if its current profits and retained earnings are sufficient for such distribution. Hence, the Group’s financial position is dependent on the Subsidiaries’ ability to pay management fees and dividends.

Management Risk. As from the end of 2009, the Management Board comprises of one member and therefore the management of the Company is, to some extent, dependent on one person only. However, in addition to the Management Board, the Company’s operations are managed on a daily basis by heads of departments and other senior personnel.

Contractual Risks. Several Group entities have entered into financing agreements (loans, leasing) with various financial institutions. Such financing agreements include the customary covenants, restrictions and obligations (among other things, restrictions on further financing, payment of dividends, changes in the Group’ corporate structure or the nature of its business, etc. without the consent of the financial institutions). In case of default, the financial institutions may in some cases unilaterally change the interest rates, claim contractual penalty or demand immediate repayment. Compliance with some of the financial covenants may be a matter of interpretation, which creates a risk that the Group may be in default under some financing agreements according to the creditor’s judgement. At the same time, most of the financing agreements contain cross-default provisions. In general, a cross-default provision is a provision in a loan agreement that puts a borrower or any related party in default if the borrower defaults on another obligation arising from the same or from another loan or financing agreement. The exact content of cross-default provisions may be different in different agreements. Such cross-default clauses expose the Group to default risks depending on the performance under other agreements with the financial institutions in question. Failure to comply with the financing agreements (for instance if immediate repayment is demanded) could result in the enforcement of collateral granted by the Group, including the mortgages on the real estate owned by the Group or the commercial pledges on the assets of the Group.

Dependency on Construction Contractors. In the beginning of 2014, the Group divested its shareholding in Arco Ehitus OÜ and by doing that terminated its operations in the construction business segment. Since then the Group relies on contractors and subcontractors in the real estate development projects of the Group. Due to that the results of operations of the Group depend on the ability of the construction contractors and subcontractors to comply with the terms of the agreements executed with them. Delays in completing construction may result in additional costs and expenses for the Group, which may not be fully recoverable form contractors and subcontractors. Furthermore, breaches of construction agreements by contractors and subcontractors may trigger the breach of sale agreements executed by the Group with purchasers. In the opinion of the Management, the Group's agreements include all reasonable contractual remedies to mitigate the risks arising from contractors and subcontractors.

Control over Joint Ventures. The Group holds interests in two joint ventures, one was established as an SPV to develop a specific real estate project and the other operates as a facility management company. As at 30 April 2014, such joint ventures held real estate with an aggregate book value of EUR 1,000. Since the Group does not have full control over such joint ventures, especially given that there are no shareholders' agreements in place in respect of such joint ventures, the management decisions and activities may be influenced by third parties. Furthermore, the Group has no control over the financial behaviour and solvency of its joint venture partners.

Outstanding Tax Liability of Arco Invest EOOD. The Bulgarian National Revenue Agency has an outstanding tax claim against Arco Invest EOOD, the fully-owned Bulgarian Subsidiary of the Company, in the approximate amount of EUR 333,676(the amount determined as at 31 March 2014). Therefore the Bulgarian tax authorities may initiate enforcement proceedings against Arco Invest EOOD in respect of the referred tax liability. Up until the date of this Prospectus, Arco Invest EOOD has received no information on initiating such enforcement proceedings. The Company intends to make any and all efforts to avoid any enforcement proceedings regarding this tax liability and co-operate with the Bulgarian National Revenue Agency to reach an agreement on deferring the tax liability or any other agreement necessary to avoid the enforcement proceedings.

Tax Risks Related to Intra-Group Transactions. There have been several intra-Group transactions executed among the Group companies, including granting loans and transactions of sale of real estate. Although the Group companies have taken reasonable care to make sure that all such intra-Group transactions have been effectuated on market terms, it cannot be fully excluded that competent tax authorities may conclude that values of such transactions or other terms thereof are not in compliance with general market practises for unrelated parties. Such a conclusion by the competent tax authority may result in tax implications, which in turn may have an adverse effect on the financial condition of the relevant Group companies or the results of operations thereof.

Risks Related to Ongoing Court Proceedings. Some Group companies are involved in ongoing court proceedings in Estonia, Latvia and Bulgaria (please see the Section "Legal Proceedings" for further details). As at the date of this Prospectus, the final results of such court proceedings cannot be estimated with full certainty and therefore the court decisions, once taken and entered into force, may have adverse effect on the financial condition and results of operations of the respective Group companies.

Risks Related to Enforcement of Collateral. The Company has secured the obligations of several Subsidiaries, including certain statutory construction warranty obligations of Arco Ehitus OÜ, which is no longer a Subsidiary of the Company, with sureties, letters of comfort and other collateral. Therefore the Company is exposed to the liability arising from the potential failure of the respective Subsidiaries to comply with their secured obligations. Currently the Management is not aware of any default by the respective Group companies of such secured obligations, except for the claim of Nordecon AS against

Arco Ehitus OÜ in the amount of TEUR 15 arisen in connection with works carried out in Väike-Maarja waste water treatment plant and other claims explicitly described in this Prospectus. The Management monitors the compliance with such secured obligations by the respective Subsidiaries and will use any remedies available to it to mitigate the risks of enforcement of such collateral, should it become necessary.

Dependence on Key Personnel. The Group's performance is reliant upon the efforts, diligence, skill and network of business contacts of its key personnel (including the members of the Management and Supervisory Boards of the Subsidiaries). Well-connected local managers with knowledge of the relevant local market are essential for the Group's property development business. The Group may not always be able to impose competition covenants or other contractual restrictions on key personnel to ensure their continuing engagement with the respective Group companies. Furthermore, the Group may have to give additional remuneration incentives in order to secure the loyalty and continued employment of such people. Should the Group lose one or more key persons and fail to find a suitable replacement quickly enough, or should such key person join a competing business, it could adversely affect the business and results of operations of the Group.

Dependence on IT Systems. Although real estate services and development are generally not considered to be high-tech or technology-intensive industries, rapidly developing technology is nevertheless one of the determining factors of success in these fields of business. Advanced technology and sophisticated IT systems for project management are particularly critical in large and complex real estate development projects. The Group has developed and uses a variety of IT systems and web-based solutions for its operations, including on-line agency services, internal accounting and management information systems, the handling of customer and tenant information, project designs and specifications, and general administrative functions. Failures or significant disruptions to the Group's IT systems could prevent it from conducting its operations efficiently. Furthermore, should the Group experience a significant security breakdown or other disruption to its IT systems, sensitive information could be compromised and its operations could be disrupted which in turn could harm its relationship with its customers and suppliers, or otherwise have a material adverse effect on the Group's business, results of operations and financial condition.

3.2. Industry-Specific Risks

Fluctuation of Real Estate Prices. The real estate prices are influenced by several macroeconomic factors, such as economic output, unemployment, inflation, savings and investment, etc., and may fluctuate in both directions. Changes in real estate prices are often unpredictable, which may result in inability of companies engaged in real estate sales to adjust their business operations in time. Fluctuation of real estate prices in unfavourable direction may have material adverse effect on the Group's business, result of operations but, above all, the profitability of the operations of the Group.

Cyclical Nature of Real Estate Sector. The real estate sector is cyclical by its nature and its profitability tends to fluctuate due to changes in the general macroeconomic conditions, rental yields, interest rates, personal income, inflation, availability of credit, etc. The real estate sector may be adversely affected if the economy slows down or enters recession. One of the reasons for the global financial crisis of 2007 – 2008 was the bursting of the U.S. housing bubble, which in turn was the result of easier access to credit, over-evaluation of property and questionable market practises in the real estate market. The crisis had a material adverse effect on the real estate sector globally – real estate prices dropped significantly and, as a result, there was a material decrease in the number of real estate transactions. The slowdown of the whole sector resulted in numerous real estate projects being frozen and a remarkable number of construction and real estate companies bankrupted. Within the last couple of years the real estate sector has been slowly recovering and the first signs of a growth phase of the cycle may be noticed. The financial crisis also had a severe impact on the financial position and the results of operations of the Group (please see the Section "History of Group" for further details). The effects of the financial crisis on the Group have led to the restructuring of the

Group and the need to redefine its strategy. For detailed information on the restructuring please see the Sections “History of Group” and “Strategy”.

Competitive Market. The Group operates in a highly competitive market. The Group faces intense competition from a number of local, national and international real estate development firms, real estate investment funds, commercial real estate management companies, etc. The entry barriers of the real estate market are rather low, which gives immediate competitive advantage to those companies with better access to financing and expertise on market conditions. High competition may lead to the oversupply and over-development of residential and commercial real estate, which in turn may decrease the average sale prices of property. The price pressure in the real estate sector is already extensive. While quality of design and construction, technological expertise, past performance, health and safety records and quality of personnel, as well as reputation and experience do impact the customer decisions, price ultimately remains the decisive factor. The highly competitive business environment of the real estate sector may have an adverse effect on the results of operations and profitability of the Group.

Illiquid Market. The real estate market in general may be characterised by limited liquidity. There is no assurance that the Group will be able to sell its real estate development projects on favourable commercial terms or sell them at all. Real estate transactions may be time-consuming and take up to several years, while there is no guarantee that the price received from real estate transactions would meet or exceed costs of development. Any such shortfall may have a significant adverse effect on the cash-flow and results of operations of the Group.

Dependency on Discretionary Decisions of Public Authorities. Real estate development and construction sectors are subject to extensive regulatory requirements. Construction rights of a land plot are determined by the detail plan of that particular site or its surrounding area. Therefore before any construction work can be started on a land plot, the Company needs to ensure that a detail plan corresponding to the Company’s development project is duly adopted. Furthermore, carrying out construction works is as a general rule subject to a building permit requirement. Only insignificant construction works may be carried out without such permit. The proceedings of detail planning and issuing building permits are in the competence of and carried out by local municipalities. These proceedings are time-consuming and may take from several months to several years depending on the area of planning, the number of interested parties involved and the difference in their interests. These proceedings also involve several decisions, which are subject to the discretion of the local municipality carrying out the proceedings. Such discretion may be exercised relying on the circumstances beyond the control of the Company and therefore there can never be full certainty that the detail plan corresponding to the Company’s development plan is adopted and the respective building permit granted. There can also be no certainty as to the duration of such proceedings. A detail plan adopted by a local municipality may be contested in court by any person capable of establishing its justified interest in respect of the proposed detail plan. Such court proceedings may take several years and their results are often unpredictable. Such dependency on the discretionary decisions of public authorities may result in material delays in the envisaged time schedule and overruns in the budget of a project or may cause changes to be made into the project or even lead to the abandoning of the project.

Exposure to Civil Liability. Under Estonian, Latvian and Bulgarian law, a construction contractor is, as a general rule, subject to a statutory warranty obligation for a period of two years as from the end of the construction works. A construction contractor must rectify defects in construction that are established within the referred warranty period at its own cost and within a reasonable term. The statutory construction warranty does not limit the general civil liability of the Group in any way, which means that upon the breach of the sale agreement of an immovable, the Group may be exposed to other civil claims as well, such as a claim for the compensation of damages, reduction of purchase price, etc. While the general term of expiry of civil claims under Estonian, Latvian and Bulgarian law is three years, claims arising from construction deficiencies may expire in five to ten years depending on the circumstances. The Group seeks to mitigate the civil liability related risks by creating special reserves and by obtaining insurance coverage for such risks; however, these measures may not always be sufficient. Certain losses arising from the civil liability of the Group may be recovered from contractors and subcontractors on contractual basis; however, there can be no full certainty that all such losses are compensated. In addition to the above, construction and engineering deficiencies in the Group's real estate projects and claims arising therefrom may undermine the reputation of the Group, which in turn may affect the Group's business relationships with its existing and future investors, cooperation partners, contractors, subcontractors and clients.

Exposure to Environmental Liability. The real estate and the construction sectors are inherently subject to laws and regulations for environmental protection. Such laws and regulations cover a wide range of different aspects of environmental protection, such as protection of ambient air, pollution, use of water, waste handling, etc. As all of the target markets of the Group are members of the European Union, the principle "polluter pays" is in place in all these jurisdictions. Furthermore, environmental laws impose the liability on the land owner for the contamination in its territory even if the current owner did nothing to contribute to the contamination. Therefore the Group may be required to clean a land plot owned by it before any construction can commence on such land. In addition to the clean-up obligation, the Group may face certain restrictions imposed in respect of contaminated land plot by the competent public authorities, which may result in the land not being used for the initial purpose. Failure to discover contamination on a land plot used for a real estate project before the commencement of construction works may lead to difficulties in the marketing and sale of the project or even expose the Group to civil liability arising from damage or personal injury suffered by the purchasers of the real estate project. In the opinion of the Management, the Group has taken adequate measures to mitigate the risks associated with environmental liability, such as introducing internal procedures to ensure compliance with applicable environmental laws and regulations and mitigating the environmental pollution risks contractually upon the acquisition of land by using respective representations and warranties and legal remedies.

Seasonality. The real estate market as a whole is subject to seasonal fluctuations. Such fluctuations are particularly characteristic to the residential real estate market. The volumes of real estate transactions tend to increase in autumn and spring. Winter and summer are usually low season for the real estate market. The Group companies make continuous efforts to consider such seasonal fluctuations while planning their operations; nevertheless, such seasonality trends can never be estimated with full certainty and therefore they may have adverse effect on the financial position and the results of operations of the Group.

3.3. Political, Economic and Legal Risks

Emerging Markets Risk. All the target markets of the Group (i.e. Estonia, Latvia and Bulgaria) are emerging markets, which are exposed to greater risks than the more mature markets. For purposes of their accession to the European Union, Estonia, Latvia and Bulgaria have implemented significant social and economic changes, as well as reforms of their legal and regulatory framework. As a result, the volume of Estonian, Latvian and Bulgarian legislation and other regulations has increased considerably due to the obligation to apply European Community law. The Estonian, Latvian and Bulgarian codes and corporate, competition, securities, environmental and other laws have been substantially revised during the last two decades as part of their transition to a market economy and to meet EU requirements and standards. Such increased legal and regulatory framework has often not been tested in courts to a sufficient extent for full legal certainty to develop.

Uncertainty of Eurozone. The global financial crisis of 2007 – 2008 and the subsequent sovereign debt crisis (particularly in the Eurozone) have resulted in an increased uncertainty regarding future economic development. Overly accommodative monetary policy has led to comparably high valuations of residential real estate and favourably low interest rates. If interest rates increase, for example due to an improvement of the overall economic situation, the above effects may reverse, which may influence the results of operations of the Group and its profitability. Furthermore, it may decrease the valuation of the real estate portfolio of the Group. If the situation deteriorates further, prices in the real estate sector may start to decrease, the Group's ability to ensure financing may be impaired and it may have an adverse effect on the solvency of the cooperation partners, contractors and subcontractors of the Group.

Tax Regime Related Risks. As referred to above, all the target markets of the Group (i.e. Estonia, Latvia and Bulgaria) are emerging markets and the tax regimes thereof are from time to time subject to political discussions. Any changes in the Estonian, Latvian or Bulgarian tax regime may have a material adverse effect on the Group's business, results of operations and financial condition.

3.4. Risks related to Shares, Offering and Listing

Cancellation of Offering. Although best efforts will be made by the Company and the Global Lead Manager and Book-runner of the Offering to ensure that the Offering is successful, the Company and the Global Lead Manager and Book-runner cannot provide any assurance that the Offering will be successful and that the investors will receive the Offer Shares they subscribed for. The Company shall be entitled to cancel the Offering on the terms and conditions described in the Section "Cancellation of Offering".

Volatility and Limited Liquidity of Securities Listed on NASDAQ OMX Tallinn Stock Exchange. The Shares are listed on the main list of the NASDAQ OMX Tallinn Stock Exchange and an application has been made to the NASDAQ OMX Tallinn Stock Exchange for the Offer Shares to be admitted to trading. Though every effort will be made to ensure that listing will occur, the Company cannot provide any assurance that the Offer Shares will be admitted to trading. The total trading turnover of the Baltic main list the NASDAQ OMX Baltic Stock Exchanges in 2013 was EUR 287,668,436. As at 23 May 2014, total of 36 companies were listed on the Baltic main list the NASDAQ OMX Baltic Stock Exchanges. The aggregate market capitalization of the Baltic main list the NASDAQ OMX Baltic Stock Exchanges was as at 23 May 2014 EUR 4,402,149,166. Consequently, the NASDAQ OMX Tallinn Stock Exchange is substantially less liquid and more volatile than established markets such as those in other countries with highly developed securities markets. The relatively small market capitalization and low liquidity of the NASDAQ OMX Tallinn Stock Exchange may impair the ability of shareholders to sell the Shares on the NASDAQ OMX Tallinn Stock Exchange, or could increase the volatility of the price of the Shares. The delisting of any of the large companies listed on the NASDAQ OMX Tallinn Stock Exchange would be likely to have a negative effect on the market capitalization and liquidity of the NASDAQ OMX Tallinn Stock Exchange as a whole. Since the NASDAQ OMX Tallinn Stock Exchange is characterised by relatively low investor activity, the impact of individual transactions on the market price of securities may be significant. Lower investor activity may lead to wider spreads between the bid and ask prices and a correspondingly lower liquidity of traded securities. These risks should be considered as remarkable also due to the fact that the Company is one of the smallest companies listed on the main list of the NASDAQ OMX Tallinn Stock Exchange.

Payment of Dividends. The Company is under no lasting and definite obligation to pay regular dividends to its shareholders and no representation can be made with respect to the payment and amount of future dividends. The Management's recommendations for the distribution of profit will be based on financial performance, working capital requirements, reinvestment needs and strategic considerations which may not necessarily coincide with the short-term interests of all shareholders. The payment of dividends and the amount thereof will be subject to the ultimate discretion of the majority of the Company's shareholders.

Lack of Adequate Analyst Coverage. There is no guarantee of continued analyst research coverage for the Company. Over time, the amount of third party research available in respect of the Company may increase or decrease with little or no correlation with the actual results of its operations as Company has no influence on the analysts who prepare such reports. Negative or insufficient third party reports would be likely to have an adverse effect on the market price and the trading volume of Shares.

4. TERMS AND CONDITIONS OF OFFERING

4.1. Retail Offering and Institutional Offering

In the course of the Offering, the Shares are being offered to Estonian and international institutional investors (the Institutional Offering) and to the existing Shareholders of the Company, as well as to the employees and members of the Management Board and the Supervisory Board of the Company and its Subsidiaries (Retail Offering and, together with the Institutional Offering, the Offering). In the course of the Offering, the Company ensures that all the existing Shareholders of the Company are entitled to acquire the Offer Shares in the volume corresponding to the number of Shares held by them as at 7 August 2014 at 23:59 local time in Estonia, i.e. the Shareholders' preferential right to subscribe for and acquire the New Shares proportionally to their existing shareholding in the Company arising from the Estonian Commercial Code as described in the Section "Rights of Shareholders" is honoured. For the avoidance of doubt, the existing Shareholders' right to participate in the Retail Offering is not limited to the maximum extent of the proportion of Shares held by them as at 7 August 2014 at 23:59 local time in Estonia., i.e. the existing Shareholders may subscribe for more Offer Shares than the volume corresponding to the proportion of Shares held by them as at 7 August 2014 at 23:59 local time in Estonia.

In the course of the Offering up to 3,500,000 Shares of the Company (the Offer Shares) are offered to the institutional investors, existing shareholders of the Company and the employees and members of the Management Board and the Supervisory Board of the Company and its Subsidiaries as defined in the Section "Preferential Allocation to Management and Employees"). The Offering will involve the issue of the corresponding amount of new ordinary Shares by the Company (the New Shares).

In order to conduct the Offering, the General Meeting of shareholders held on 4 July 2014 adopted a resolution on the Share Capital Increase and the issue of the New Shares. Such issue of the New Shares is expected to be registered in the Estonian Commercial Register on or about 12 September 2014.

The division of the Offer Shares between the Institutional Offering and the Retail Offering has not been predetermined. The number of the Offer Shares included in the Institutional Offering and in the Retail Offering will be decided by the Company in consultation with the Global Lead Manager. This decision will be taken in conjunction with the allocation process, which will take place after the expiry of the Offer Period. The total amount of Offer Shares (and, correspondingly, the amount of the New Shares to be issued by the Company) may decrease in case any part of the Offering is cancelled – please see the Section "Cancellation of Offering" for further details.

When deciding the division of Offer Shares between the Institutional Offering and the Retail Offering, the Company will consider mainly (i) the overall demand for the Offer Shares, (ii) the demand for the Offer Shares in the Retail Offering, and (iii) the variance in the size of orders in the Retail Offering and the distribution of orders of different sizes in the Retail Offering. When deciding such division, the Company will be aiming to determine a proportion between the Institutional Offering and the Retail Offering which (i) honours the preferential right of the existing shareholders of the Company to subscribe for and acquire the New Shares proportionally to their existing shareholding in the Company arising from the Estonian Commercial Code (please see the Section "Rights of Shareholders" for further details on the preferential right of the Shareholders to subscribe for and acquire the New Shares); and (ii) can be expected to contribute to a stable and favourable development of the price of its Shares in the aftermarket.

The employees and members of the Management Board and the Supervisory Board of the Company and its Subsidiaries may participate in the Offering subject to the conditions of the Offering as set forth herein. The Company is not aware whether or not such persons intend to participate in the Offering. The Company has no information whether any of such persons intend to subscribe for more than five per cent of the Offering.

4.2. Right to Participate in Retail Offering

The Retail Offering is directed only to the existing shareholders of the Company who have been entered into the list of shareholders of the Company as kept by the ECRS as at 7 August 2014 at 23:59 local time in Estonia. For the purposes of these terms, a natural person will be deemed to be "in Estonia" if such person has a securities account with the ECRS and such person's address recorded in the ECRS records in connection with such person's securities account is located in Estonia. A legal person will be deemed to be "in Estonia" if it has a securities account with the ECRS and its registered address recorded in the ECRS records in connection with its securities account is located in Estonia and/or its registration code recorded in the ECRS records is the registration code of the Estonian Commercial Register.

In addition to the existing Shareholders of the Company, the Retail Offering is also directed to the employees and members of the Management Board and the Supervisory Board of the Company and its Subsidiaries as defined in the Section "Preferential Allocation to Management and Employees", whereas the participation of the employees and members of the Management Board and the Supervisory Board of the Company and its Subsidiaries in the Retail Offering is subject to the preferential allocation as described in the Section "Preferential Allocation to Management and Employees". For the avoidance of doubt, the right of the employees and members of the Management Board and the Supervisory Board of the Company and its Subsidiaries to participate in the Retail Offering is not limited to maximum extent of above referred preferential allocation, i.e. the employees and members of the Management Board and the Supervisory Board of the Company and its Subsidiaries may subscribe for more Offer Shares than the volume corresponding to the preferential allocation.

4.3. Offer Price

The Offer Price is a fixed price of EUR 1.00 per each Offer Share, EUR 0.7 of which shall be the nominal value of an Offer Share and EUR 0.3 the issue premium. The Offer Price will be the same in the Institutional Offering and in the Retail Offering.

4.4. Offer Period

The investors may submit the subscription undertakings for the Offer Shares (each a Subscription Undertaking) during the Offer Period, which commences on 8 August 2014 at 09:00 local time in Estonia and terminates on 29 August 2014 at 17:00 local time in Estonia (the Offer Period).

4.5. Subscription Undertakings

The Subscription Undertakings may be submitted only during the Offer Period. An investor participating in the Retail Offering may apply to subscribe for the Offer Shares only for the Offer Price. Multiple Subscription Undertakings by one investor, if submitted, shall be merged for the purposes of allocation. All investors participating in the Retail Offering can submit Subscription Undertakings denominated only in euro. An investor bears all costs and fees charged by the respective custodian of the ECRS accepting the Subscription Undertaking in connections with the submission of the Subscription Undertaking.

Each investor must ensure that the information contained in the Subscription Undertaking submitted by such investor is correct, complete and legible. Incomplete, incorrect, unclear or illegible Subscription Undertakings may be rejected at the sole discretion of the Company.

In order to subscribe for the Offer Shares, an investor must have a securities account with the ECRS. Such securities account may be opened through any custodian of the ECRS. As of the date hereof, the following banks and investment firms operate as custodians of the ECRS:

(i) AS LHV Pank;

(ii) AS Swedbank;

(iii) AS SEB Pank;

(iv) Nordea Bank Finland Plc Estonian branch;

(v) Danske Bank A/S Estonian branch;

(vi) AS Eesti Krediidipank;

(vii) Tallinna Äripanga AS;

(viii) AS Citadele banka; and

(ix) Versobank AS.

An investor wishing to subscribe for the Offer Shares should contact the custodian that operates such investor's ECRS securities account and submit a Subscription Undertaking for the purchase of Offer Shares in the form set out below. The Subscription Undertaking must be submitted to the custodian by the end of the Offer Period. The investor may use any method that such investor's custodian offers to submit the Subscription Undertaking (e.g., physically through a branch of the custodian, over the Internet or by other means). The Subscription Undertaking must include the following information:

Owner of the securities account:	name of the investor
Securities account:	number of the investor's securities account
Custodian:	name of the investor's custodian
Security:	Arco Vara share additional 5
ISIN code:	EE3800046759
Amount of securities:	the number of Offer Shares for which the investor wishes to subscribe
Price (per share):	EUR 1.00
Transaction amount:	the number of Offer Shares for which the investor wishes to subscribe multiplied by the Offer Price
Counterparty:	Arco Vara AS
Securities account of counterparty:	99101908627
Custodian of the counterparty:	AS LHV Pank
Value date of the transaction:	4 September 2014
Type of transaction:	"purchase"
Type of settlement:	"delivery versus payment"

An investor may submit a Subscription Undertaking through a nominee account only if such investor authorizes the owner of the nominee account to disclose the investor's identity to the registrar of the ECRS in writing. The Subscription Undertakings submitted through nominee accounts will be taken into consideration in the allocation only if the owner of the nominee account has actually disclosed the identity of the investor to the registrar of ECRS in writing. Among other information it is also requested to disclose a permanent address and personal identification code in case of a natural person or a registration address for a legal entity. An investor may submit a Subscription Undertaking either personally or through a representative whom the investor has authorized (in the form required by law) to submit the Subscription Undertaking.

A Subscription Undertaking is deemed submitted from the moment the registrar of the ECRS receives a duly completed transaction instruction from the custodian of the respective investor. An investor will be liable for the payment of all fees charged by the custodian in connection with the submission, cancellation or amendment of a Subscription Undertaking.

An investor must ensure that all information contained in the Subscription Undertaking is correct, complete and legible. The Company reserves the right to reject any Subscription Undertakings which are incomplete, incorrect, unclear or illegible, or which have not been completed and submitted during the Offer Period in accordance with all requirements set out in these terms and conditions.

By submitting a Subscription Undertaking every investor:

(i) accepts the terms and conditions of the Offering set out under this Section and elsewhere in this Prospectus and agrees with the Company that such terms will be applicable to the investor's acquisition of any Offer Shares;

(ii) acknowledges that the Retail Offering does not constitute an offer of the Offer Shares by the Company in legal terms or otherwise and that the submission of a Subscription Undertaking does not itself entitle the investor to acquire the Shares nor result in a contract for the sale of Offer Shares between the Company and the investor;

(iii) accepts that the number of Shares indicated by the investor in the Subscription Undertaking will be regarded as the maximum number of Shares which the investor wishes to acquire (the **Maximum Amount**) and that the investor may receive less (but not more) Offer Shares than the Maximum Amount (please see the Section "Distribution and Allocation");

(iv) undertakes to acquire and pay for any number of Offer Shares allocated to it/him/her in accordance with these terms and conditions;

(v) authorizes and instructs its/his/her custodian to forward the registered transaction instruction to the registrar of the ECRS;

(vi) authorizes the custodian and the registrar of the ECRS to amend the information contained in the investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to specify the number of Shares to be purchased by the investor and the total amount of the transaction found by multiplying the Offer Price by the number of Offer Shares allocated to the relevant investor.

An investor may amend or cancel a Subscription Undertaking at any time before the expiry of the Offer Period. To do so, the investor must contact its/his/her custodian through whom the Subscription Undertaking in question has been made, and carry out the procedures required by the custodian for amending or cancelling a Subscription Undertaking (such procedures may differ between different custodians). All fees payable in connection with an amendment and/or cancellation of a Subscription Undertaking will be borne by the investor.

4.6. Payment

By submitting a Subscription Undertaking, an investor authorises and instructs the institution operating the investor's cash account connected to its/his/her securities account (which may or may not also be the investor's custodian) to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with these terms and conditions. The transaction amount to be blocked will be equal to the Subscription Price multiplied by the Maximum Amount. An investor may submit a Subscription Undertaking only when there are sufficient funds on the cash account connected to its/his/her ECRS securities account or its/his/her securities account to cover the whole transaction amount for that particular Subscription Undertaking.

4.7. Cancellation of Offering

The Company has reserved the right to cancel the Offering in the part not subscribed for in the course of the Offering. Any cancellation of the Offering will be announced through the NASDAQ OMX Tallinn Stock Exchange. All rights and obligations of the parties in relation to the cancelled part of the Offering will be considered terminated at the moment when such announcement is made public.

4.8. Distribution and Allocation

The Company together with the Global Lead Manager will decide on the allocation of the Offer Shares after the expiry of the Offer Period, and no later than on 1 September 2014. The Offer Shares will be allocated to the investors participating in the Offering by the following steps:

(i) all existing Shareholders of the Company eligible to participate in the Retail Offering (please see the Sections "Retail Offering and Institutional Offering" and "Right to Participate in Retail Offering" for further details) shall be allocated the number of the New Shares corresponding to the proportion of Shares held by such Shareholder as at 7 August 2014 at 23:59 local Estonian time.;

(ii) all the employees of the Company and any of its Subsidiaries eligible to participate in the Offering (please see the Section "Preferential Allocation to Management and Employees" for further details) shall be allocated the number of the New Shares referred to in the Section "Preferential Allocation to Management and Employees" below; and

(iii) further allocation of the New Shares shall be decided by the Company together with the Global Lead Manager in accordance with the principles described in the Section "Retail Offering and Institutional Offering" above.

If the Shares owned by a person eligible to participate in the Offering in accordance with the terms and conditions of this Prospectus does not grant such person the right to subscribe for a whole New Share, the number of New Shares allocated to such person shall be rounded down to the closest whole number of New Shares.

The Company expects to announce the results of the allocation process, including the division of the Offer Shares between the Institutional Offering and the Retail Offering, through the information system of the NASDAQ OMX Tallinn Stock Exchange and at the Company's website www.arcorealestate.com no later than on 1 September 2014.

4.9. Preferential Allocation to Management and Employees

All the employees of the Company and any of its Subsidiaries that choose to participate in the Retail Offering will be fully allocated the Offer Shares in the total amount up to 400,000 Offer Shares.

For the purposes of the above an employee means a person who as at 8.00 local Estonian time on 7 August 2014 has a valid agency contract, employment contract or equivalent contract for an unspecified term with the Company or any of its Subsidiaries or is a member of the Supervisory Board or the Management Board of the Company or its Subsidiary.

For the avoidance of doubt, the preferential allocation to Management and employees does not constitute a public offering of securities in any other country than Estonia even if some employees or members of the management are in other countries.

4.10. Lock-up

The Global Lead Manager and OÜ Alarmo Kapital (a company under the control of Mr Tarmo Sild, the sole member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board of the Company) have agreed that, without the prior written consent of the Global Lead Manager, OÜ

Alarmo Kapital will not offer, sell, and contract to sell, or otherwise dispose of any Shares owned by it at any time. The same restriction applies to any securities convertible into or exercisable or exchangeable for Shares and to any swap or other agreement or any transaction to transfer the economic consequence of the ownership of the Shares, or publicly announce an intention to effect any such transaction. The lock-up agreement will remain valid for the period commencing on the date of this Prospectus and ending 360 days after the commencement of trading in the Offer Shares on the NASDAQ OMX Tallinn Stock Exchange. Under the lock-up agreement, the Global Lead Manager is not entitled to unreasonably withhold its consent, provided that the proposed new owner of the locked-up Shares has executed or has committed to execute a lock-up agreement on similar terms as OÜ Alarmo Kapital as set forth in the agreement described herein.

4.11. Settlement and Trading

The Offer Shares allocated to investors will be transferred to their securities accounts on or about 4 September 2014 through the "delivery versus payment" method simultaneously with the transfer of payment for such Offer Shares.

If an investor has submitted several Subscription Undertakings through several securities accounts belonging to it/him/her, the Offer Shares allocated to such investor are transferred to such investor's securities accounts proportionally with the respective securities amounts set out in such investor's Subscription Undertakings. The number of the Offer Shares to be transferred to each securities account may be rounded up or down, as necessary, in order to ensure that a whole number of Offer Shares is transferred to each securities account. If the transfer cannot be completed due to the lack of sufficient funds on the investor's cash account, the Subscription Undertaking of the respective investor will be rejected and the investor will lose all rights to the Offer Shares allocated to such investor.

Trading with the Offer Shares is expected to commence on the NASDAQ OMX Tallinn Stock Exchange on or about 17 September 2014.

4.12. Return of Funds

If the Offering or a part thereof is cancelled in accordance with the terms and conditions described in this Prospectus, if the investor's Subscription Undertaking is rejected or if the allocation deviates from the amount of Offer Shares applied for, the funds blocked on the investor's cash account, or a part thereof (the amount in excess of payment for the allocated Offer Shares) will be released by the respective custodian not later than on or about 4 September 2014. The Company shall not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked.

5. REASONS FOR OFFERING AND USE OF PROCEEDS

The primary purpose of the Offering is to strengthen the equity position of the Company. The Company is looking to engage additional capital in the amount of up to MEUR 3.5. The total amount of costs related to the Offering ranges between TEUR 100 and TEUR 250, which will be deducted from the proceeds of the Offering before the using the proceeds as described below.

Firstly, the Company is currently contemplating investments into the Paldiski mnt 70c project with the contemplated GSA of 27,500 m^2 (please see the Section “Projects and Properties” for further details).

Secondly, the amount of up to MEUR 1.2 is planned to be used for the repayment of outstanding loan currently in default to Piraeus Bank Bulgaria PLC (please see the Sections “Risk Factors” and “Material Agreements” for further details). The loan has been taken in connection with the Boulevard Residence Madrid project in Sofia, Bulgaria described in detail in the Section “Projects and Properties”.

Finally, the remaining part of the net proceeds of the Offering are planned to be used in new real estate development projects.

The planned net amounts of the proceeds of the Offering are planned to be used as follows (in the order of priority):

Use of Proceeds	**Approximate Net Amount**
Investment into Paldiski mnt 70c project (please see the Section “Projects and Properties” for further details on the project)	up to MEUR 2
Repayment of outstanding loan currently in default to Piraeus Bank Bulgaria PLC (please see the Section “Material Agreements” and “Risk Factors” for further details)	up to MEUR 1.2
New real estate development projects	up to MEUR 0.3

If the proceeds received from the Offering are not sufficient for the above-referred investments, the Company will consider engaging the insufficient part as external financing (debt).

The proceeds being used as investments (including investments into the Paldiski mnt 70c project and new real estate development projects referred to above) will be used by the Company in accordance with the redefined focus and strategy of the Company as described in the Section “Strategy”, complying with the following criteria:

(i) at least 80% of the total amount of investments will be used for the investment into the residential real estate development projects in the Baltic states;

(ii) up to 20% of the total amount of investments will be used for the investment into the residential real estate development projects in Bulgaria.

The Company considers the annual rate of return on equity of 20% on new projects as referred to in the overview of the strategy of the Company as described in the Section “Strategy” of this Prospectus to be one of the defining criteria for the use of proceeds of the Offering.

The Company is planning to invest the proceeds of the Offering within the period of approximately 18 months as from the Offering after careful analysis and upon well-informed investment decisions.

6. DIVIDEND POLICY

The Offer Shares will give rights to dividends declared by the Company (if any) for the financial year beginning on 1 January 2014 and for the subsequent financial years. Once the Share Capital Increase relating to the issue of the New Shares has been registered with the Estonian Commercial Register, the New Shares will rank equally with all the outstanding shares of the Company.

The Company cannot ensure that dividends will be paid in the future, or if dividends will be paid, how much they will amount to. The declaration and payment by the Company of any future dividends and the amount thereof will depend on the Company's results of operations, financial condition, cash requirements, future prospects and other aspects.

It must be noted that certain Subsidiaries are parties to financing arrangements, terms and conditions of which restrict payment of dividends; nevertheless, such restrictions are not applicable in respect of payment of dividends by the Company (please see the Section "Material Agreements" for further details on such restrictions).

7. CAPITALIZATION AND INDEBTEDNESS

The total assets of the Group as of the end of the financial year 2013 amounted to TEUR 25,157. Of the above, current assets formed 52% (TEUR 13,101) and non-current assets 48% (TEUR 12,056).

The consolidated total liabilities of the Group as of 31 December 2013 were TEUR 18,303, resulting in total equity of TEUR 6,854.

The capitalization of the Group as of 31 March 2014 is illustrated by the following table, whereas all the interest bearing liabilities are secured liabilities and do not include indirect and contingent liabilities.

In TEUR[3] (unaudited)	**31.03.2014**
Total current debt	**12,723**
Guaranteed	0
Secured	12,723
Unguaranteed/ unsecured	0
Total non-current debt (excluding current portion of long-term debt)	**3,447**
Guaranteed	0
Secured	3,446
Unguaranteed/ unsecured	1
Equity	**7,246**
Share capital	3,319
Statutory capital reserve	2,011
Other reserves	60
Retained earnings	1,834
Total equity attributable to owners of the parent	7,224
Equity attributable to non-controlling interests	22
Total capitalisation	**23,416**
Cash and cash equivalents	764
Liquidity	**764**
Current bank debt	0
Current portion of non-current debt	12,723
Other current financial debt	0
Current Financial Debt (Current bank debt + Current proportion of non-current debt + Other current financial debt)	**12,723**

[3] Source: the Company.

Net current financial indebtedness (Current financial debt - Liquidity)	11,959
Non-current bank loans	2,536
Other non-current loans	911
Non-current financial indebtedness (Non-current bank loans + Other non-current loans)	**3,447**
Net financial indebtedness (Net current financial indebtedness + Non-current financial indebtedness)	**15,406**

The table should be interpreted in conjunction with the Financial Statements presented elsewhere in this Prospectus and incorporated into the Prospectus by reference.

As at 31 December 2013, the total consolidated working capital of the Group was TEUR -2,894. The Group intends to use the revenue from the sale of the apartments of the Manastirski project (please see the Section "Projects and Properties" for further details) and part of the proceeds from the Offering for at least a partial repayment of the outstanding loan of Piraeus Bank Bulgaria PLC, which was granted to Arco Invest EOOD, the fully-owned Bulgarian Subsidiary of the Company, which is currently in default. This should result in a positive cash-flow and sufficient working capital generated from the operations of the Company on a consolidated basis.

The Group companies have executed several loan and financing agreements, which include the several customary covenants, restrictions and obligations (among other things, restrictions on further financing, payment of dividends, changes in the Group' corporate structure or the nature of its business, etc. without the consent of the financial institutions). Such restrictions apply also in respect of usage of capital resources of the Group companies (please see the Section "Material Agreements" for further details).

8. INDUSTRY OVERVIEW

8.1. Macroeconomic Overview of Estonia, Latvia and Bulgaria

Introductory Remarks. In 1991, when the Soviet Union broke down, Estonia, Latvia and other previous Soviet republics regained independence. These countries have pursued bold goals and reached many of them, among them joining the European Union. Today Estonia, Latvia and Bulgaria are members of many international organisations. This suggests that these countries have moved from having centrally-planned economies to democracies embracing key elements of capitalism.

Following the global financial crisis in 2007 and 2008, these countries experienced sharp economic downturns. Estonia, Latvia and Bulgaria successfully undertook the process of internal devaluation to restructure their respective economies. Since 2010 and 2011 all the countries have recovered and registered varying rates of positive real GDP growth in year on year terms.

Estonia is the smallest of the three in terms of population and area. It has been recognised for several globally-recognised technology start-ups, which became international companies, such as Skype and Kazaa. The country has a reputation to be an innovative place for technology ventures and other general entrepreneurial activity.

Bulgaria is the largest in terms of size and population among the three. This provides benefits in terms of the possibility to apply economies of scale and rely on greater aggregate demand in the local market, which is larger than both Latvia and Estonia combined.

Latvia is relatively similar to Estonia from an enterprise structural viewpoint in that value added by small and medium enterprises (SMEs) in the non-financial business economy ranks amongst the highest in the European Union. Moreover, the European Commission expects Latvia to generate the EU's highest GDP growth rate for 2014.

The main features characterising the three geographic markets in question have been summarised in the following table:

Feature[4]	Estonia	Latvia	Bulgaria
Capital	Tallinn	Riga	Sofia
Total Area (in thousand km^2)	45.0	65.0	111.9
Population (in millions)	1.3	2.3	7.6
Currency	EUR	EUR	BGN
Accession to EU	2004	2004	2007
Accession to Eurozone	2011	2014	n/a
Accession to NATO	2004	2004	2004
Accession to Schengen area	2007	2007	n/a

All three countries in question are the members of many international organizations, including but not limited to the European Union – Estonia and Latvia joined in 2004 and Bulgaria in 2007. Estonia's Eurozone accession took place in 2011, while for Latvia it was in 2014. All three countries joined NATO in 2004. Estonia is a member of the OECD.

[4] Source: Statistics of the European Union and NATO.

Estonia. The key indicators of the Estonian economy have been summarised in the table below:

Estonia[5]	2005	2006	2007	2008	2009	2010	2011	2012	2013[6]	2014[7]
Real GDP % (Y-o-Y)	8.9	10.1	7.5	-4.2	-14.1	2.6	9.6	3.9	0.7	2.3
GDP, EURb (current prices)	11.2	13.4	16.1	16.2	14.0	14.4	16.2	17.4	18.4	n/a
Private consumption (% change)	10.6	15.1	8.6	-5.6	-14.8	-2.6	3.8	4.9	4.5	4.3
Government consumption (% change)	1.6	2.6	3.9	3.8	-1.9	-0.8	1.3	3.8	0.9	1.0
Fixed investments (% change)	9.9	22.4	6.0	-15.0	-38.3	-7.3	37.6	10.9	1.4	1.7
Exports (% change)	18.6	6.1	3.7	1.0	-20.6	23.7	23.4	5.6	1.7	4.1
Imports (% change)	18.9	13.9	6.3	-7.0	-32.0	21.1	28.4	8.8	3.0	4.6
Consumer price index (CPI) % (Y-o-Y)	4.1	4.4	6.7	10.6	0.2	2.7	5.1	4.2	3.2	1.8
Nominal wage growth % (Y-o-Y)	8.5	11.9	13.0	3.1	-3.2	2.3	0.5	6.0	6.7	6.0
Unemployment rate % (Y-o-Y)	7.9	5.9	4.7	5.5	13.8	16.9	12.5	10.2	8.8	8.3
Current account (% of GDP)	-10	-15.5	-17.2	-9.7	4.2	3.5	0.3	-2.8	-2.1	-2.4
Gross government debt (% of GDP)	4.4	4	3.8	4.6	7.2	6.7	6.1	9.8	10.0	10.1
Government budget balance (% of GDP)	1.8	3.4	2.6	-2.8	-2.0	0.2	1.1	-0.2	-0.4	-0.4

According to European Commission forecasts, the real GDP growth is expected to be 2.3% in 2014 for Estonia, while the consumer price index increase forecast is at 1.8% for 2014 (3.2% in 2013).

Estonia has the lowest gross government debt as a percentage of GDP out of all three countries in question, and it was 10% for 2013. Estonia also has the lowest rate of unemployment among the three countries and is forecast to decrease to 8.3% in 2014.

[5] Source: The European Commission data and forecasts (winter forecast 2014), Eurostat.
[6] Forecast.
[7] Forecast.

Latvia. The key indicators of the Latvian economy have been summarised in the table below:

Latvia[8]	2005	2006	2007	2008	2009	2010	2011	2012	2013[9]	2014[10]
Real GDP % (Y-o-Y)	10.1	11.2	9.6	-3.3	-17.7	-1.3	5.3	5.2	4.0	4.2
GDP, EURb (current prices)	12.9	16.0	21.0	22.9	18.5	18.0	20.2	22.3	23.4	n/a
Private consumption (% change)	11.2	21.2	14.8	-5.2	-22.6	2.3	4.8	5.8	5.5	4.9
Government consumption (% change)	2.7	4.9	3.7	1.5	-9.4	-7.9	1.1	-0.2	2.7	2.0
Fixed investments (% change)	23.6	16.4	7.5	-13.6	-37.4	-18.1	27.9	8.7	-0.2	5.2
Exports (% change)	20.2	6.5	10.0	2.0	-14.1	12.5	12.4	9.4	0.9	4.5
Imports (% change)	14.8	19.4	16.1	-10.8	-33.3	11.8	22.3	4.5	-0.3	4.8
Consumer price index (CPI) % (Y-o-Y)	6.9	6.6	10.1	15.3	3.3	-1.2	4.2	2.3	0.0	1.9
Nominal wage growth % (Y-o-Y)	9.7	15.6	27.2	21	-12.7	-4.9	5.0	7.3	4.3	5.0
Unemployment rate % (Y-o-Y)	8.9	6.8	6	7.5	18.2	19.5	16.2	15.0	11.9	10.5
Current account (% of GDP)	-12.5	-22.5	-22.5	-13	8.6	2.9	-2.3	-2.5	-1.6	-1.9
Gross government debt (% of GDP)	12.4	10.7	9	19.5	36.7	44.4	41.9	40.6	38.4	38.7
Government budget balance (% of GDP)	-0.4	-0.2	-0.3	-4.1	-9.8	-8.1	-3.6	-1.3	-1.3	-1.0

For the past couple of years Latvia has been focusing on meeting the Maastricht Criteria so that it could accede to the Eurozone from the ERM II exchange rate mechanism, which it has been a part of since 2005. Therefore macroeconomic factors such as inflation and government debt and budget balances were carefully monitored to ensure the compliance. Latvia managed to join the Eurozone in the beginning of 2014.

The European Commission expects Latvia to have the highest real rate of GDP growth among the EU countries for 2014 (4.2%).

[8] Source: The European Commission data and forecasts (winter forecast 2014), Eurostat.
[9] Forecast.
[10] Forecast.

Bulgaria. The key indicators of the Bulgarian economy have been summarised in the table below:

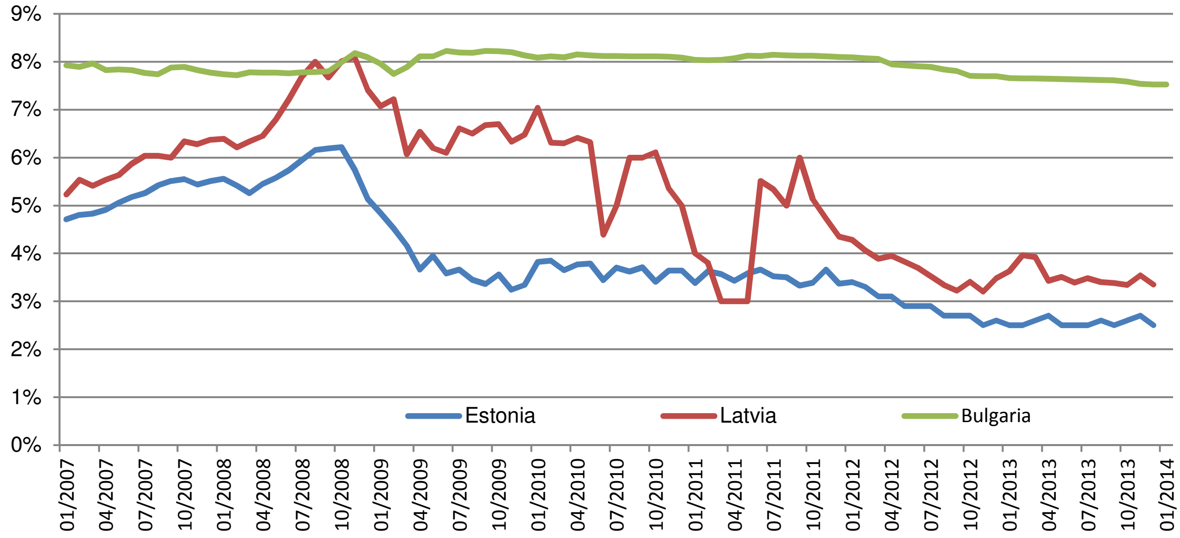
Bulgaria[11]	2005	2006	2007	2008	2009	2010	2011	2012	2013[12]	2014[13]
Real GDP % (Y-o-Y)	6.2	6.3	6.2	6.2	-5.5	0.4	1.8	0.8	0.6	1.7
GDP, EURb (current prices)	23.3	26.5	30.8	35.4	34.9	36.1	38.5	39.9	39.9	n/a
Private consumption (% change)	6.1	9.5	5.3	3.4	-7.6	0.1	1.5	2.6	-0.4	1.4
Government consumption (% change)	2.5	-1.3	3.1	-1	-6.5	1.9	1.6	-1.4	3.1	2.2
Fixed investments (% change)	23.3	14.7	21.7	21.9	-17.6	-18.3	-6.5	0.8	1.7	2.4
Exports (% change)	8.5	8.7	5.2	3.0	-11.2	14.7	12.3	-0.4	8.2	5.6
Imports (% change)	13.1	14.0	9.9	4.2	-21.0	2.4	8.8	3.7	5.0	5.5
Consumer price index (CPI) % (Y-o-Y)	6	7.4	7.6	12	2.5	3.0	3.4	2.4	0.4	0.5
Nominal wage growth % (Y-o-Y)	5.9	7.4	17.9	16.3	9.4	9.9	6.8	2.9	4.4	3.5
Unemployment rate % (Y-o-Y)	10.1	9	6.9	5.6	6.8	10.3	11.3	12.3	12.9	12.7
Current account (% of GDP)	11.5	-18.6	-22.5	-23.2	-9.0	-0.4	0.1	-1.3	2.0	1.3
Gross government debt (% of GDP)	29.2	22.7	18.2	13.7	14.6	16.2	16.3	18.5	19.4	22.7
Government budget balance (% of GDP)	1.9	3	0.1	1.7	-4.3	-3.1	-2.0	-0.8	-1.9	-1.9

Despite having a currency, the lev, pegged to the Euro since 1999, Bulgaria has not yet confirmed its timing of joining neither the ERM II mechanism nor the Eurozone. Bulgaria is also one of the poorest EU countries.

The unemployment rate for Bulgaria is higher than the one in Estonia or Latvia. Many Central and Eastern European economies carry a significant amount of structural unemployment and Bulgaria is considered to be one of these. Nevertheless, the government debt of Bulgaria is at very moderate level. It is expected to reach approximately 23% in 2014.

[11] Source: The European Commission data and forecasts (winter forecast 2014), Eurostat.
[12] Forecast.
[13] Forecast.

Housing Loan Interest Rates. The long-term interest rates for housing loans granted in euro and the fluctuation thereof have been indicated in the following table[14]:



An important aspect contributing to the economic downturn some years ago was a real estate bubble, particularly in Estonia and Latvia where low interest rates of predominantly euro-denominated loans at low rates and relatively easy crediting policies from banks caused excessive leverage in the private sector.

Bulgaria has been seen steady housing loan rates. The process of deleveraging in the housing market of Estonia appears to be over while Central Bank commentary in Latvia suggests that it is still taking place. Bank lending policies in both Estonia and Latvia remain quite conservative.

8.2. Residential Real Estate Market in Estonia, Latvia and Bulgaria[15]

Introductory Remarks. The Group operates in two business segments – real estate services business segment and real estate development business segment. The Group's operations in the real estate development business segment are focused on the residential real estate market; however, the operations in the real estate services business segment cover both – residential real estate and business real estate.

Estonia. As to apartments, the average price per square metre in Tallinn has been growing since 2009. During the period 2012 – 2013, the construction of nearly 25 new apartment buildings began in Tallinn. In the second half of 2013, the price of new apartments was partially comparable to the boom period, which reached its peak in 2007. The currently increasing apartment market activity is supported by low interest rates on loans. If the average increase in prices of apartments in Tallinn over the last few years was 10% per year, then in 2013 the increase reached nearly 20%. In 2013, altogether 17,901 sale transactions of apartments were effectuated in the total value of MEUR 847.4. In 2012, the number of transactions was 15,532 and the total value thereof MEUR 666.1.

The prices of apartments per square metre in the main cities of Estonia are summarised in the following table (all data includes VAT, if applicable):

[14] Source: Central Banks of Estonia, Latvia and Bulgaria.
[15] Source: Real Estate Market Overview for Estonia, Latvia and Bulgaria 2013 by the Company, whereas all the data is dated as at the end of 2013.

City	Old town (EUR/m^2)	City centre (EUR/m^2)	Suburban area (EUR/m^2)
Tallinn	3,000	1,700 (secondary) 2,300 (new projects)	1,000 (secondary) 1,800 (new projects)
Tartu	n/a	600 – 3,100 (secondary) 1,150 – 3,100 (new projects)	550 – 2,500 (secondary) 700 – 2,100 (new projects)
Pärnu	n/a	600 – 1,200 (secondary) 1,200 – 2,500 (new projects)	400 - 700 (secondary) 1,000 – 1,300 (new projects)

The Estonian rental apartment market may be characterised by the offering remaining below demand.

The private housing market shows the signs of stabilisation and a slight increase in some areas. The prices of private houses per square metre in the main cities of Estonia are summarised in the following table:

City	Old poor condition private houses of up to 120 m^2 (EUR/m^2)	Old renovated private houses of up to 120 m^2 (EUR/m^2)	New private houses (EUR/m^2)	Exclusive private houses (EUR/m^2)
Tallinn	1,000	1,500	2,000	2,300
Tartu	250 – 1,400	n/a	230 – 2,100	800 – 1,700
Pärnu	350 - 500	700 – 1,000	2,000 – 2,500	2,000 – 3,500

Latvia. The Latvian apartment market can be characterised by the same trend as Estonia – with a few exemptions the prices show an increasing trend. In 2013, the prices of apartments located in Riga increased the most, i.e. 3-6%, if compared to the Latvian average price. While describing the trends of the Latvian apartment market it must be emphasised that many of the relevant real estate transactions are registered at the cadastral value or even below that, which means that there is no reliable data on the actual value of the transactions.

The prices of apartments per square metre in the main cities of Latvia are summarised in the following table:

City	Old town (EUR/m^2)	City centre (EUR/m^2)	Suburban area (EUR/m^2)
Riga	3,000 – 4,100	1,200 – 4,000 (secondary) 2,000 – 4,000 (new projects)	510 – 950 (secondary) 850 – 2,000 (new projects)
Jelgava	n/a	280 - 510 (secondary)	260 - 380 (secondary) 410 - 450 (new projects)
Jūrmala	n/a	850 – 1,400 (secondary) 1,850 – 5,500 (new projects)	380 - 750 (secondary) 1,300 – 1,900 (new projects)

Liepāja	n/a	80 – 1,050 (secondary)	95 - 450 (secondary) 445 – 1,100 (new projects)
Daugavpils	n/a	240 - 430 (secondary)	175 - 310 (secondary)

The Latvian rental apartment market is shrinking as the population prefers owning residential real estate to renting it. This trend has resulted in the overall increase of rental prices, above all locations in Riga.

The Latvian private housing market is growing – in 2013, the number of transactions in Riga and vicinity of Riga have increased significantly, whereas the increase in prices is not so significant (3% in Riga and 2% in the vicinity of Riga). The prices of private houses per square metre in the main cities of Latvia are summarised in the following table:

City	Old poor condition private houses of up to 120 m² (EUR/m²)	Old renovated private houses of up to 120 m² (EUR/m²)	New private houses (EUR/m²)	Exclusive private houses (EUR/m²)
Riga	400 - 900	850 – 1,300	1,100 – 2,400	1,400 – 5,000
Jelgava	180 - 380	450 - 800	750 – 1,300	n/a
Jūrmala	450 - 700	750 – 1,500	1,100 – 3,000	2,500 – 10,000
Liepāja	155 - 280	320 - 900	650 – 1,900	n/a
Daugavpils	85 - 145	150 - 280	380 - 640	n/a

Bulgaria. In 2013, the residential market in Sofia may be characterized by the stabilisation of prices and moderate increase in demand towards the end of the year. The average price for a 1 bedroom apartment (comprising half of the total amount of apartment transactions) was 675 EUR/m². To purchase a 2 bedroom apartment, buyers had to pay 750 EUR/m², and for larger apartments the average price was slightly lower, i.e. 735 EUR/m². The average apartment price in 2013 was EUR 26,460 for studios, EUR 42,760 for 1 bedroom apartments, EUR 67,240 for 2 bedroom apartments and EUR 102,030 for the larger apartments. High-end apartment prices range widely between 850 – 1,600 EUR/m².

The prices of apartments per square metre in the main cities of Bulgaria are summarised in the following table:

City	Old town (EUR/m²)	City centre (EUR/m²)	Suburban area (EUR/m²)
Sofia	n/a	1,150 – 1,250 (secondary) 1,200 – 1,300 (new projects)	650 (secondary) 750 - 850 (new projects)
Plovdiv	n/a	540 - 600 (secondary) 600 - 620 (new projects)	500 (secondary)[16] 550 - 570 (new projects)

[16] Near the historical part of Plovdiv (Marasha neighbourhood) 590 – 620 EUR/m².

Varna	n/a	680 - 700 (secondary) 700 - 750 (new projects)	550 (secondary)[17] 600 - 630 (new projects)

Rental levels for 1 bedroom and 2 bedroom apartments are around 4 – 4.5 EUR/m² in the city centre and 2.5 – 3 EUR/m² in the suburban areas.

The prices of private houses per square metre in the main cities of Bulgaria are summarised in the following table:

City	Poor condition private houses of up to 120 m^2 (EUR/m^2)	Private houses in the city centre of up to 120 m^2 (EUR/m^2)	Private houses in suburban area (EUR/m^2)	Exclusive private houses (EUR/m^2)
Sofia	990[18]	1,500 – 1,700	600 - 700	2,100 – 2,500
Plovdiv	578[19]	535	450 - 500	n/a
Varna	680[20]	700 - 750	500 - 550	n/a

8.3. Business Real Estate Market in Estonia, Latvia and Bulgaria[21]

Office Premises. In Estonia, the office premises real estate market indicated signs of stabilisation in 2013. Offering corresponded to demand. The Latvian office premises real estate market may be characterised by insufficient offering of Class A office premises. This trend; however, may be turning around in 2014 as there are several new Class A office buildings coming to the market in 2014. The Bulgarian office premises real estate market indicates a strong growth trend.

The average rental prices, average vacancy and yield of office premises in all the target markets of the Group are summarised in the following table:

City	Class A (EUR/m^2)	Class B (EUR/m^2)	Average vacancy	Yield
Tallinn	10 - 15	6 - 8	3 - 4% (A) 10 - 20% (B)	8 - 9%
Tartu	8 - 12	3 - 6	25%	6 - 8%
Pärnu	12 - 15	7 - 10	15%	6 - 8%
Riga	8 - 14	5 - 9	5 - 11%	7 - 8%
Jelgava	n/a	3 - 7	n/a	n/a
Jūrmala	n/a	4 - 10	n/a	n/a

[17] Near the seaside (Briz neighbourhood) 686 – 740 EUR/m^2.
[18] Private houses in the area close to the Vitosha mountain.
[19] Private houses in the area close to the old historical part of the city.
[20] Private houses in the area close to the Black Sea.
[21] Source: Real Estate Market Overview for Estonia, Latvia and Bulgaria 2013 by the Company.

Liepāja	n/a	3 - 7	n/a	n/a
Daugavpils	n/a	3 - 6	n/a	n/a
Sofia	10 - 13	5 - 7	19.5%	9.5%
Plovdiv	6 - 7	3.5 - 5	n/a	10%
Varna	10 - 12	5.1 - 5.5	n/a	9.5%

Retail Premises. In Estonia, there is a continuous high demand for retail premises in favourable locations. There are currently no vacancies in shopping centres with high rates of traffic. In Latvia the retail premises real estate market is indicating stable growth from 2010. In Bulgaria, modern shopping mall leasable area increased by 18% in 2013 after the opening of the Paradise lifestyle centre in Sofia and the open-air shopping mall in Burgas. Despite the increased supply, the competition among retailers for modern premises continues to be at a high level.

The average rental prices, average vacancy and yield of retail premises in all the target markets of the Group are summarised in the following table:

City	City centre (EUR/m^2)	Outside city centre (EUR/m^2)	Old town (EUR/m^2)	Prime yield
Tallinn	20 - 25	25 - 30	30 - 40	6 - 8%
Tartu	10 - 15	15 - 18	13 - 15	6 - 8%
Pärnu	10	20 - 15	7 - 12	6 - 8%
Riga	8 - 28	6 - 15	8 - 45	7 - 8%
Jelgava	3 - 12	2 - 6	n/a	n/a
Jūrmala	5 - 25	5 - 20	n/a	n/a
Liepāja	4 -15	3 - 8	n/a	n/a
Daugavpils	3 - 18	5 - 20	n/a	n/a
Sofia	25 - 30	7 - 12	n/a	9%
Plovdiv	18 - 24	6 - 10	n/a	10%
Varna	20 - 27	10 - 12	n/a	9%

Industrial and Warehouse Premises. The industrial and warehouse premises market is stable in all three target markets of the Group. The average rental prices of industrial and warehouse premises in all the target markets of the Group are summarised in the following table:

City	New warehouse premises (EUR/m^2)	Renovated warehouse premises (EUR/m^2)	Premises in industrial parks (EUR/m^2)	Old warehouse premises (EUR/m^2)
Tallinn	4.5 – 5.5	3.5 – 4	4.5 – 5.5	2.5 - 3
Tartu	3.5 – 4	3	4	1 - 2
Pärnu	4 – 5	2 – 4	4 – 5.5	1.2 - 2
Riga	2.4 – 3.8	1.8 – 3.5	3 - 5	1.2 - 2
Jelgava	1.8 - 3	1.3 – 2.5	n/a	0.8 – 1.3
Jūrmala	n/a	2 - 4	n/a	1.5 - 3
Liepāja	1.8 – 2.3	1.5 – 2.3	n/a	0.8 – 1.3
Daugavpils	2 - 3	1.2 – 2.3	n/a	0.6 – 1.1
Sofia	5 - 7	4 - 5	n/a	1 - 2
Plovdiv	3 – 4.5	1.5 – 2.5	n/a	1 - 2
Varna	4 – 5.5	2.5 - 3	n/a	1 - 2

8.4. Land Market[22]

In Estonia, the development of the residential real estate has during 2013 become profitable again and therefore the interest in respect of suitable land plots has increased. However, the rapid increase in construction prices between 2010 and 2013 has contributed into balancing the residential land plot market. In Latvia, the increase of interest towards residential real estate was noticeable only in respect of land plots located close to Riga or near water with good access to roads and connections to utilities. For Bulgaria, the year 2013 marked the year of increased interest towards land plots suitable for development. The most attractive locations are those close to the new and upcoming subway stations.

As to the Estonian commercial land market, only a few purchase transactions were made in 2013. Similarly to Estonia, Latvian real estate market faced no significant increase in the activities of the commercial land segment.

As far as Estonian agricultural and forest land is concerned, the demand exceeds the offering significantly, which has resulted in rapid growth of prices in 2013.

Prices of land in all the target markets of the Group are summarised in the following table:

City	Land for commercial purposes (EUR/m^2)	Land for residential purposes (EUR/m^2)	Agricultural land (EUR/ha)
Tallinn	100 - 300	70 - 180	1,500 – 2,500
Tartu	60 - 150	40 - 100	1,500 – 2,500

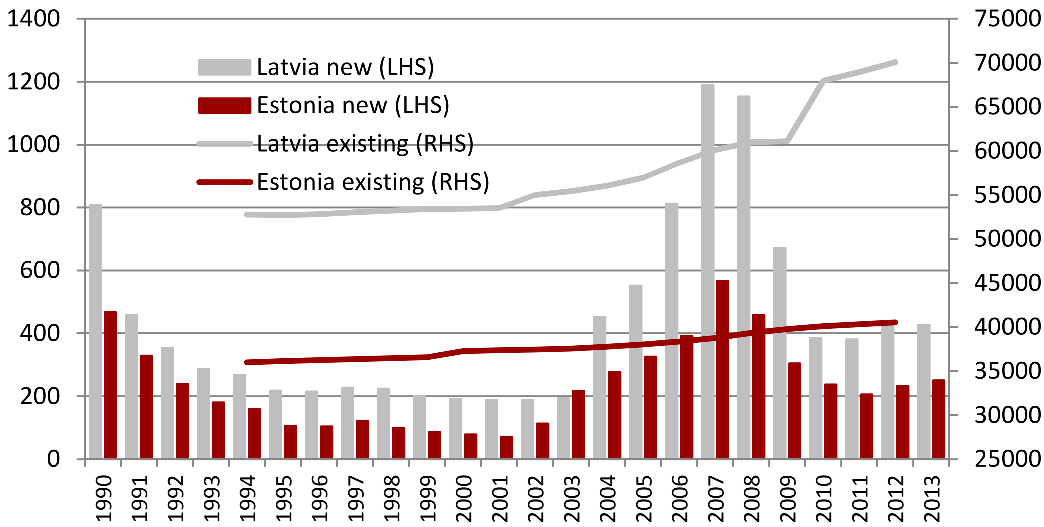
[22] Source: Real Estate Market Overview for Estonia, Latvia and Bulgaria 2013 by the Company.

Pärnu	30 - 80	30 - 60	1,500 – 2,500
Riga	15 – 1,200	18 - 450	n/a
Jelgava	2 - 35	3 - 10	1,200 – 4,800
Jūrmala	180 - 700	25 - 550	n/a
Liepāja	1.5 - 45	4 - 70	750 – 2,800
Daugavpils	1.5 - 25	3 - 7	650 – 1,400
Sofia	170	150 - 200	n/a
Plovdiv	50 - 70	100 - 150	n/a
Varna	48 - 50	110 - 190	n/a

8.5. Construction Market

The construction market is one of the key elements contributing into the changes in real estate prices. Speculation also plays a major role; however, it cannot be measured objectively. In order to understand the new construction market it is crucial to look at the existing stock of the residential market and new additions built during recent years, the dynamics of which in the Estonian and Latvian markets are described in the following table[23].

Existing and new dwellings in thousands m²



The majority of residential stock in Tallinn and Riga is still old Soviet period concrete panel block apartment houses. Compared to Estonia, Latvia has significantly more newly-built dwellings. New stock built during the boom years was often of poor quality and overpriced. A portion of it continues to sit on the books of Scandinavian banks' owned SPVs.

[23] Source: Statistics office of Latvia and Estonia.

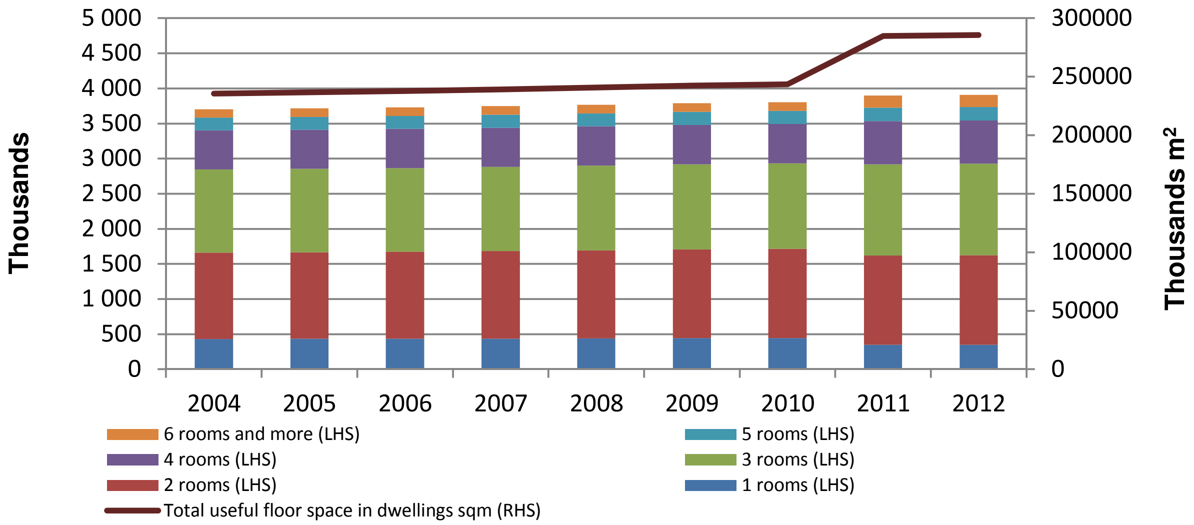
Contributing to the increased demand in the residential market in Latvia is the possibility to gain a Schengen residence permit of 5 years, when purchasing real estate for a set price, which is currently one of the driving forces of Latvian construction and residential real estate market.

According to Statistics Estonia in 2013, the number of real estate transactions increased by 15% year on year basis and the total value of transactions increased by 18%;

Bulgaria does not report the new stock built by area but it does in terms of existing dwellings and newly built dwellings by the number of rooms in the apartment. The largest portion of apartments has either 2 or 3 rooms. Existing stock has been steady during prior years but has started to increase sharply (by area) in 2011.

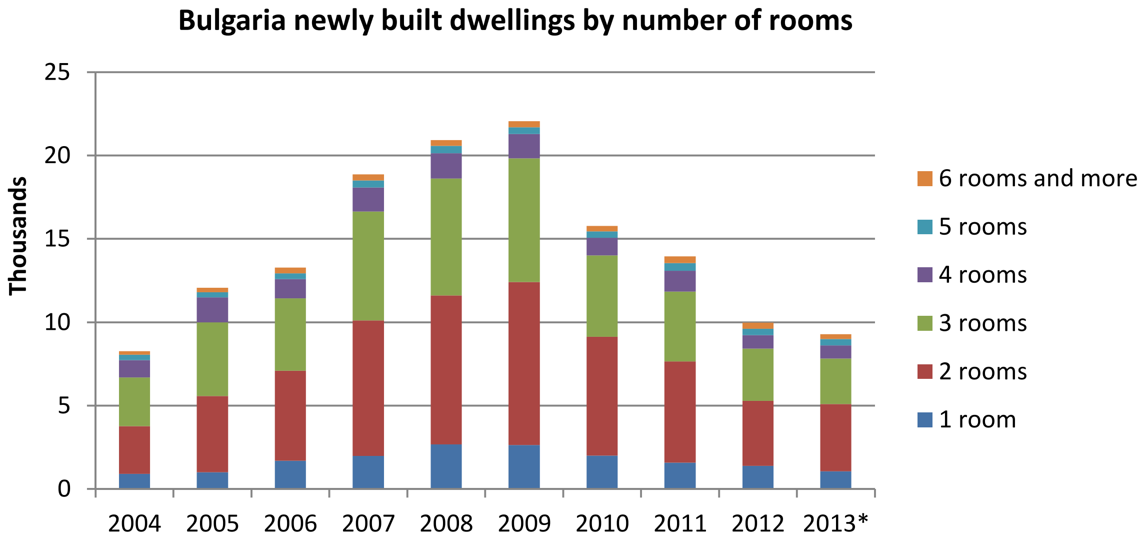
The data of Bulgarian dwellings by number of rooms and total use of floor space is described in the following chart[24].

Bulgaria dwellings by number of rooms and total useful floor space

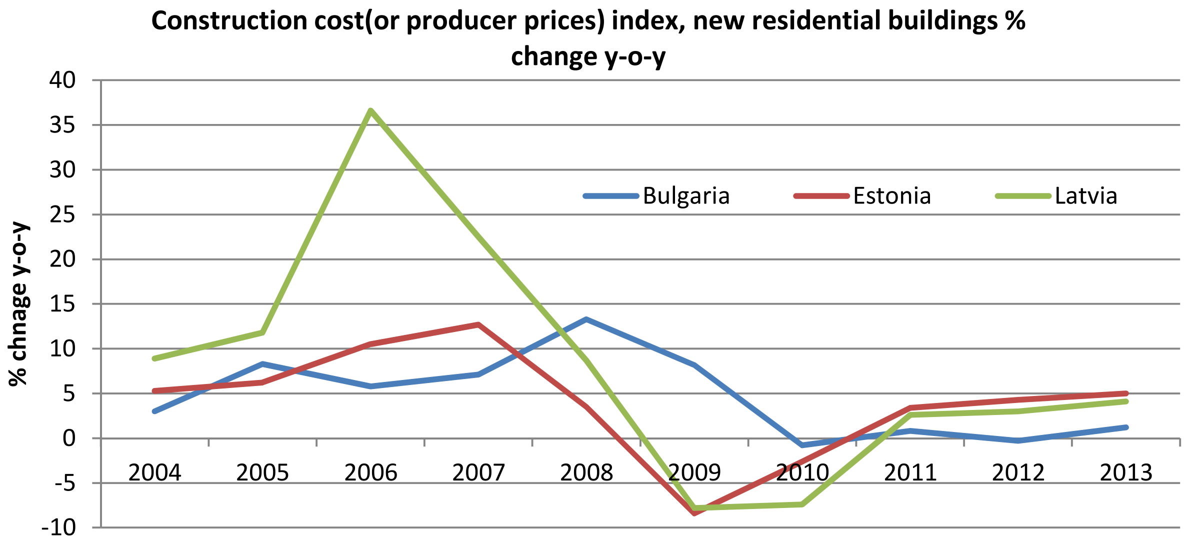


When looking separately at newly-built dwellings by the number of rooms it can be observed that 2009 was the year when the most of such dwellings were finished. Such dwellings mainly have either 2 or 3 rooms, which is the most desired size of apartment. In 2012, the amount of newly-built dwellings has dropped almost by half from the heights in 2009. The average amount for the years 2004 - 2012 was 14,000 units, but excluding 2007-2009 years, the norm has between 10,000 – 15,000 units per year, which is around 0.2-0.4% of the existing stock (when calculating using 2012 numbers). This is a tiny addition to existing stock. The data of Bulgarian dwellings by number of rooms is described in the following chart[25].

[24] Source: Statistics Office Bulgaria.
[25] Source: Statistics Office Bulgaria (preliminary data).



In all of these countries, there is very strong competition in the construction sector. This keeps a lid on construction costs. The construction cost index of all three target markets of the Group is described in the following chart[26]



When looking at costs, the available data relates to the construction cost index. 2006 and 2007 saw a significant increase in the construction cost index, especially for Latvia. This was also in part due to large speculative demand for residential stock right before the real estate bubble collapsed. The index was crushed during the recession years and now has seen a recovery for Latvia and Estonia to reach approximately 5% y-o-y according to the statistical offices of Latvia and Estonia.

Bulgaria on the other hand, did not see such enormous increases nor drop as did Latvia and Estonia. Even after its respective drop it has been stable for the period 2010- 2013.

Therefore Bulgaria has been the most stable country in the terms of construction cost changes and newly-built dwellings compared with Latvia and Estonia. On the other hand Estonia and Latvia created more opportunities for investors and speculators alike.

[26] Source: Eurostat, construction cost index - in national currency.

9. GENERAL CORPORATE INFORMATION AND SHARES

9.1. General Corporate Information

The business name of the Company is Arco Vara AS. It was registered in the Estonian Commercial Register (held by the Registry Department of the Harju County Court) under register code 10261718 on 12 September 1997.

The Company has been established and is currently operating under the laws of the Republic of Estonia in the form of a public limited company (in Estonian: *aktsiaselts* or *AS*) and is established for an indefinite term.

The contact details of the Company are as follows:
Arco Vara AS
Jõe 2B, 10151 Tallinn, Estonia
Phone: +372 6 144 600
Fax: +372 6 144 601
E-mail: info@arcovara.ee

As of 1 January 2007, public limited companies established under Estonian law are not required to list their fields of activity in the Articles of Association, which was the case before 1 January 2007. Instead of listing the fields of activity in the Articles of Association, public limited companies are required to provide such information in their annual reports using the Estonian Classification of Economic Activities (EMTAK).

According to the latest available annual report of the Company, i.e. the annual report for the financial year ended on 31 December 2013, the fields of activity of the Company were real estate activities (EMTAK 6800), construction of buildings (EMTAK 41000), civil engineering (EMTAK 42000) and specialised construction activities (EMTAK 43000).

9.2. Articles of Association

The latest version of the Articles of Association of the Company was adopted by a respective resolution of the extraordinary General Meeting of shareholders of the Company, dated 12 May 2011. The main terms of the Articles of Association of the Company are the following:

(i) the minimum amount of the share capital of the Company is EUR 2,500,000 and the maximum amount of the share capital of the Company is EUR 10,000,000, whereas within the minimum and maximum amount of share capital, the share capital of the Company may be increased and decreased without amending the currently effective version of the Articles of Association of the Company;

(ii) the Company has one type of share only. The nominal value of the ordinary share of the Company is EUR 0.7 and each share grants shareholder one vote at the General Meeting of shareholders;

(iii) the shareholders of the Company have the preferential right to subscribe for new shares upon the increase of the share capital of the Company, unless such right has been excluded by respective resolution of the General Meeting of shareholders, whereas in order to adopt such resolution, 3/4 of the shareholders participating at the meeting must vote in favour of such resolution;

(iv) the Shares are freely transferrable;

(v) the Company may issue convertible bonds;

(vi) the Management Board comprises of one to five members elected for a period of three years, whereas the Articles of Association provide joint representation right of the members of the Management Board – the Company may be represented by the Chairman of the Management Board (if there is more than one member in the Management Board) or two members of the Management Board acting jointly;

(vii) the Supervisory Board comprises of five to seven members elected for a period of five years;

(viii) the financial year of the Company is the calendar year.

9.3. Share Capital and Shares

The current registered share capital of the Company is EUR 3,319,194.90, which is divided into 4,741,707 ordinary shares of the Company (the Shares) with the nominal value of EUR 0.7. The Shares are registered in the Estonian Central Register of Securities under ISIN code EE3100034653.

Upon incorporation of the Company on 12 September 1997, the amount of share capital of the Company was EEK 100,000 (approximately EUR 6,391), which was divided into 20 Shares with the nominal value of EEK 500 (approximately EUR 31.96). Since the incorporation, the share capital of the Company has been increased as follows:

Date of registration	New amount of share capital	Number of new shares issued	Price per Share	Contribution into share capital
20.05.1999	EEK 400,000	800	EEK 500	EEK 400,000
01.09.1999	EEK 1,007,000	1,214	EEK 500	EEK 607,000
30.12.1999	EEK 3,041,000	4,068	EEK 500	EEK 2,034,000
27.11.2002	EEK 4,200,000	2,318	EEK 500	EEK 1,159,000
16.08.2005	EEK 272,554,680	26,835,468	EEK 10	EEK 268,354,680
19.12.2005	EEK 304,530,370	3,197,569	EEK 10	EEK 31,975,690
04.05.2007	EEK 677,841,500	37,331,113	EEK 10	EEK 373,311,130
02.07.2007	EEK 952,841,500	27,500,000	EEK 10	EEK 275,000,000

On 16 March 2010, the decrease of the share capital of the Company was registered in the Estonian Commercial Register. The share capital of the Company was decreased from EEK 952,841,500 (approximately EUR 60,897,639) to EEK 47,417,070 (approximately EUR 3,030,503). In the course of the share capital decrease altogether 90,542,443 Shares were cancelled and after the registration of the share capital decrease the total number of the Shares was 4,741,707. The share capital decrease was resolved by the extraordinary General Meeting of shareholders of the Company held on 11 December 2009. The main purpose of the share capital decrease was to reduce the high volatility of the Share on the stock exchange and strengthen the capital structure of the Company.

On 31 August 2011, the share capital of the Company until then denominated in Estonian kroons was converted into euro. In accordance with the resolutions of the ordinary General Meeting of shareholders of the Company held on 12 May 2011, the Articles of Association were amended to state that the minimum amount of the share capital of the Company is EUR 2,500,000 and the maximum amount of the share capital of the Company is EUR 10,000,000 and the nominal value of the Share is EUR 0.7. In order to convert the share capital of the Company into euro, the nominal value of the Share was rounded up to the closest possible value. In order to compensate the difference in the nominal value of the Share in the Estonian kroons and euro, the share capital of the Company was increased up to EUR 3,319,194.90, i.e. the current amount of the share capital of the Company. The share capital increase was conducted as a bonus issue, i.e. on the account of the retained earnings of the Company and without making any contributions to the share capital of the Company.

In accordance with the relevant resolutions by the General Meeting of shareholders as described in the Section “Terms and Conditions of Offering”, the registered share capital of the Company will be increased again on or about 12 September 2014 by issuing the New Shares. Such issue will comprise of up to 3,500,000 Shares which will be issued to the investors in order to carry out the Offering. The New Shares will be issued against monetary contributions, whereas the issue price of each New Share will be equal to the Offer Price.

The Company does not have any other types of shares other than ordinary shares (the Shares) and does not contemplate to issue any shares of such other classes. The Offer Shares are and the New Shares issued will exist under the laws of Estonia. All the Shares of the Company are registered and kept in book entry form by AS Eesti Väärtpaberikeskus (an Estonian public limited company, register code 10111982), which is the operator of the ECRS. The currency of the Shares is euro. All the issued Shares have been fully paid up. In order to change the rights attached to all shares in general (in as much as this is possible under the applicable law), the Articles of Association of the Company need to be amended. The amendment of the Articles of Association normally requires a qualified majority of at least 2/3 of all votes present at the General Meeting of shareholders. If a company has more than one type of shares, changing the rights attached to a particular class of shares requires in addition to the above the consent of at least 2/3 of votes of shareholders that are present at the General Meeting in each type of shares. When the rights stemming from a particular type of shares are being amended, a decision of the General Meeting of shareholders needs to be adopted which requires a qualified majority of 4/5 of the votes, and the consent of at least 9/10 of all shareholders who hold the shares of the type subject to the amendment. A brief description of the rights attached to the Shares of the Company follows below.

9.4. Other Securities

Introductory Remarks. In addition to the Shares, the Company has issued bonds and convertible bonds, the main terms and conditions of which are described below. Other than the instruments described in this Section, there are no outstanding acquisition rights or undertakings to increase the share capital of the Company in the future. No put or call options are outstanding with respect to any Group company. There are no legal restrictions on the transferability of the Shares of the Company. No public takeover bids were launched in respect of the Shares since the incorporation of the Company.

2013 Bond Issue. On 21 August 2013, the Company issued bonds, which are registered in the ECRS under the ISIN code EE3300110394. Altogether 750 bonds with the nominal value of EUR 1,000 were issued to altogether seven investors, including OÜ Alarmo Kapital (a company under the control of Mr Tarmo Sild, the sole member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board of the Company), Mr Rain Lõhmus (a member of the Supervisory Board) and OÜ Gamma Holding (a company under the control of Mr Arvo Nõges, a member of the Supervisory Board). The interest rate of 14% is applicable in respect of the bonds, payable quarterly, whereas upon the successful sale of the Manastirski project’s Blocks A and B (please see the Section “Projects and Properties” for additional information), the investors are entitled to receive a bonus interest of 15% of the extra revenue generated from the apartment sales. The extra revenue for the purposes of the bonus interest is any amounts received on top of the planned sale price of EUR 750 per square metre, including VAT. The bonus interest becomes payable after 90% of apartments have been sold. The liability of the Company arising from bonds is secured with a first-ranking mortgage encumbering the construction right of Manastirski Project’s Block D. The maturity date of the bonds is 21 August 2016.

2014 Bond Issue. On 21 March 2014, the Company issued bonds, which are registered in the ECRS under the ISIN code EE3300110519. Altogether 160 bonds with the nominal value of EUR 1,000 were issued to altogether three investors, i.e. AS Lõhmus Holdings, OÜ Alarmo Kapital and K Vara OÜ. AS Lõhmus Holdings is a company under the control of a member of the Supervisory Board of the Company Mr Rain Lõhmus. OÜ Alarmo Kapital is under the control of the member of the Management Board of the Company Mr Tarmo Sild and a member of the Supervisory Board of the Company, Mr Allar Niinepuu. Therefore this transaction qualifies as a related party transaction (please see the Section "Related Party Transactions" for further details). The annual interest rate of 9.8% is applicable in respect of the bonds, payable quarterly. The liability of the Company arising from bonds is secured with a first-ranking mortgage encumbering the real estate located at Palusambla 1, Tallinn, in the ownership of the Subsidiary of the Company OÜ Kerberon. The maturity date of the bonds is 20 June 2015.

Convertible Bond Issue. On 9 September 2013, the Company issued one convertible bond to the member of the Management Board Mr Tarmo Sild with the nominal value of EUR 1,000. The convertible bond is registered in the ECRS under the ISIN code EE3300110402. The convertible bond carries interest at the rate of 5%, payable annually and the maturity date of the convertible bond is 6 September 2017. The convertible bond may be converted into the Company's Shares, whereas dependent on the duration of the period of Mr Tarmo Sild acting as the member of the Management Board, he will be entitled to acquire up to 390,000 Shares with the nominal value of EUR 0.7 against the payment of the subscription price of EUR 273,000.

9.5. Rights of Shareholders

Right to Participate in Corporate Governance. The Shareholders are entitled to take part in the corporate governance of the Company through the General Meeting of shareholders, where they can exercise their powers to decide on certain important corporate matters, such as e.g. amendment of the Articles of Association, increase and decrease of share capital, issue of convertible bonds, election and removal of the members of the Supervisory Board and the auditor, approval of the annual accounts and the distributions of profit, dissolution, merger, division or transformation of the Company and certain other matters. The General Meeting is the highest governing body of the Company.

The ordinary General Meeting of shareholders is held once a year pursuant to the procedure and at the time set forth by law and the Articles of Association. Despite the fact that according to the Estonian Commercial Code the ordinary General Meeting of shareholders must be held within six months as from the end of a financial year, the Estonian Securities Market Act further specifies that the audited annual accounts of listed and publicly traded companies must be made public within four months as from the end of a financial year. In accordance with the Estonian Commercial Code, before the ordinary General Meeting of shareholders is held, the Supervisory Board must review the annual accounts and provide the General Meeting of shareholders with a written report on the annual accounts indicating whether the Supervisory Board approves the accounts or not but also providing information on how the Supervisory Board has organised and supervised the activities of the management of the Company. In practise the referred report is made available along with the notice on convening the General Meeting of shareholders.

An extraordinary General Meeting may be held on certain conditions: (i) in the event that the net equity of the Company decreases below the legally required minimum level, or (ii) if shareholders representing at least 1/20 of the share capital, the Supervisory Board or the auditor demand that a meeting is convened or (iii) if the meeting is required in the interests of the Company. The Articles of Association of the Company do not include any deviation from the applicable law with respect to when the General Meeting needs to be convened.

If the Management Board fails to convene the extraordinary General Meeting within one month after the receipt of a relevant demand from the shareholders (or the Supervisory Board or the auditor), then the shareholders (or, respectively, the Supervisory Board or the auditor) have the right to convene the extraordinary General Meeting themselves.

The notice of an upcoming General Meeting must be published and disclosed to the Shareholders three weeks in advance. According to applicable law, the notice on convening the General Meeting of shareholders of the Company must be published in at least one national daily newspaper in Estonia and through the information system of the NASDAQ OMX Tallinn Stock Exchange.

According to the Estonian Commercial Code, if there is a material breach of the requirements of convening a General Meeting of shareholders, such General Meeting does not have the capacity to adopt resolutions, except if all the shareholders participate at the meeting.

As a rule, the agenda of a General Meeting of shareholders is determined by the Supervisory Board. However, if the General Meeting is convened by the shareholders or the auditor, the agenda is determined by them. Furthermore, the Management Board or the Shareholders whose shares represent at least 1/20 of the share capital of the Company may demand the inclusion of a certain item in the agenda. An item which is initially not in the agenda of a General Meeting may be included in the agenda upon the consent of at least 9/10 of the Shareholders who participate in the General Meeting if their shares represent at least 2/3 of the share capital.

A General Meeting of shareholders of the Company is capable of passing resolutions if more than 1/2 of the votes represented by the Shares held by the Shareholders are present at the General Meeting of shareholders. If this quorum requirement is not met, the Management Board is required to convene a new General Meeting of shareholders not more than three weeks but not less than seven days after the date of the initial General Meeting. There are no quorum requirements for the newly convened General Meetings of shareholders convened in such a manner.

As referred to above, the Company currently has only one type of Share with a nominal value of EUR 0.7 each. Each Share entitles a Shareholder to one vote. A Shareholder may attend and vote at a General Meeting in person or by proxy. In the case of companies listed on the NASDAQ OMX Tallinn Stock Exchange, only those Shareholders are eligible to attend and vote at a General Meeting of shareholders who were on the list of shareholders (which is maintained by the ECRS) seven days before the General Meeting. A Shareholder whose Shares are held on a nominee account can exercise voting rights if a respective power of attorney has been executed in favour of such Shareholder by the holder of the nominee account.

As a rule, the resolutions of a General Meeting of shareholders require the approval of the majority of the votes represented at the General Meeting of shareholders. Certain resolutions, such as amending the Articles of Association, increasing or decreasing the share capital, resolutions relating to a merger or liquidation of the company, etc., require a qualified majority of 2/3 of the votes represented at the General Meeting of shareholders. In addition to such resolutions, there are resolutions, which require an even higher rate of affirmative votes of the Shareholders, such as excluding the Shareholders' preferential right to subscribe for new shares upon increase if share capital, which requires the affirmative vote of 3/4 of the votes represented at the General Meeting of shareholders and squeeze-out of minority shares, which requires the affirmative vote of 95/100 of the votes represented at the General Meeting of shareholders.

Right to Information. Pursuant to the Estonian Commercial Code, the Shareholders have the right to receive information on the activities of a company from the Management Board at the General Meeting. However, the Management Board may refuse to give information if there is a reason to presume that this may cause significant damage to the interests of the Company. In the event the Management Board refuses to give information, the Shareholders may require the General Meeting to decide on the legality of such refusal or submit a respective claim to a competent court.

Right to Subscribe for New Shares. Pursuant to the Estonian Commercial Code, the existing Shareholders of the Company have, upon the increase of the share capital of the Company and the issue of the new shares of the Company, the preferential right to subscribe for new shares of the Company proportionally to their existing shareholding in the Company. Such preferential right can be excluded by a respective resolution of the General Meeting of shareholders, which requires the affirmative vote of 3/4 of the votes represented at the General Meeting of shareholders.

Right to Dividends. All the Shareholders of the Company have the right to participate in the distribution of profit of the Company and have the right to receive dividends proportionally to their shareholding in the Company. Resolving the distribution of profit and the payment of dividends is in the competence of the General Meeting of shareholders. The resolution of the distribution of profit and the payment of dividends is adopted on the basis of the approved annual accounts for the preceding financial year, whereas according to the Estonian Commercial Code, the Management Board is under obligation to make a proposal for the distribution of profit and the payment of dividends in the annual accounts or in a separate document accompanying the annual accounts, whereas such a proposal of the Management Board is subject to a review by the Supervisory Board, which is entitled to introduce amendments to the proposal. The resolution of the distribution of profit and the payment of dividends must include the following information – (i) the amount of net profit; (ii) the payments into the statutory capital reserve; (iii) the payments into other reserves if such exist according to applicable law or the Articles of Association (which is not the case for the Company); (iv) the amount of profit being distributed among the Shareholders; and (v) using the profit for other purposes, if applicable. The Shareholders who are entitled to participate in the distribution of profit and receive dividends shall be determined on the basis of the list of shareholders as maintained by the ECRS, which is fixed on the date determined by the General Meeting of shareholders resolving the distribution of profit, whereas such date may not occur earlier than on the tenth trading day after the General Meeting of shareholders. The list of shareholders shall be fixed as at the end of the respective trading day, i.e. at 23:59 local Estonian time. While distributing profit and making dividend payments to the Shareholders, the Company is under obligation to treat all Shareholders equally.

9.6. Other Important Matters

Restrictions on Financial Assistance. The Estonian Commercial Code sets forth certain restrictions in respect of financial assistance. As a general rule, a company may not grant loans or provide other financial assistance (such as e.g. giving guarantees or sureties) (i) to a shareholder whose shares represent more than 1% of the share capital, (ii) to a shareholder of the parent company whose shares represent more than 1% of the share capital of the parent company, (iii) for the purpose of acquiring shares of the company, or (iv) to members of the Management Board, the Supervisory Board or to procurators. The financial assistance may, nevertheless, be provided to such shareholders who belong to the same consolidation group as the company and provided that this does not harm the financial status of the company or the interests of its creditors.

Squeeze-out Rights. The Estonian Commercial Code allows majority shareholder to take over a public limited company. The precondition for such a squeeze-out is the acquisition of at least 90% of the voting rights in a public limited company. Adopting the squeeze-out resolution is in the competence of the General Meeting of shareholders, requiring the affirmative vote of 95/100 of the votes represented at the General Meeting of shareholders. The amount of compensation for the minority shares, which are subject to takeover, is to be determined on the basis of the value of shares as at ten days prior to the date on which the notice on convening the General Meeting was published. In addition to the squeeze-out rights established by the Estonian Commercial Code, take-over bids may be made in respect of companies listed on the NASDAQ OMX Tallinn Stock Exchange and upon certain circumstances majority shareholders of listed companies are under the obligation launch a take-over bid (please see the Section “Estonian Securities Market” for more details). The main difference of the take-over bids if compared to squeeze-out rights is that in the first case the minority shareholders are entitled to decide whether or not to participate in the bid, which is not the case for the squeeze-out – once the resolution of the General Meeting of shareholders on the squeeze-out of minority shares is duly adopted, the minority shares are transferred to the majority shareholder upon the latter’s respective application to the ECRS.

Disclosure of Shareholdings. The Company is required to submit a list of shareholders holding over 10% of all shares to the Estonian Commercial Register together with the annual accounts, such list being drawn up as of the date when the annual accounts are approved by the General Meeting of shareholders. Please see the Section “Estonian Securities Market” below for more information on disclosures of shareholdings which are triggered by the listing of Shares on the NASDAQ OMX Tallinn Stock Exchange. Whenever a person acquires (directly or indirectly, alone or in concert with other parties) thresholds of 5%, 10%, 15%, 20%, 25%, 33%, 50% or 66% of all shares issued by one public limited company, such person must notify the public limited company of such acquisition not later than within four trading days.

Nominee Accounts. According to the Law of Estonian Central Register of Securities, professional participants of securities market and certain other parties, which are subject to financial supervision, are entitled to hold a nominee account, which is a special type of a securities account. The nominee account is used to hold securities for and on the account of another person (a client). Although the actual beneficial owner of securities held on the nominee account is the client who retains the right to dispose of the securities, the holder of the nominee account shall appear in the list of shareholders as a shareholder. Therefore any and all shareholder rights attached to shares held on a nominee account are attributed to the holder of the nominee account. In order for the actual beneficial shareholder to exercise its shareholder rights, the holder of nominee account is under obligation to provide the actual beneficial owner of shared held on a nominee account a power of attorney. While deciding over applicability of certain threshold-related obligations, such as disclosure obligations of shareholdings as described above, obligation to make a mandatory take-over bid, etc., the shares held in a nominee account shall be considered to be the shares of a client, i.e. the person for the benefit of whom the shares are held on a nominee account by the holder of the nominee account.

10. OWNERSHIP STRUCTURE

10.1. Shareholders of Company

As at the date of this Prospectus, the Shareholders holding over 5% of all the Shares for the Company are the following:

Name of Shareholder	Number of Shares	Proportion
AS Baltplast	897,999	18.9383%
Gamma Holding Investment OÜ	500,585	10.5571%
OÜ HM Investeeringud	450,000	9.4902%
Alarmo Kapital OÜ	374,188	7.8914%
Lõhmus Holdings AS	312,378	6.5879%
LHV Persionifond L	310,000	6.5377%
Rimonne Baltic OÜ	251,200	5.2977%

Since the Shares are listed and admitted to trading on the main list of the NASDAQ OMX Tallinn Stock Exchange, the shareholder list and the number of Shares and the proportion thereof in the total amount of share capital of the Company is subject to changes on a daily basis.

The Management Board is as at the date of this Prospectus not aware of any arrangements or circumstances, which may at a subsequent date result in a change in control of the Company. Further, the Management Board is as at the date of this Prospectus not aware of any persons other than a member of the administrative, Management or Supervisory Board who, directly or indirectly, has an interest in the Company's capital or voting rights which is notifiable under applicable law.

10.2. Shareholders' Agreements

To the best of knowledge of the Management, there are no shareholders' agreements executed between the Shareholders in respect of their shareholdings in the Company, except for the shareholders' agreement between AS Lõhmus Holdings (a company under the control over Mr Rain Lõhmus, a member of the Supervisory Board) and OÜ Gamma Holding (a company under the control of Mr Arvo Nõges, a member of the Supervisory Board) and the shareholders' agreement between OÜ Alarmo Kapital (a company under the control of Mr Tarmo Sild, the member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board of the Company) and OÜ HM Investeeringud (a company under the control of Mr Hillar-Peeter Luitsalu, a member of the Supervisory Board), the main details of which were disclosed to the public in a company announcement published via the information system of the NASDAQ OMX Tallinn Stock Exchange on 19 June 2013[27].

AS Lõhmus Holdings and OÜ Gamma Holding have executed a shareholders' agreement under which they have mutual pre-emptive rights to acquire the Shares held by them as at 10 June 2013. The party interested in transferring the Shares is under obligation to notify the other party of its intention to transfer the Shares and the transfer price. The other party may acquire the Shares under the terms notified to it, whereas such right may be exercised by giving notice of such wish to acquire the Shares within five days period. The agreement is valid until 30 June 2016 or until the price per Share rises above the level agreed between the parties.

[27] Available at https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=562224&messageId=694049.

OÜ Alarmo Kapital and OÜ HM Investeeringud have executed a shareholders' agreement under which OÜ Alarmo Kapital has the pre-emptive right to acquire the Shares held by OÜ HM Investeeringud. Such pre-emptive right may be exercised until 30 June 2016. OÜ HM Investeeringud is under obligation to notify OÜ Alarmo Kapital of its intention to transfer the Shares and the transfer price. OÜ Alarmo Kapital is entitled to acquire the Shares under the terms notified to it, whereas such right may be exercised by giving notice of such wish to acquire the Shares within a one week period. Under the agreement, OÜ HM Investeeringud has granted OÜ Alarmo Kapital an option to purchase the Shares held by OÜ HM Investeeringud at an agreed price. OÜ Alarmo Kapital was entitled to exercise such an option under certain conditions until 31 March 2014. In addition to the above, the agreement contains a voting agreement according to which OÜ HM Investeeringud is obliged to exercise its voting rights at the General Meetings of shareholders of the Company in the same manner as OÜ Alarmo Kapital.

The Company or any of its Subsidiaries is not a party to any shareholders' agreement executed in respect of shareholdings held by the latter in other entities.

As at the date of this Prospectus, the Company holds indirect interests in altogether four entities, which are not fully-owned Subsidiaries of the Company – Arco Investments TOV (Ukraine), Tivoli Arendus OÜ (Estonia), Arco Real Estate SIA (Latvia) and Arco Property Management SIA (Latvia), whereas Arco Property Management SIA (Latvia) is the only entity where the Company's indirect interest is less than 50%. Of these companies, only Arco Real Estate SIA (Latvia) is a material Subsidiary of the Company and the Company's indirect interest in Arco Real Estate SIA (Latvia) is altogether 70.64%, therefore the Management considers the risks arising from the fact that no shareholders' agreements have been executed in respect of the referred shareholdings moderate.

10.3. Dilution

As at the date of this Prospectus, the number of the Shares of the Company is 4,741,707. The amount of the Offer Shares is up to 3,500,000. Therefore, the number of the Shares of the Company after the successful registration of the Share Capital Increase will be up to 8,241,707, provided; however, that the number of the Offer Shares is not changed in accordance with the terms and conditions described in the Section "Cancellation of Offering". Therefore, the shareholdings in the Company prior to the Offering will be diluted by up to 42.47% as a result of the Offering, unless a Shareholder subscribes for and is allocated the number of Shares corresponding to the proportion of its shareholding in the course of the Offering.

11. BUSINESS

11.1. History of Group

Timeline. The Company was established in 1992. The milestones in the history of the Company and the development of the Group are indicated in the following table:

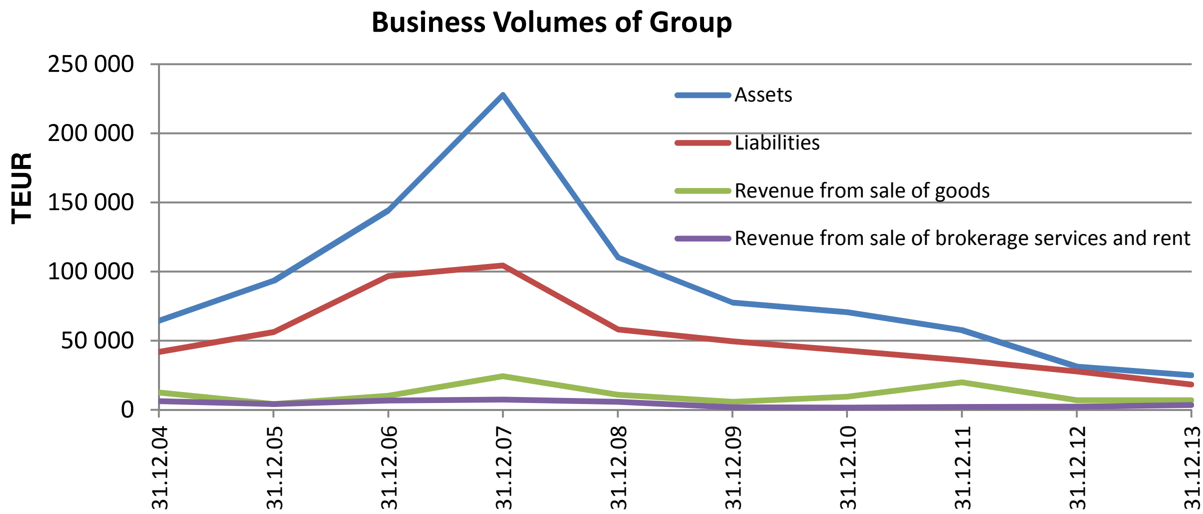
Year	Development
1992	The Company is established under the business name Arco Vara as a real estate agency.
1993	An office of the Company is opened in Saaremaa, which represents the expansion of the Company's operations beyond Tallinn.
1994	The Estonian Association of Real Estate Companies is established with the Company being one of the founding members. The expansion of the Company's operations continues – an office of the Company is opened in Pärnu.
1995	The Company enters into a new business segment – a subsidiary of the Company Arco Investeeringute AS is established for initiating the Company's real estate development operations. The first development project is the passenger port of Tallinn where 2.1 ha of land is purchased for the purpose of developing a multifunctional business centre. The Company expands its operations to the Southern-Estonia by opening an office in Tartu.
1996	The Company launches one of the largest real estate development projects in the Baltics – the construction of the Veskimöldre residential houses including approximately 200 apartments is commenced. The services portfolio of the Company is expanded by land surveying services.
1997	The Company enters the Latvian market. The provision of real estate management services is launched and a respective subsidiary Arco Vara Halduse OÜ is established. The co-operation with one of the leading construction companies TTP is launched by the Company providing brokerage services for a large-scale real estate development project in Pirita.
1998	The second large-scale residential development – Merivälja 2 – is launched covering a territory of approximately 40 ha.
1999	The Company acquires the Ristiku shopping centre in Tartu (a stressed asset in need of restructuring). The restructuring is successful and the project is sold in 2002. The historical Aia 8 building in Pärnu is acquired and renovated.
2000	The Company enters the Lithuanian market. For the purposes of forest land management and brokerage services, a subsidiary Arco Maadehalduse OÜ is established.
2001	The Company acquires one of the leading players in the Estonian construction supervision market Tallinna Linnaehituse AS. Arco Kapitalijuhtimise OÜ, a company engaged in real estate investment services, is established.
2002	The Company acquires the Tallinn Olympic Yachting Club from the Estonian Ministry of Culture. A first large-scale real estate development project in Latvia – the Mārsili residential area in Baltezers near Riga – is launched.

2003	The Company expands its operations with forest real estate – a forest auction system http://www.metsaoksjon.ee/ is developed and a forest nursery, seedling sale centre and forestry renewal company Arco Puukooli OÜ is established. Co-operation begins with the leading German real estate group DEC. A majority shareholding in a construction company Deena Ehituse OÜ is acquired. The Company becomes the main sponsor of Estonian skier Jaak Mae.
2004	The Company's rapid growth continues – real estate development operations are successfully launched through a Latvian subsidiary Arco Development SIA; growth of volume of construction operations continues.
2005	The Company enters the Ukrainian market. For engaging additional capital, the share capital of the Company is increased by the issue of a 10.5% shareholding to AS Hansapank. Two major residential real estate projects are launched – Kodukolde with 376 apartments in Estonia and Bišumuiža-1 with 126 apartments in Latvia.
2006	The Company enters the Bulgarian and Romanian markets.
2007	The initial public offering of the Shares of the Company takes place with the subsequent listing on the main list of the Tallinn Stock Exchange. First real estate development projects are launched in Lithuania and Bulgaria.
2008	As a consequence of the financial crisis the Company's operations in the Lithuanian, Ukrainian and Romanian markets are terminated. In Bulgaria, construction work on two major real estate projects – Boulevard Residence Madrid and Manastirski – is commenced. The construction operations of the Company in Estonia are awarded with ISO certificates.
2009	The Company is continuously struggling due to the financial crisis and heavy loan burden taken to finance past investments. The communications and streets of Merivälja 2 project are constructed. Operations in Bulgaria are expanded and in Ukraine closed.
2010	The volume of the residential real estate project Kodukolde is expanded – work on two new apartment buildings is commenced. The Bulgarian real estate development project Boulevard Residence Madrid, which the biggest real estate development project in the history of the Company, is finalised.
2011	Work on several real estate development projects – Kodukolde in Estonia and Boulevard Residence Madrid and Manastirski in Bulgaria – is finalised.
2012	Restructuring and turnaround of the Company begins. Mr Tarmo Sild is elected the member of the Management Board of the Company with the main task to re-structure the operations of the Group with the purpose of ensure growth and profitability of the operations of the Group, whereas such restructuring includes critical analysis of the balance sheets of the Group entities and re-valuation of their assets. In the course of such restructuring, the assets of the Group are written down by altogether MEUR 13.6 as at 31 December 2012 and as at the same date a provision in the amount of MEUR 3.1 is formed with the purpose of covering any potential future losses.
2013	The Company's core values are redefined and the restructuring activities continue. The corporate structure of the Company and its Subsidiaries is reorganised and several loss-making or potentially loss-making Subsidiaries are sold or liquidated. The Group restarts the development of the Manastirski project in Sofia, Bulgaria, and the Bišumuiža project in

	Riga, Latvia (please see the Section "Projects and Properties" for further details) and acquires real estate for the development of the Paldiski mnt 70c project in Tallinn, Estonia (please see the Section "Projects and Properties" for further details). Residential real estate development project Kodukolde is finalised and all apartments sold.
2014	The construction operations of the Company are terminated and Arco Ehitus OÜ is sold. The Company is actively seeking opportunities to engage additional capital to get involved in new real estate development projects.

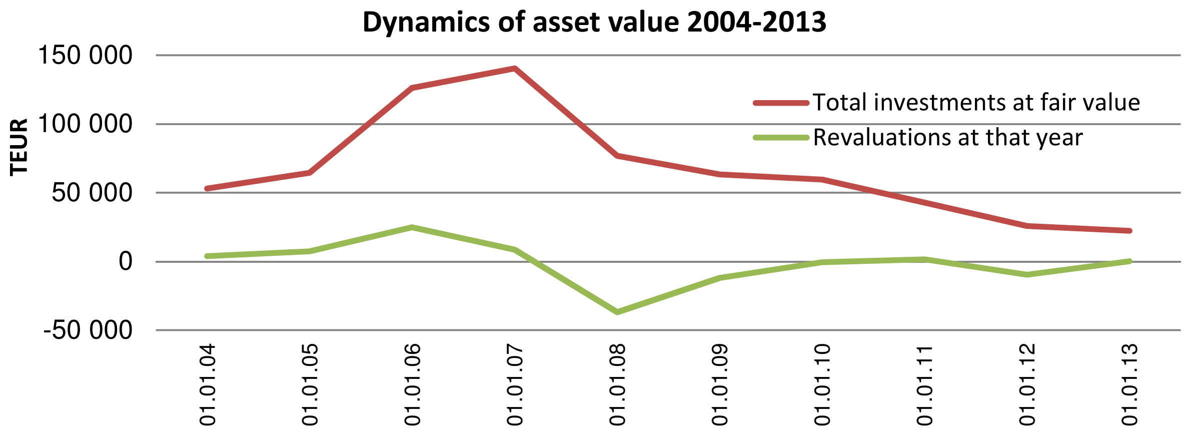
Period of Aggressive Expansion 1992 – 2007. The first 15 years in the history of the Company and the Group may be characterised by aggressive expansion and rapid growth. The Company initially established in Tallinn was covering the whole territory of Estonia within the three first years of the Company's business. The geographical expansion of the Company continued and by 2000, the Company had a presence in all three Baltic states; by 2006, the Company had successfully entered the emerging markets of Ukraine, Bulgaria and Romania. In addition to the geographical expansion, the Company, which started as a real estate agency, increased its services portfolio covering real estate brokerage, appraisal, land surveying, management, consultation and short-term investment services. In addition to the real estate services business segment, the Company was soon after establishment engaged in large-scale real estate development projects and construction operations. By 2004, the Company was engaged in three clearly distinguishable business segments – the real estate services business segment, the real estate development business segment and the construction business segment. The rapid growth and expansion was achieved by entering into new geographical markets and business segments from scratch but also supporting its expansion by certain mergers and acquisitions (M&A) activity. By the end of 2006, the Group had reached yearly revenue of MEEK 483.6 (approximately MEUR 30.9) and net profit of MEEK 207.9 (approximately MEUR 13.3). Such net profit; however, was in quite a significant extent earned from re-evaluation of assets on the balance sheets of the Group entities and not generated from the sale of goods. The continued success story of the Company and the Group was followed by an initial public offering of the Shares of the Company and subsequent listing thereof on the main list of the Tallinn Stock Exchange. The initial public offering of the Shares was oversubscribed by 2.1 times. The total amount of EEK 1.045 billion (approximately MEUR 66.8) of additional capital was raised. The new investors acquired 41.82% of all Shares in the Company.

Period of Financial Crisis and Slow Recovery 2008 - 2012. During the period 2008 - 2012, the Company's equity decreased by more than 95%. By the end of 2012, the Company's equity amounted to a mere MEUR 3.4. The evident reason for such severe decrease of the value of the Company is the worldwide financial crisis of 2007 - 2008, which for the real estate market can be characterised as a collapse. During that period, the Company faced significantly decreased revenues and the heavy burden of short-term debt used for financing the aggressive growth. A summary of the business volumes of the Company and the Group is described in the following chart:



The above chart illustrates the significant volume and volatility related to the assets of the Company (blue line), liabilities (red line) compared to revenues from sale of goods (green line) and from real estate services (purple line).

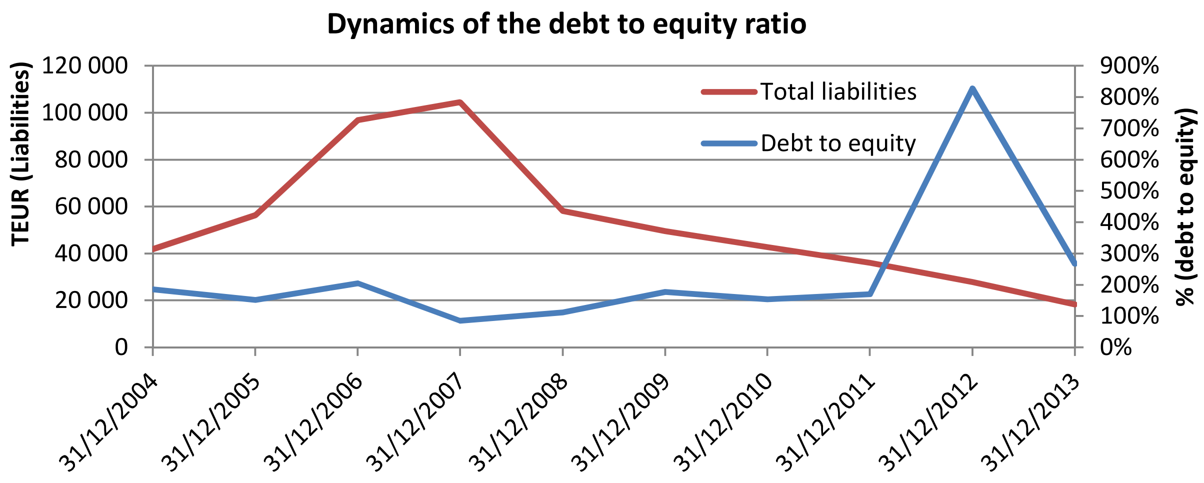
At the end of 2008, the Company carried out a re-evaluation of its assets in order to record the value of the assets of the Company in the accounting statements at fair value. The value of real estate investments of the Group was decreased by approximately MEUR 36.9. Between 2008 and 2013 several additional re-evaluations were conducted in respect of the assets and inventories of the Company in the amount totalling MEUR 14.8. The dynamics of the value of the assets can be seen in the following chart:



In the opinion of the current Management, the main reasons for the significant adverse change in the financial status and the results of operations during the period between 2008 and 2012 were the following:

(i) financing the aggressive expansion of the Company and the Group by short-term debt – as at the end of 2006, the Group had outstanding debt in the amount of approximately MEUR 95.9, of which approximately MEUR 64.8 was short-term debt. For maintaining long-term sustainability, the Company was in urgent need of a substantial increase of equity, bearing in mind that the main activities of the Group had not generated sustainable cash flow for supporting the heavy short-term debt burden for several years;

(ii) sale and transfer of material assets of the Company on buyers' dominated market terms in order to decrease the debt burden. By the end of 2013, total liabilities of the Group amounted to MEUR 18.3, which means that as from the end of 2007, the Company has paid back approximately MEUR 86.2 of debt. Dynamics of the debt to equity ratio are illustrated in the following chart:



The sudden increase of the debt to equity ratio of the Company at the end of 2012 was the result of the re-evaluation of the assets of the Company carried out by the current Management. The current Management decided to take a more conservative approach to evaluation methods and abandon the use of the DCF (discounted cash flow) method. Instead of using the DCF method, the Management decided to account for the assets at their market value as if the assets were to be sold within a one year period. The second reason was the formation of provisions in the amount of MEUR 3 to cover potential losses from loan guarantees issued by the Group to its creditors.

By the end of 2012, the current Management managed to restart the development of the real estate projects in Estonia and Bulgaria, which was necessary due to the termination or risk of termination of the financing arrangements thereof. The freezing of the real estate development projects enabled to cut in interest expenses related to financing arrangements.

Period of Turnaround 2013. The new Management of the Company led by Mr Tarmo Sild managed to turn the Company around within one year of being appointed. Mr Sild was elected to the Management of the Company at the end of 2012. The greatest challenge was to restructure the Company and the Group in a manner that the operations thereof would be profitable again. As at the date of this Prospectus it may be concluded that the efforts of Mr Sild and his team (the turnaround team) have been fruitful. Since the initial public offering of the Shares of the Company in 2007, the Company generated positive operating cash flow only in 2012 and 2013. By the end of 2013, the Company managed to earn a net profit in the amount of MEUR 3.4. The turnaround team has taken the following steps of reorganisation during 2013:

(i) significant decrease of debt burden (including decrease of interest costs);

(ii) re-evaluation of the assets and inventories of the Company and the Group to ensure that all assets and inventories are accounted at their market value;

(iii) successful re-launch of profitable real estate development operations in Estonia, Latvia and Bulgaria;

(iv) simplifying the corporate structure of the Group with the aim to make the operations of the Group more transparent;

(v) termination of construction operations and disposal of Arco Ehitus OÜ;

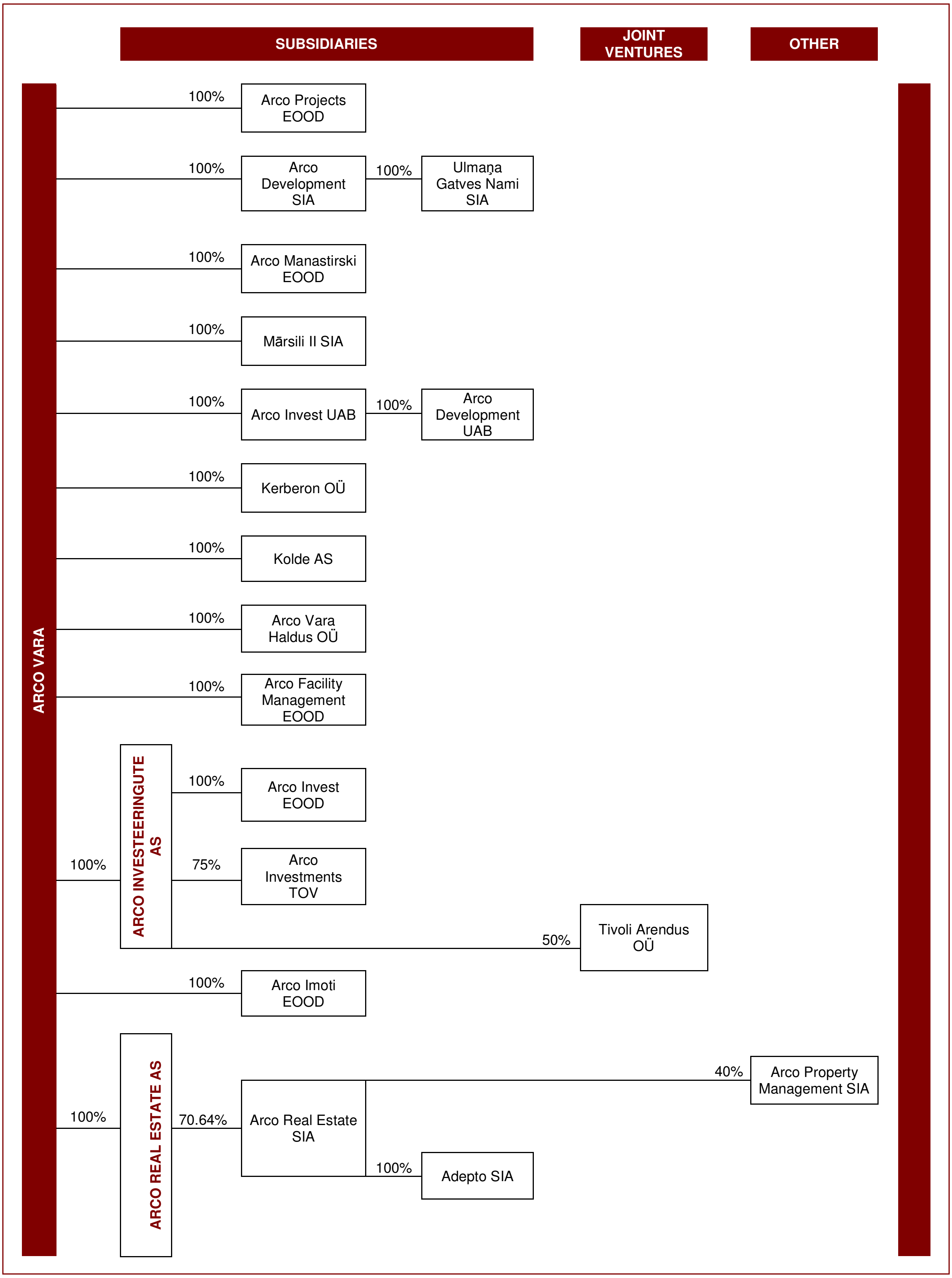
(vi) redefining the focus of the Group with the emphasis on real estate development operations, which is the most profitable business segment of the Group;

(vii) developing strategy of the Group for the period 2014 – 2016 in order to ensure sustainable growth and profitability of the Group and mitigate the risks related to the Group's business;

(viii) identifying new potential residential real estate development projects for turning the Company to growth again.

11.2. Group Structure and Group Companies

As at the date of this Prospectus, the structure of the Group is the following:



Arco Investeeringute AS (Estonia) is a holding company with no independent operations of itself. The company is the owner of all the shares in Arco Invest EOOD (the owner developer of the Boulevard Residence Madrid project in Sofia, Bulgaria; please see the Section "Projects and Properties" for further details) and other assets, which are not material for the Group.

Arco Real Estate AS (Estonia) is the main operating company of the Group in Estonia for carrying out all the operations in the real estate services business segment (i.e. the provision of real estate advisory, brokerage and appraisal services).

Arco Projects EOOD (Bulgaria) is providing short-term and long-term lease services of certain apartments of the Madrid Boulevard project in Sofia, Bulgaria.

Arco Development SIA (Latvia) is the main real estate development company of the Group in Latvia and the owner and developer of the Bišumuiža-1 project (please see the Section "Projects and Properties" for further details).

Ulmaņa Gatves Nami SIA (Latvia) is a dormant company with no independent operations.

Arco Manastirski EOOD (Bulgaria) is the main real estate development company of the Group in Bulgaria and the owner and developer of the Manastirski project (please see the Section "Projects and Properties" for further details).

Mārsili II SIA (Latvia) is the owner of Mārsili land plots near Riga, Latvia (partially developed private housing land plots).

Arco Invest UAB (Lithuania) is a dormant company with no independent operations.

Arco Development UAB (Lithuania) is a dormant company with no independent operations.

Kerberon OÜ (Estonia) is the holding company of certain assets (land plots in Estonia where development operations have not been started yet).

Kolde AS (Estonia) is the owner and developer of the Paldiski mnt 70c project in Tallinn, Estonia.

Arco Vara Haldus OÜ (Estonia) is the facility management company of the Group in Estonia.

Arco Facility Management EOOD (Bulgaria) is the facility management company of the Group in Bulgaria.

Arco Invest EOOD (Bulgaria) is the owner and developer of the Boulevard Residence Madrid project in Sofia, Bulgaria (please see the Section "Projects and Properties" for further details).

Arco Investments TOV (Ukraine) is a dormant company with no independent operations.

Tivoli Arendus OÜ (Estonia) is the former owner of the Tivoli project in Tallinn, Estonia, which has been terminated in 2013. The company is currently engaged in ongoing court proceedings in respect of the claims of Nordecon AS against the company and the company's counterclaims against Nordecon AS (please see the Section "Legal Proceedings" for further details). As at the date of this Prospectus, Tivoli Arendus OÜ is not a material Subsidiary of the Company.

Arco Imoti EOOD (Bulgaria) is the main operating company of the Group in Bulgaria for carrying out all the operations in the real estate services business segment (i.e. the provision of real estate advisory, brokerage and appraisal services).

Arco Real Estate SIA (Latvia) is the main operating company of the Group in Latvia for carrying out all the operations in the real estate services business segment (i.e. the provision of real estate advisory, brokerage and appraisal services).

Arco Property Management SIA (Latvia) is the facility management company of the Group in Latvia, which is operating under the Group's brand and where the Company has a minority shareholding (40%).

Adepto SIA (Latvia) is a dormant company with no independent operations.

11.3. Financial Data of Group Companies

As at and for the financial year ended on 31 December 2013, the unconsolidated total assets, revenue and profit/loss of the Group companies (in TEUR, unaudited) are indicated in the table below:

Company[28]	Total Assets	Revenue	Profit/ Loss	Shareholders' Equity
Arco Investeeringute AS	321	266	1,951	-12,841
Arco Real Estate AS	302	1,444	156	-694
Arco Projects EOOD	5	24	-0	0
Arco Development SIA	876	643	-80	-1,867
Ulmaņa Gatves Nami SIA	8	5	-1	-7
Arco Manastirski EOOD	4,005	85	-51	2,626
Mārsili II SIA	1,240	135	-26	993
Arco Invest UAB	317	600	-395	-63
Arco Development UAB	n/a	n/a	n/a	-6
Kerberon OÜ	1,245	0	113	1,242
Kolde AS	2,829	700	-68	36
Arco Vara Haldus OÜ	223	1,864	9	219
Arco Facility Management EOOD	56	108	31	36
Arco Invest EOOD	13,519	4,304	377	-757
Arco Investments TOV	n/a	n/a	n/a	n/a
Tivoli Arendus OÜ	390	7,800	-917	-3,371
Arco Imoti EOOD	140	379	25	-12
Arco Real Estate SIA	197	1,005	81	57
Arco Property Management SIA	n/a	n/a	n/a	n/a
Adepto SIA	0	0	-0	-266

[28] Source: the Company.

11.4. Target Markets

Introductory Remarks. The Group operates in three target markets – Estonia, Latvia and Bulgaria, whereas the real estate development operations of the Group have concentrated into the capitals of these target markets – Tallinn, Riga and Sofia. Although the Group has, in addition to these geographic markets, Subsidiaries in Lithuania and Ukraine as well, the respective companies are dormant as of the end 2013 and have no independent business operations. Therefore these entities are not material for the business operations and the financial operations of the Group. During the period of turnaround as described in the Section "History of Group", efforts were made to clean up the corporate structure of the Group and certain dormant entities (including such entities in geographic markets where the Group's operations have been terminated, such as Romania) have been either liquidated or disposed with the aim to make the corporate structure of the Group transparent and easily comprehendible. The Management intends to continue such clean-up of the corporate structure of the Group in the future.

The Group's revenues by target markets are indicated in the table below:

Revenue (in TEUR, audited)[29]	2013	2012
Estonia	4,030	6,159
Latvia	1,752	1,356
Lithuania	600	0
Bulgaria	4,346	3,416

Bulgaria was the greatest contributor to the total revenue of the Group in 2013, altogether generating 40% of the total revenue of the Group. Bulgaria was followed by Estonia with a 38% contribution to total revenue, whereas 16% of the total revenue was generated in Latvia and 6% in Lithuania[30].

Estonia. In Estonia, the Group is operating via five Subsidiaries. Two Subsidiaries, i.e. Arco Real Estate AS and Arco Vara Haldus OÜ, are engaged in the real estate services business segment (i.e. the provision of real estate advisory, facility management, brokerage and appraisal services). Arco Investeeringute AS is a holding company. Kerberon OÜ and Kolde AS are the SPVs engaged in ongoing real estate development projects. Tivoli Arendus OÜ is a SPV where the Company holds an indirect shareholding of 50% and which was established for the purpose of the Tivoli real estate development project (development project of residential quarter located at Narva mnt 67, Tallinn), which by the date of this Prospectus has been terminated.

Latvia. In Latvia, the Group is operating via five Subsidiaries and has a 40% interest in one entity – Arco Property Management SIA. Arco Real Estate SIA and Arco Property Management SIA are engaged in real estate services business segment (i.e. the provision of real estate advisory, facility management, brokerage and appraisal services). Arco Development SIA is the main real estate development company of the Group in Latvia and the owner and developer of the Bišumuiža-1 project (please see the Section "Projects and Properties" for further details). Mārsili II SIA is the owner of Mārsili land plots near Riga, Latvia (partially developed private housing land plots). Ulmaņa Gatves Nami SIA and Adepto SIA are dormant companies with no independent operations.

Bulgaria. The Group has altogether five subsidiaries in Bulgaria. Three subsidiaries, i.e. Arco Imoti EOOD, Arco Facility Management EOOD and Arco Projects EOOD are engaged in the real estate services business segment (i.e. the provision of real estate advisory, facility management, brokerage and appraisal services). Arco Projects EOOD is providing short-term and long-term lease services of

[29] Source: the Company.
[30] The Group's operations in Lithuania were finally closed down as at the end of 2013.

certain apartments of the Madrid Boulevard project in Sofia, Bulgaria. Arco Manastirski EOOD is the real estate development SPV engaged in the development of the Manastirski project (please see the Section "Projects and Properties" for further details). Arco Invest is the real estate development SPV that owns and develops the Boulevard Residence Madrid project in Sofia, Bulgaria (please see the Section "Projects and Properties" for further details).

Ukraine, Romania and Lithuania. Although the Group has Subsidiaries in other geographical markets, such as in Ukraine and Lithuania, the Group has terminated its operations in these countries already in 2008 and the respective Subsidiaries are in dormant status and have no business operations as at the date of this Prospectus. Such Subsidiaries may own certain assets; however, such assets are not material for the Group. In 2008, the Group terminated its operations also in Romania and the Romanian Subsidiary was transferred out of the Group in the course of restructuring of the corporate structure of the Group with the aim to make the operations of the Group more transparent.

11.5. Business Segments

Introductory Remarks. The Group operates in two vertically-integrated business segments – the real estate services business segment (i.e. the provision of real estate advisory, facility management, brokerage and appraisal services) and the real estate development business segment. The Group's operations in the real estate development business segment are focused on the development of residential real estate. The Group operates in the two referred business segments in all of its target markets – Estonia, Latvia and Bulgaria (with the main focus on cities with stable population growth, i.e. Tallinn, Riga and Sofia).

Real Estate Development Business Segment. The aim of the Company is to act as the major player in the real estate development market in all three target markets. Therefore the real estate development business segment is the main business segment of the Company and the real estate services business is supportive by its nature, ensuring the Group with a well-recognised brand in all of the Group's target markets, direct access to market data and well-informed management decisions. The financial results of the real estate development business segment for the financial years ended on 31 December 2012 and 2013 are summarised in the following table:

Real Estate Development Business Segment (in TEUR)[31]	**2012**	**2013**
Revenue	8,639	8,108
Operating Profit/ loss	-14,917	5,062
Number of Employees	10	4

Real Estate Services Business Segment. The real estate services business segment generated approximately 25% of the total revenue of the Group in 2013. Despite the proportionally lower contribution into the total revenue of the Group, the Group's operations in the real estate services business segment form an integral part of the products offered by the Group. Access to reliable real estate advisory, facility management, brokerage and appraisal services enables the Group to promote the brand of the Group, reduce the Group's dependency on third parties, cut costs, mitigate business risks and enhance the Group's understanding of the market (granting access to information on consumer preferences and expectations and feedback on offered products).

[31] Source: the Company.

Real Estate Services Business Segment[32]	2012	2013
Revenue	2,597	2,829
Profit/ loss	363	251
Number of Employees	122	161

11.6. Strategy

As referred to above, the turnaround team headed by the member of the Management Board Mr Tarmo Sild redefined the Group's core values and focus during the turnaround period in 2013. While doing that, the turnaround team developed a strategy for the Company and the Group for the period 2014 – 2016 in order to ensure sustainable growth and profitability of the Group and mitigate the risks related to the Group's business:

(i) the main target market of the Group is residential real estate market, whereas the Group's aim is to develop fully-integrated residential environments instead of building apartments and houses;

(ii) the geographic markets of the Group are Estonia, Latvia and Bulgaria, whereas the main focus is placed on the cities with stable or growing population (currently Tallinn, Riga and Sofia). Although Estonian, Latvian and Bulgarian populations as a whole are in a decreasing phase due to low birth rates, negative accretion of population and emigration, the tendency of urbanization is continuing and the intra-state emigration is concentrating into Tallinn (with a population of approximately 400,000 people), Riga (with a population of approximately 700,000 people) and Sofia (with a population of approximately 1,300,000 people);

(iii) at least 80% of the total investments of the Group into residential real estate development projects will be made in the Baltic states;

(iv) the Group focuses on the development of a sustainable and stable production cycle – (i) the acquisition of land inventory or buildings subject to renovation; (ii) the creation of construction rights, design and construction; and finally (iii) the sales. No speculative or long-term investments are made on the real estate market;

(v) the main target group of the Group are local salary-earning people looking for a home, i.e. permanent year-round residential premises; in order to avoid risks arising from high volatility of other respective market segments, the Group is not focusing on the potential buyers of residential premises for the purposes of tourism, legal immigration, seasonal visiting or exploring the opportunities to purchase high-end residential premises;

(vi) the Group takes full advantage of the market experience and know-how gained throughout the history of the operations of the Group – the existing market information and know-how to enable the exploitation thereof during all stages of the real estate development cycle;

(vii) the Group makes only well-informed investment decisions relying on the estimations of each geographical market's statistics acquired from trustworthy sources, such as the total number of households, annual growth rate of households, average income of the target group, etc. The Group relies on the assumption that the age of the target group is between 22 and 45 years, whereas the Group's marketing and sales activities are placed respectively, taking into account cultural differences in the target geographical markets;

[32] Source: the Company.

(viii) the Group focuses on the establishment of long-term co-operation relationships with credit institutions operating in the Group's target geographical markets that are interested in creating strong residential mortgage portfolios;

(ix) the Group targets mid-size and large-scale real estate development projects, involving equity allocation of at least MEUR 2 (starting from 50 apartments, whereas the exact definition of mid-size and large-scale real estate projects depends on the overall market size). The reason for ruling out small-size real estate development projects are (i) mitigation of price fluctuation risks characteristic of small-size real estate development projects; and (ii) benefiting from economies of scale;

(x) the annual rate of return on equity on new projects is targeted to be at least 20%, the assessment of which requires careful analysis to be conducted before the engagement in any real estate development project, whereas the following features of the profitability of a projects are taken into account – (i) acquisition cost of land; (ii) creation of construction rights – related costs and time period of respective proceedings; (iii) estimated volume of construction rights; (iv) availability of communications on land plot (utility networks, access, etc.) and costs and time period necessary for developing such communications; (v) design costs and time period for developing design; (vi) construction time and costs, ratio of construction costs and implementation of design; (vii) marketing period and costs; (viii) duration of sales; (ix) equity and debt ratio of financing; (x) debt costs; (xi) cash-flows generated from the project;

(xi) the Group takes full advantage of its well-known and recognised brand and status as a listed company; the Group focuses on the further development of the brand for the brand to represent the core values of the Group being – (i) partnership; (ii) reliability; (iii) professionalism; (iv) respect; and (v) responsibility.

11.7. Investments

Introductory Remarks. A major part of the Group's investments are made into real estate and inventories. The core aim of the Group's investment policy is to acquire real estate and assets, which are either suitable for real estate development projects or generate stable revenue in the form of rental payments.

The core investments of the Group are financed, using a combination of internal and external financing. For further details on external financing, please see the Sections "Reasons for Offering and Use of Proceeds" and "Material Agreements".

Each real estate development project consists of six subsequent or overlapping phases from the very beginning of a project until the finalisation thereof:

(i) acquisition of real estate (S1);

(ii) obtaining necessary construction rights and permits (including detailed or other planning required under applicable law) (S2);

(iii) development of architectural and construction design, necessary layouts, conducting land preparation works (access roads, utility connections, etc.) (S3);

(iv) construction (S4);

(v) marketing, pre-sale and sale (or lease, as the case may be) (S5);

(vi) facility management, guarantee works (if applicable) (S6).

In the opinion of the Management, it is feasible to establish a separate SPV for each single real estate development project by phase S4 (construction) at the latest. Each real estate development project has its target values and actual (achieved) values depending on its development phase, the main values being:

(i) gross floor area (GFA) in square metres, which is used to describe the volume of construction works;

(ii) gross sellable area (GSA) in square metres, which essentially is used to describe the volume of product sellable to consumers;

(iii) gross leasable area (GLA) in square metres, which essentially is used to describe the volume of product leasable to consumers.

GSA and GLA are mostly used for the purpose of calculating the revenues and GFA is mostly used for purpose of calculating the cost of goods sold (COGS). As a general rule, GSA and GLA values of a real estate project are less than GFA. The Company applies GSA and GLA values only to areas above grade (above ground), whereas areas below grade or outside are generally designated as units (such as parking or storage units) that are measured and sold as items without specific reference to their GSA or GLA. Each real estate development project is accounted as inventory, unless reported differently for specific reasons.

Investments 2011 - 2013. The Group's assets by the end of the financial years 2012 and 2013 are summarised below:

TEUR (audited)[33]	31.12.2012	31.12.2013
Inventories	11,701	10,780
Biological assets	0	0
Non-current receivables and prepayments	0	252
Long-term investments into financial assets	0	0
Investment property	14,097	11,331
Property, plant and equipment	540	459
Intangible assets	21	13
Total	**26,359**	**22,835**

During the period 2011 – 2013, the Group has made the following investments (for further details on ongoing projects please see the Section "Projects and Properties"):

Project[34]	Amount of Investments (in TEUR, unaudited)
Tehnika 53 (Tallinn)	1,810
Kodukolde (Tallinn)	7,634
Paldiski mnt 70c (Tallinn)	2,825
Bišumuiža-1, Komētas iela 2 (Riga)	593
Manastirski (Sofia)	750

[33] Source: Financial Statements.
[34] Source: the Company.

Tehnika 53 (Tallinn) project has been finalised and sold. It was an exclusive apartment building in the centre of Tallinn with altogether 14 apartments. The project was finalised in 2012 and the last apartment was sold in autumn 2013.

In 2012, two apartment houses at Helme 16/1 and 16/2 were constructed in Kodukolde residential area. The last of altogether 48 apartments was sold in the summer of 2013.

Paldiski mnt 70c (Tallinn) is a pending real estate development project, the land plot of which was acquired already in 2013.

Bišumuiža-1, Komētas iela 2 (Riga) is a development project of a residential building with altogether 14 apartments. The construction was suspended in 2012, restarted in 2013, and is expected to be finalised in 2014, whereas the remaining apartments are planned to be sold by the end of 2015.

In 2012, the construction works of the first apartment building at Manastirski C in Sofia were finalised. This 6-story apartment building has altogether 74 apartments and 6 studios. Gross sellable area of the building is 6,600 m^2 and vast majority of the apartments have been sold.

In summary, for the period 2011 - 2013, altogether 147 apartments were sold in Estonia, Latvia and Bulgaria. Sales by target markets are summarised in the following table:

Sale of Apartments[35]	**2011 - 2013**	**Proportion**
Manastirski C	73	50%
Bišumuiža-1, Komētas iela 2	12	8%
Tehnika 53	14	9%
Helme 16/1 and 16/2	48	33%
Total	**147**	**100%**

Investments in Progress. The Group's investments in progress are summarised below:

Project	**City**	**Type**	**Stage**	**Area (plots in m^2)**	**Building Right (gross)**	**Approximate GSA/ GLA (above grade)**	**Number of Units (subject to possible change)**	**Termination of Sales**	**Expected Sales Revenue (in EUR[36])**
Manastirski (Blocks A and B)	Sofia	Apartments	S4 /S5	4,445	15,843	12,500	145	Q4 2015	9,000,000
Manastirski (Block C)	Sofia	Apartments	S5	n/a	n/a	204	3	Q4 2014	320,000
Madrid Boulevard	Sofia	Lease Retail Office	S5/ S6	n/a	n/a	7,350	16	Q4 2017	10,000,000
Madrid Boulevard	Sofia	Apartments	S5/ S6	n/a	n/a	3,800	34	Q4 2017	3,900,000

35 Source: the Company.
36 Estimation of Management Board, calculated based on available market data, planned time schedule and previous experience.

Manastirski (Block D)	Sofia	Apartments	S3	2,223	8,870	6,600	78	Q4 2016	4,600,000
Bišumuiža 1, Kometas iela 2	Riga	Apartments	S4/ S5	2,118	1,215	210	2	Q4 2014	250,000
Bišumuiža 1, Kometas iela 4	Riga	Apartments	S4/ S5	2,118	1,215	960	14	Q2 2015	930,000
Baltezers 5	Baltezers	Residence Plots	S5	42,852	n/a	37,238	17	Q4 2016	600 000
Instituudi 7 and 9	Harku	Apartments	S3	5,003	3,000	2,200	30	Q4 2015	2,200,000
Paldiski mnt 70c	Tallinn	Apartments	S2	28,498	32,000	27,500	345	Q4 2021	40,000,000
Lehiku 21 and 23	Tallinn	Apartments	S2	5,915	1,504	1,100	5	Q4 2016	2,800,000
Liimi 1b	Tallinn	Lease Office	S2	2,463	8,160	6,500	1	Q4 2015	10,000,000
Palusambla, Veskimöldre	Tallinn	Res. Plots	S1	55,466	n/a	n/a	n/a	n/a	n/a
Karusambla, Veskimöldre	Tallinn	Res. Plots	S1	30,655	n/a	n/a	n/a	n/a	n/a
Pilliroo 10, Veskimöldre	Saue	Res. Plots	S1	4,695	n/a	n/a	n/a	n/a	n/a
Pilliroo 27, Veskimöldre	Saue	Res. Plots	S1	4,310	n/a	n/a	n/a	n/a	n/a
Veski, Veskimöldre	Saue	Res. Plots	S1	5,817	n/a	n/a	n/a	n/a	n/a
Metsa, Veskimöldre	Saue	Res. Plots	S1	6,252	n/a	n/a	n/a	n/a	n/a
Viimsiranna	Viimsi	Office/ Apartments	S3	14,147	550	500	1	Q4 2015	1,800,000
Total				**216,977**	**72,357**	**106,458**	**688**		**86,080,000**

11.8. Competitive Position and Competitive Advantages

Competitive Position of Group. The Company is one of the largest real estate developers operating in the Baltic market. As far as the real estate development business segment is concerned, there are only two material competitors for the Company in the Baltic market – AS YIT Ehitus and AS Merko Ehitus, whereas these competitors have presence in all three Baltic states. Currently the Group is operating only in Estonia and Latvia; the Lithuanian operations have been terminated. As to other geographic markets – AS YIT Ehitus is present in Slovakia and Czech Republic and the Group in Bulgaria. In addition to the Baltic competitors, the second largest Nordic construction company NCC is also present in Estonia and Latvia and one of the world's leading players Skanska operates in Estonia, Czech Republic and Slovakia. These five companies sold altogether 1,585 apartments and land plots in the Baltics and in the CEE region in 2013. Their sales for the period 2011 – 2013 are summarised in the following table:

Apartments and land plots sold in CEE and Baltics[37]	2011	2012	2013	Total
AS Merko	159	235	263	**657**
AS YIT Ehitus	364	384	521	**1,269**
Company	111	81	73	**265**
NCC	58	103	176	**337**
Skanska	415	267	552	**1,234**
Total	**1,107**	**1,070**	**1,585**	**3,762**

Skanska has disclosed plans to shut down its operations in Estonia by the end on 2014, which should result in the improvement of the competitive position for the Company.

As to the real estate services business segment, the market is very fragmented and there is no reliable market data available to adequately reflect of the Company's competitive position in the market.

Competitive Strengths. The Company has the following competitive strengths to support its future growth and development:

(i) Significant experience and know-how – the Group was established in 1992 and during the 22 years of operations has developed from a local real estate agency into a significant market player in the Estonian, Latvian and Bulgarian real estate development markets. The Group has survived the financial crisis period and after suffering significant financial losses due to the crises has managed to stabilise itself and lay down foundations to return to growth. Such a long operating history and experience has enabled the Group to gain valuable know-how and thorough understanding of the business field and market behaviour.

(ii) Vertically-integrated business model – the main difference in the business model of the Group, if compared to its main competitors, is that the Group has the real estate market agency background, whereas the competitors are mainly with a construction background. This creates a significant competitive advantage for the Group – the Group's vertically-integrated operation model extends from the development of real estate to marketing, sales, appraisal, facility management, brokerage and other real estate services. This model reduces the Group's dependency on third parties, enables to cut costs, mitigate business risks and enhances the Group's understanding of the market.

(iii) Strong and well-motivated team – during the turnaround period of the Group in 2013, as described in the Section "History of Group", there were significant changes made in the management team of the Company and the Subsidiaries with the purpose to ensure that the Group has a strong and well-motivated team. The Management believes that this goal has been achieved and the current team of the Group will be capable to ensure the continuous growth of the Group. The motivation package of the team will have a valuable addition by the Offering, the preferential allocation to Management and employees (please see the Section "Terms and Conditions of Offering" for further details).

(iv) Well-known and recognised brand – "Arco Vara" and "Arco Real Estate" brands have been on the market for more than 20 years. The brand has been developed to represent the core values of the Group being – (i) partnership; (ii) reliability; (iii) professionalism; (iv) respect; and (v) responsibility. By

[37] Source: Annual reports of respective companies.

today, the brand is well-known and recognised, which is a significant competitive advantage to its competitors.

(v) Transparent operations – the Shares of the Company have been listed on the main list of the NASDAQ OMX Tallinn Stock Exchange, which means that extensive disclosure obligations apply in respect of the Company, which in turn makes the operations of the Company and the entire Group transparent and well comprehensible.

11.9. Projects and Properties

As at 31 December 2013, the Company held inventories and non-current assets in the total value of TEUR 22,836, which was by TEUR 3,524 lower than at the end of the previous financial year. The material properties and projects of the Group are described in the following table:

Project/ Asset	Category	Book Value (31.12.2013)/ Independent Appraisal (31.03.2014)[38]	Phase/ Status	Development Period
Apartments and offices of Boulevard Residence Madrid (Sofia)	Investment property	EUR 10,509,159/ n/a	S5/ S6; cash flow project	n/a
Paldiski mnt 70c (Tallinn)	Inventory	EUR 2,891,015/ EUR 2,650,000	S2; detail planning approved in April 2014	2015 – 2022
Blocks A and B of Manastirski (Sofia)	Inventory	EUR 2,401,039/ EUR 4,180,000[39]	S4/ S5; construction and presale ongoing; estimated completion of construction October 2014 and estimated finalisation of sales by December 2015	2014 – 2015
Block C of Manastirski (Sofia)	Inventory	EUR 308,920	S5; inventory for sale	n/a
Apartments and garages of Boulevard Residence Madrid (Sofia)	Inventory	EUR 2,254,418/ n/a	S5/ S6; inventory for sale	2011 - 2017
Baltezers 5 (Riga)	Inventory	EUR 689,561/ n/a	S5; inventory for sale	2011 - 2020
Block D of Manastirski (Sofia)	Inventory	EUR 601,186/ EUR 4,180,000[40]	S3; zero-level development completed; construction starts after the completion of blocks A and B of Manastirski	2015 - 2018
Mārsili (Riga)	Inventory	EUR 549,928/ n/a	S3; inventory for sale; construction rights obtained	2011 - 2017
Bišumuiža 1, Komētas iela 4 (Riga)	Inventory	EUR 443,000/	S4/ S5; construction and marketing ongoing estimated finalisation of	2014 - 2015

[38] The referred independent appraisal reports by Newsec Valuations EE OÜ, SIA Newsec Valuations LV and P.DANOS & ASSOCIATES S.A. were commissioned by the Company in March-April 2014 as part of preparation works for the Offering with a purpose to provide investors with more certainty that the Company's own valuation of its real estate balance sheet value is realistic. Real estate asset value as it is accounted in the balance sheet is always a discretionary value. In the Management's opinion, the factual market value reveals itself only at the moment when the actual sale transaction is duly closed.

[39] The value of the whole Manastirski project, i.e. Blocks A, B, C and D.

[40] The value of the whole Manastirski project, i.e. Blocks A, B, C and D.

		EUR 770,000[41]	sales by July 2015	
Bišumuiža 1, Komētas iela 2 (Riga)	Inventory	EUR 276,363/ EUR 770,000[42]	S5; construction completed; 2 last apartments for sale	2014 - 2015
Turu 34 a (Tartu, Estonia)[43]	Investment property	EUR 262,038/ n/a	S3; construction rights obtained; currently subject to further development or exchange	n/a
Liimi 1b (Tallinn)	Investment property	EUR 150,000/ n/a	S2; detail planning ongoing; planned use – commercial building	2014 - 2017
Lehiku 21 and 23 (Harku, Estonia)	Inventory	EUR 96,275/ n/a	S2; detail planning ongoing; planned use – 5 private houses	n/a
Viimsiranna	Inventory	180,000/ n/a	S3	2014 - 2015

Boulevard Residence Madrid is a multi-purpose real estate development project in the centre of Sofia developed by Arco Invest EOOD. The project consists of an apartment sections, commercial and office premises with the total floor area of approximately 25,000 m^2 and 164 underground parking spaces. As at the date of this Prospectus, there are altogether 34 apartments in stock with GSA of 3,800 m^2 and commercial and office premises with GLA of 7,400 m^2. All commercial and office premises have been occupied by tenants and the rental income in 2013 was altogether 972 TEUR. In 2013, altogether six apartments were sold for the total consideration of EUR 652,164. The remaining stock of apartments for sale or for lease as at 31 December 2013 was 34. Parking spaces for sale as at the end of 2013 amounted to 120. The sales of apartments are planned to be finalised as soon as possible whereas all options for sales transactions, i.e. block deals and individual sales are explored. Should the market terms be favourable to consider an exit from the commercial and office premises, such options may be considered. This project was financed on the account of the Piraeus Bank Loan Agreement, under which Arco Invest EOOD (the developer of this project) is currently in default (please see the Sections "Risk Factors" and "Material Agreements" for further details).

Paldiski mnt 70c is a real estate development project of five residential buildings in Tallinn with approximately 345 apartments with GSA of approximately 27,500 m^2 and 400 parking spaces, developed by Kolde AS. The estimated development period of this project is 2015 - 2022 and the project will be finalised in five or six stages, each stage consisting of one building. The detail planning was approved by the Tallinn City Government in April 2014.

Blocks A and B of Manastirski is a real estate development project of residential building and commercial premises in Sofia with altogether approximately 145 apartments including six commercial premises with GSA of 12,500 m^2 developed by Arco Manastirski EOOD. The construction works are currently ongoing and are expected to be finalised by October 2014. All the apartments are planned to be sold by the end of 2015.

Block D of Manastirski is a real estate development project of a residential building with commercial premises in Sofia developed by Arco Manastirski EOOD. The building will have GSA of approximately 6,600 m^2 and accommodate altogether four studios, 68 apartments and six shops. The underground works (parking spaces) of the project have been completed and the construction work of the building is expected to start in 2015, whereas the sales of the apartments are estimated to be finalised by the end of 2016.

Baltezers 5 is a real estate owned by Mārsili II SIA, located in close vicinity of Riga. As at the date of this Prospectus, access roads, utility networks and street lighting development works have been

[41] The value of the whole Bišumuiža 1 project, i.e. Kometas iela 2 and Kometas iela 4, Riga.
[42] The value of the whole Bišumuiža 1 project, i.e. Kometas iela 2 and Kometas iela 4, Riga.
[43] The real estate is in the co-ownership with an investor.

finalised. The intended purpose of the land for the Group is sale of land plots. Mārsili II SIA is also the owner of the neighbouring real estate with a total area of 37,238m^2, which is divided into 17 land plots furnished with construction rights of private houses; nevertheless, no development works have been carried out yet.

Bišumuiža-1 is a real estate development project of altogether nine apartment buildings with 14 apartments in each building, with GSA of each building approximately 1,000 m^2. The construction works are ongoing (the last building is currently under construction) and was completed in June 2014, whereas the sales of the apartments are estimated to be finalised by the end of 2015.

Lehiku 21 and 23 is a real estate development project of five private houses with total GSA of 1,100 m^2. The project is developed by OÜ Kerberon. The proceedings of detail planning of the project are ongoing and are expected to be finalised by the end of 2014. The estimated period of construction is 2015 – June 2016.

Viimsiranna is a real estate development project owned by OÜ Kerberon, located in close vicinity of the centre of Viimsi, Estonia. The real estate is furnished with construction rights for a building with GSA of approximately 500 m^2.

11.10. Employees and Labour Relations

Introductory Remarks. As at 31 December 2013, the Group employed altogether 178 people, whereas while calculating the number of employees, the people working under service or other similar agreements have been considered. In 2013, the Group's labour costs amounted to MEUR 2.5 (not taking into account the labour costs of the construction business segment as the Group's operations in this business segment have been terminated).

Employees by Business Segments. The Group's employees by business segments are described in the following table:

Business Segment	Number of Employees[44]
Real estate services business segment	164
Real estate development business segment	4

Employees by Geographical Markets. The Groups employees by target markets are described in the following table:

Geographical Market	Number of Employees
Estonia	72
Latvia	78
Bulgaria	28

11.11. Intellectual Property

Introductory Remarks. The Group's operations are generally not dependent on patents, utility models, industrial designs or other such intellectual property. The Group's operations do not require specific intellectual property licenses. The Group is, however, contemplating, to develop its own pool of project metadata and useful designs.

[44] Considering that 10 people working from the Group are engaged in the management of the Group and cannot be determined as working in either of the business segments.

Domain Names. The Group also holds various registered domain names such as arcovara.ee, arcorealestate.com, arco.bg, arcorealestate.bg, arcoinvest.bg, livdapartments.bg, arcoreal.bg, arcoreal.info, arcoreal.bg, arcoimoti.bg, holidayhomes.bg, blvdapartments.net, etc.

Trademarks. The Group is also the owner of the trademarks “Arco Vara” and “Arco Real Estate”.

Other Intellectual Property. In addition to the domain names and trademarks listed above, the Group uses several software licenses, which are; however, easily replaceable and are not of a crucial importance for the Group’s operations.

11.12. Material Agreements

Introductory Remarks. The Group companies have entered into several agreements, which may be considered material for the Group. In the opinion of the Management, the agreements listed in this Section are such material agreements.

Danske Bank Loan Agreement. The Loan Agreement No KL – 291106KO was executed on 29 November 2006 originally between AS Sampo Pank (which was later merged with Danske Bank A/S becoming a party to the loan agreement as a result of the merger) and OÜ Koduküla (a company belonging to the Group, which was later merged with Arco Real Estate AS becoming a party to the loan agreement as a result of the merger). The agreement has been amended from time to time and as at the date of this Prospectus, the outstanding principal amount of the loan is EUR 188,480. The interest rate applicable to the loan is 6-months EURIBOR plus the margin of 4%. The final repayment date of the loan is 30 November 2014. The loan is secured by a mortgage over real estate of located at Uue-Pärtli 2, Vanamõisa, Saue, Harjumaa. The agreement contains several restrictive terms as to the operations of Arco Real Estate AS, such as restriction on making any payments of whatever nature to the shareholders of the company, disposing any shares in the company by the Company, etc.

Piraeus Bank Loan Agreement. The Agreement for Investment Credit, No 702/2008 was initially executed between Piraeus Bank Bulgaria PLC (the bank), Arco Invest EOOD (the borrower) and Arco Investeeringute AS (the co-borrower) on 11 August 2008. On 20 February 2013, Arco Imoti EOOD and Arco Facility Management EOOD acceded to the loan agreement assuming joint and several liability with Arco Invest EOOD for the compliance with the terms of the loan agreement. As at the date of this Prospectus, the total outstanding principal amount of loan is EUR 12,155,332. The purpose of the loan is the financing of the Boulevard Residence Madrid project. The interest rate applicable to the loan is 3-months EURIBOR plus the margin of 5%. The final repayment date of the loan was originally set to 31 June 2012; however, this term has been extended repeatedly and currently the applicable term is 30 June 2015. The loan is secured by mortgage over real estate of the Boulevard Residence Madrid project, commercial pledge over the assets of Arco Invest EOOD, financial collateral of the bank accounts of Arco Invest EOOD, pledge of all the shares of Arco Invest EOOD, pledge of all existing and future receivables of Arco Invest EOOD. The loan agreement contains several restrictive terms as to the operations of Arco Invest EOOD, such as maintaining certain financial ratios, prohibition to make any payments to the shareholders of the company, restriction on disposal of assets of the company, restrictions of taking or granting any other loans or being subject to any further financing obligations or establishing any further collateral on the assets of the company, etc. As at the date of this Prospectus, Arco Invest EOOD is in default of its obligations to the bank arising from the agreement in the total amount of EUR 848,453.49. On 2 June 2014, the parties to the agreement executed an annex to the agreement on the extension of the repayment term until 30 December 2017. Such an agreement on the extension of the repayment term is; however, conditional and will enter into force upon the repayment of the overdue principal in the amount of EUR 250,000 and the overdue interest and penalty interest. The Management intends to comply with the conditions of the annex by using part of the proceeds of the Offering. All future repayments of the loan are planned to be covered on the account of the proceeds received from the currently on-going real estate development projects (please see the Section “Projects and Properties” for further details).

ABLV Bank Loan Agreement. The Loan Agreement No KN-98/2011 was executed on 25 October 2011 between ABLV Bank and SIA Mārsili II. According to the agreement, ABLV Bank granted SIA Mārsili II a bank loan. The principal amount of the loan is EUR 400,000. The purpose of the loan is the financing of the investments into the company SIA Prime Capital. The interest rate applicable to the loan is 6-months EURIBOR, plus the margin of 6%. The final repayment date of the loan is 25 October 2014. The loan is secured by a mortgage over 25 units of real estate (Anetes iela 2, 11, 13, 15, 16, 17, 19, 20, 21, 21, 22, 23, 24, 25, 26, 27, 28, Katrīnas iela 1, 3, 5, 7, 17, Māras iela 49, etc.) and a financial pledge of all monetary means that lay in accounts of SIA Mārsili II in ABLV Bank. The agreement contains several restrictive terms as to the operations of SIA Mārsili II, such as the restrictions of taking or granting any other loans or being subject to any further financing obligations or establishing any further collateral on the assets of the company, paying out dividends, etc. Undertaking any financial commitment to shareholders or related parties is subject to the bank's prior consent. Besides, according to the Agreement SIA Mārsili II undertakes to sell at least two of the pledged real estate units per year, by approving the sales terms with ABLV Bank in advance, and perform all monetary transactions associated with the sale through ABLV Bank.

Unicredit Loan Agreement. The Investment Loan Agreement No 212/11.11.2013 was executed on 11 November 2013 between Unicredit Bulbank AD and Arco Manastirski EOOD. According to the agreement, Unicredit Bulbank AD granted Arco Manastirski EOOD a combined bank loan – investment loan and revolving credit. The total amount of the credit is limited to EUR 4,850,000. The purpose of the loan is the financing of the construction of the Blocks A and B of the Manstirski project. The interest rate applicable to the loan is 3-months EURIBOR plus the margin of 5.5%. The final repayment date of the loan is 30 May 2016. The loan is secured by a mortgage over real estate of the Block A and B of the Manastirski project (including construction rights attached to the real estate), pledge of all the shares of Arco Manastirski EOOD and pledge of all existing and future receivables of Arco Manastirski EOOD. The agreement contains several restrictive terms as to the operations of Arco Manastirski EOOD, such as the restrictions of taking or granting any other loans or being subject to any further financing obligations or establishing any further collateral on the assets of the company, restriction on getting involved in any other investment activity, other than the Manastirski project, etc. Undertaking any financial commitment to shareholders or related parties is subject to the bank's prior consent.

Kolde Loan Agreement. The Loan Agreement No LL20130610KO was executed on 10 June 2013 between AS LHV Pank and AS Kolde. The principal amount of loan granted under the agreement is EUR 1,400,000. The interest rate applicable to the loan is 6-months EURIBOR plus the margin of 7.5%. The final repayment date of the loan is 10 June 2015. The loan is secured by a mortgage over real estate of the Paldiski mnt 70c project and surety of the Company.

Tallinn Office Lease Agreement. The Lease Agreement of the Company's office premises in Tallinn (located at Jõe 2B, net area 814.6 m^2) was executed on 15 September 2011 between OÜ Heyborn as the lessor and the Company as the lessee. The lease payable under the agreement is EUR 10 per square metre (plus VAT), which equals to EUR 8,146 per calendar month (plus VAT). The lease does not include any utility expenses (power supply, heating, water etc.), which are compensated separately. The lease is automatically adjusted on a yearly basis relative to the Euro-zone harmonized index of consumer prices. The agreement remains effective until 30 April 2015.

Bulgarian Lease Agreement. The Lease Agreement between Arco Invest EOOD as the lessor and MB Bulgaria EOOD (with the new business name Skrill) as the lessee was executed on 5 October 2009. The object of the agreement is the office premises of the Boulevard Residence Madrid project, whereas the leased premises include two floors with the total area of approximately 4,700 m^2 and altogether 69 parking spaces. The lease payable for the premises is around EUR 10- 11 per square metre (plus VAT) and EUR 60 per parking space EUR 10 per square metre (plus VAT). The term of the agreement is July 2015, which is subject to extension possibility. The agreement includes the lessee's right to terminate using 3-months' prior notice.

2013 Bond Issue. On 21 August 2013, the Company issued bonds, which are registered in the ECRS under the ISIN code EE3300110394. Altogether 750 bonds with the nominal value of EUR 1,000 were issued to altogether seven investors, including OÜ Alarmo Kapital (a company under the control of Mr Tarmo Sild, the member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board of the Company), Mr Rain Lõhmus (a member of the Supervisory Board and OÜ Gamma Holding (a company under the control of Mr Arvo Nõges, a member of the Supervisory Board). The interest rate of 14% is applicable with respect to the bonds, payable quarterly, whereas upon the successful sale of the Manastirski project's Blocks A and B (please see the Section "Projects and Properties" for additional information), the investors are entitled to receive a bonus interest of 15% of the extra revenue generated from the apartment sales. The extra revenue for the purposes of the bonus interest are any amounts received on top of the planned sale price of EUR 750 per square metre, including VAT. The bonus interest becomes payable after 90% of the apartments have been sold. The liability of the Company arising from bonds is secured with a first- ranking mortgage encumbering the construction right of Manastirski Project's Block D. The maturity date of the bonds is 21 August 2016.

2014 Bond Issue. On 21 March 2014, the Company issued bonds, which are registered in the ECRS under the ISIN code EE3300110519. Altogether 160 bonds with the nominal value of EUR 1,000 were issued to altogether three investors, i.e. AS Lõhmus Holdings, OÜ Alarmo Kapital and K Vara OÜ. AS Lõhmus Holdings is a company under the control of a member of the Supervisory Board of the Company, Mr Rain Lõhmus. OÜ Alarmo Kapital is under the control of the member of the Management Board of the Company Mr Tarmo Sild and a member of the Supervisory Board of the Company Mr Allar Niinepuu. Therefore this transaction qualifies as a related party transaction (please see the Section "Related Party Transactions" for further details). The annual interest rate of 9.8% is applicable in respect of the bonds, payable quarterly. The liability of the Company arising from bonds is secured with a first ranking mortgage encumbering the real estate located at Palusambla 1, Tallinn, in the ownership of the Subsidiary of the Company OÜ Kerberon. The maturity date of the bonds is 20 June 2015.

Convertible Bond Issue. On 9 September 2013, the Company issued one convertible bond to the member of the Management Board Mr Tarmo Sild with the nominal value of EUR 1,000. The convertible bond is registered in the ECRS under the ISIN code EE3300110402. The convertible bond carries interest at the rate of 5%, payable annually and the maturity date of the convertible bond is 6 September 2017. The convertible bond may be converted into the Shares, whereas dependent on duration of the period of Mr Tarmo Sild acting as the member of the Management Board, he will be entitled to acquire up to 390,000 Shares with the nominal value of EUR 0.7 against the payment of the subscription price of EUR 273,000.

Manastirski Construction Agreement. The Construction Agreement of the Blocks A and B of the Manastirski project was executed between Arco Manastirski EOOD and Komfort OOD on 12 November 2013. The agreement incorporates the model construction contract terms based on FIDIC. The object of the agreement is the construction works of the Blocks A and B of the Manastirski project. Under the agreement, Arco Manastirski EOOD has agreed to pay the amount of EUR 3,856,901 (plus VAT) for such construction works. The completion date is 20 December 2014.

Newcom Construction Agreement. The Agreement No 014/03 was executed between SIA Arco Development and SIA Newcom Construction on 16 January 2014. The object of the agreement is the construction of residence building of the Bišumuiža 1, Komētas iela 4 project in Riga, Latvia. The total estimated cost of the construction work is EUR 392,351 (plus VAT). The construction works under the agreement were finalised in May 2014.

11.13. Environmental Issues

Introductory Remarks. Real estate and construction sector is inherently subject to laws and regulations for environmental protection. Such laws and regulations cover a wide range of different aspects of environmental protection, such as protection of ambient air, pollution, use of water, waste handling, etc. As all the target markets of the Group are members of the European Union, the principle "polluter pays" is in place in all these jurisdictions. Furthermore, environmental laws impose the liability on the land owner for the contamination in its territory even if the current owner did nothing to contribute to the contamination. Therefore the Group may be required to clean a land plot owned by it before any construction can commence on such land. In addition to the clean-up obligation, the Group may face certain restrictions imposed in respect of contaminated land plot by the competent public authorities, which may result in the land not being used for the initial purpose. Other than described in the current Section, the Management is not aware of any contamination or liability arising from environmental issues. Nevertheless, the environmental investigation or analyses have not been carried out in respect of any piece of real estate owned by the Group.

<u>Paldiski mnt 70c Contamination</u>. In the course of the proceedings of the detail planning of the land plot located at Paldiski mnt 70c, Tallinn, environmental analysis of the land was carried out and it revealed signs of oil and chloride contamination. Such finding may result in the obligation of Arco Investeeringute AS (the developer of the Paldiski mnt 70c real estate project) to take appropriate measures to liquidate the contamination. Taking into account the current information available to the Management, the Management does not consider this contamination to be a material issue having an impact on the estimated time schedule and sale of the Paldiski mnt 70c project.

11.14. Licenses, Permits and Registrations

<u>Estonia</u>. In Estonia, the Group's operations as such, i.e. real estate development and real estate services operations are not subject to any mandatory licenses, permits or registrations. Despite the foregoing, carrying out real estate development projects is subject to several regulatory rules and requirements, such as detail planning adopted by a local municipality, construction and usage permits issued by competent authorities, etc. In accordance with the knowledge of the Management, the Company's operations in the real estate business segment are carried out in accordance with any and all applicable rules and regulations and all necessary consents and permits are duly obtained. In addition to the mandatory licenses, permits and registrations, the Estonian Association of Real Estate Appraisers grants appraiser certificates. Although such certificates are not mandatory and have no legal meaning, the market as a general rule accepts and recognises only such valuators who have obtained the respective certificates. There are altogether 5 certified valuators in the Group.

<u>Latvia</u>. In Latvia, the legal regime of real estate development and real estate services is similar to the one in Estonia as described above. The Management is of the opinion that the Group complies with all mandatory requirements as to the real estate development related licenses, permits and registrations. As to the real estate appraisal services, the Latvian Association of Property Appraisers is the union of appraisers granting the appraisers' certificates. Similarly to Estonia, the certificates are not mandatory but obtaining such certificates is considered good market practice. All the appraisers of the Group operating in Latvia are duly certified.

<u>Bulgaria</u>. Similarly to Estonia and Latvia, the construction operations are subject to mandatory construction permits and before new buildings are used, respective occupancy permits must be acquired. In accordance with the knowledge of the Management, the Company's operations in the real estate business segment are carried out in accordance with any and all applicable rules and regulations and all necessary consents and permits are duly obtained. As to the real estate appraisal services, all the appraisers of the Group operating in Bulgaria are duly certified, whereas the competent person granting such certificates in Bulgaria is Association of Independent Valuators (official name: *Камара на независимите оценители*).

11.15. Legal Proceedings

<u>Nordecon AS vs Tivoli Arendus OÜ</u>. In September 2013, Nordecon AS initiated civil court proceedings against Tivoli Arendus OÜ. On 21 May 2012, Nordecon AS and Tivoli Arendus OÜ (a joint venture

company belonging to the Group) executed a services agreement under which Nordecon AS undertook to provide Tivoli Arendus OÜ with the services of planning and construction of the residential quarter located at Narva mnt 67, Tallinn. On 1 February 2013, Tivoli Arendus OÜ cancelled the agreement on the grounds of several breaches of the agreement by Nordecon AS, such as failure to comply with the agreed time schedule and breach of confidentiality undertaking by Nordecon AS. Nordecon AS argued against the cancellation of the agreement and submitted Nordecon AS with an application of withdrawal from the agreement on 13 June 2013. On 10 September 2013, Tivoli Arendus OÜ filed a claim of contractual penalty against Nordecon AS in the amount of EUR 1,319,232.90 and a claim of compensation of damages in the amount of EUR 1,898,791.24. Since Nordecon AS failed to comply with the claims of Tivoli Arendus OÜ by the term granted to it under the referred claims, Tivoli Arendus OÜ contemplated initiating enforcement proceedings in respect of the bank guarantee issued by Swedbank AS to secure the obligations of Nordecon AS arising from the agreement executed by Tivoli Arendus OÜ. Nordecon AS turned to court with the following claims – (i) the claim to establish the invalidity of the cancellation of the agreement by Tivoli Arendus OÜ; (ii) the claim to establish the validity of the withdrawal from the agreement by Nordecon AS; (iii) the claim to establish wrongful enforcement of the guarantee issued by Swedbank AS; (iv) the claim to return guarantee to Nordecon AS; (v) to claim the payment of EUR 174,551.04 and the penalties for late payment (at the time of initiating the court proceedings, the respective amount was EUR 8,201.32). On 30 April 2014, Tivoli Arendus OÜ filed a counterclaim against Nordecon AS, claiming EUR 1,319,231 as damages and other remedies. The proceedings are currently ongoing and currently there is no information when the proceedings could be finalised.

Arco Investeeringute AS vs Compakt Capital OÜ. In December 2013, Arco Investeeringute AS initiated court proceedings against Compakt Capital OÜ and is claiming the payment of EUR 127,824, plus accrued interest. Namely, on 17 December 2013, Arco Investeeringute AS and Compakt Capital OÜ executed a share purchase agreement under which Arco Investeeringute AS agreed to sell its share in Arco Vara Saare Kinnistud OÜ, representing 50% of the entire outstanding share capital of that company, to Compakt Capital OÜ. The purchase price agreed between the parties was EEK 6,000,000. Compakt Capital OÜ failed to comply with the agreement and therefore owes to the Arco Investeeringute AS part of the purchase price in the amount of EUR 127,824. The claim of Arco Investeeringud OÜ was secured by the court by establishing a mortgage over a real estate owned by Compakt Capital OÜ. The proceedings are currently ongoing and currently there is no information when the proceedings could be finalised.

Latvian Proceedings. The Group's Latvian companies are involved in two ongoing court proceedings. Arco Real Estate SIA has initiated court proceedings against Mr Mihails Uļmans and is claiming the payment of debt in the approximate amount of EUR 19,374 (plus accrued interest).. The claim has been successful in two court instances and the proceedings are currently pending before the third instance court (i.e. the highest instance court in Latvia). Arco Development SIA has initiated court proceedings against Liene Kalēja and is claiming the repayment of loan in the principal amount of EUR 6,312 arising from the loan agreement executed between the parties on 7 October 2008. The proceedings are currently pending before the court of first instance and there is no information when the proceedings could be finalised.

Bulgarian Proceedings. In Bulgaria, the Group companies Arco Invest EOOD and Arco Manastirski EOOD are involved in several court proceedings related to unpaid lease payments, obligation to return deposits, unpaid brokerage fees, failure to comply with loan agreement, employment dispute, etc. The value of each such dispute is less than EUR 10,000 (with an exemption where the value of the claim is EUR 10,368) and therefore, in the opinion of the Management, these court proceedings do not have material adverse effect on the operations and financial position of the Group.

Official Warning by Commercial Register to Arco Investeeringute AS. On 15 May 2014, the Commercial Register issued Arco Investeeringute AS, a wholly-owned Subsidiary of the Company, an official warning due to the fact that Arco Investeeringute AS has failed to submit its audited financial statements for the financial year ended on 31 December 2012 to the Commercial Register as required by applicable law. According to the earning, Arco Investeeringute AS has been provided with an additional term to comply with its legal obligation as described above; however, should Arco Investeeringute AS fail to do that within 180 days as from the date of the warning, the Commercial Register may initiate the proceedings of compulsory liquidation in respect of Arco Investeeringute AS. According to the Management, the breach of legal obligation of Arco Investeeringute AS has occurred due to human error and will be remedied as soon as practically possible.

11.16. Related Party Transactions

Introductory Remarks. The Group entities have entered into certain agreements with related parties. In the opinion of the Management, the material agreements with the related parties (excluding intra-group party transactions) are the ones described in this Section.

2013 Bond Issue. The 2013 bond issue as described in detail in the Sections “Material Agreements” and “Other Securities” were issued to altogether seven investors, including OÜ Alarmo Kapital (a company under the control of Mr Tarmo Sild, the member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board of the Company), Mr Rain Lõhmus (a member of the Supervisory Board and OÜ Gamma Holding (a company under the control of Mr Arvo Nõges, a member of the Supervisory Board), whereas all the referred investors are related parties.

2014 Bond Issue. The 2014 bond issue as described in detail in the Sections “Material Agreements” and “Other Securities” were issued to altogether three investors, i.e. AS Lõhmus Holdings, OÜ Alarmo Kapital and K Vara OÜ. AS Lõhmus Holdings is a company under the control of a member of the Supervisory Board of the Company Mr Rain Lõhmus. OÜ Alarmo Kapital is under the control of the member of the Management Board of the Company Mr Tarmo Sild and a member of the Supervisory Board of the Company Mr Allar Niinepuu, whereas all the referred investors are related parties.

Convertible Bond Issue. The convertible bond issue as described in detail in the Sections “Material Agreements” and “Other Securities” were issued to the member of the Management Board of the Company Mr Tarmo Sild.

12. SELECTED FINANCIAL INFORMATION

The following summary of financial information should be read in conjunction with the Section "Results of Operations and Outlook" and the Financial Statements incorporated into this Prospectus by reference. The tables below present only certain selected consolidated financial data as of and for the years ended on 31 December 2012 and 2013 and unaudited consolidated financial data as of 31 March 2014 and 2013.

12.1. Income Statement Information

Income Statement (in TEUR, audited)	2013	2012
Continuing operations		
Revenue from rendering services	3,791	3,899
Revenue from sale of own real estate	6,937	7,032
Total revenue	10,728	10,931
Cost of sales	-7,450	-14,241
Gross profit	3,278	- 3,310
Other income	404	889
Marketing and distribution expenses	-278	-267
Administrative expenses	-1,676	-2,467
Other expenses	-196	-5,430
Gain on sale of subsidiary	98	0
Gain/ loss on transactions involving subsidiaries and joint ventures	2,897	-5,272
Operating profit/loss	4,527	-15,857
Finance income	22	81
Finance costs	-994	-1,726
Profit/loss before tax	3,555	-17,502
Income tax	0	-251
Net profit/loss from continuing operations	3,555	-17,753
Discontinued operations		
Loss from discontinued operations	-128	-281
Profit/loss for the period	3,427	-18,034
attributable to owners of the parent	3,410	-17,964
attributable to non-controlling interests	17	- 70

Income Statement (in TEUR, unaudited)	Q1 2014	Q1 2013
Continuing operations		
Revenue from rendering services	985	852
Revenue from sale of own real estate	128	882
Total revenue	1113	1,734
Cost of sales	-618	-1,104
Gross profit	495	630
Other income	16	14
Marketing and distribution expenses	-100	-64
Administrative expenses	-453	-413
Other expenses	-8	-11
Gain on sale of subsidiary	662	98
Operating profit/loss	612	254
Finance income and -costs	-207	-246
Net profit/loss from continuing operations	405	8
Discontinued operations		
Loss from discontinued operations	-13	31
Profit/loss for the period	392	39
attributable to owners of the parent	387	38
attributable to non-controlling interests	5	1

12.2. Balance Sheet Information

Balance Sheet (in TEUR, audited)	31 December 2013	31 December 2012
Cash and cash equivalents	818	1,775
Financial investments	0	0
Receivables and prepayments	656	3,094
Inventories	10,780	11,701
Assets belonging to sales group	847	0
Total current assets	13,101	16,570

Investments in equity-accounted investees	1	1
Receivables and prepayments	252	0
Deferred income tax assets	0	0
Investment property	11,331	14,097
Property, plant and equipment	459	540
Intangible assets	13	21
Total non-current assets	12,056	14,659
TOTAL ASSETS	25,157	31,229
Loans and borrowings	12,589	16,838
Payables and deferred income	1,746	6,645
Provisions	172	3,084
Liabilities belonging to sales group	1,488	0
Total current liabilities	15,995	26,567
Loans and borrowings	2,308	1,231
Payables and deferred income	0	64
Total non-current liabilities	2,308	1,295
TOTAL LIABILITIES	18,303	27,862
Share capital	3,319	3,319
Share premium	0	0
Statutory capital reserve	2,011	2,011
Other reserves	60	0
Retained earnings	1,452	-1,958
Total equity attributable to owners of the parent	6,842	3,372
Equity attributable to non-controlling interests	12	-5
TOTAL EQUITY	6,854	3,367
TOTAL LIABILITIES AND EQUITY	25,157	31,229

12.3. Statement of Financial Position

Statement of Financial Position (in TEUR, unaudited)	31 March 2014	31 December 2013
Cash and cash equivalents	764	818

Receivables and prepayments	765	656
Inventories	11,976	10,780
Assets belonging to sales group	0	847
Total current assets	**13,505**	**13,101**
Investments in equity-accounted investees	1	1
Receivables and prepayments	247	252
Investment property	11,334	11,331
Property, plant and equipment	458	459
Intangible assets	12	13
Total non-current assets	**12,052**	**12,056**
TOTAL ASSETS	**25,557**	**25,157**
Loans and borrowings	12,723	12,589
Payables and deferred income	1,939	1,746
Provisions	202	172
Liabilities belonging to sales group	0	1,488
Total current liabilities	**14,864**	**15,995**
Loans and borrowings	3,447	2,308
Total non-current liabilities	**3,447**	**2,308**
TOTAL LIABILITIES	**18,311**	**18,303**
Share capital	3,319	3,319
Statutory capital reserve	2,011	2,011
Other reserves	60	60
Retained earnings	1,834	1,452
Total equity attributable to owners of the parent	7,224	6,842
Equity attributable to non-controlling interests	22	12
TOTAL EQUITY	**7,246**	**6,854**
TOTAL LIABILITIES AND EQUITY	**25,557**	**25,157**

12.4. Cash Flow Statement Information

Cash Flow Statement (in TEUR, audited)	2013	2012
Net cash from operating activities	290	2,339
Net cash from/used in investing activities	1,672	738
Net cash used in financing activities	-2,802	-3,511
Net cash flows	-840	-434
Cash and cash equivalents at beginning of period	1,775	2,209
Cash and cash equivalents at end of period	818	1,775

Cash Flow Statement (in TEUR, unaudited)	Q1 2014	Q1 2013
Net cash from operating activities	-1,114	145
Net cash from/used in investing activities	5	1,373
Net cash used in financing activities	1,055	-1,823
Net cash flows	-54	-305
Cash and cash equivalents at beginning of period	818	1,775
Cash and cash equivalents at end of period	764	1,443

12.5. Key Ratios and Indicators

Key Ratios and Indicators (unaudited)	2013	2012
Number of shares	4,741,707	4,741,707
Earnings per share	0.72	-3.79
Gross profit margin	31%	-30%
Operating profit margin	42%	-145%
Net profit margin	32%	-164%
Return on assets	12%	-41%
Return on equity	67%	-146%
Equity ratio	18%	28%
Current ratio = Current assets divided by current liabilities	82%	62%

Key Ratios and Indicators (unaudited)	Q1 2014	Q1 2013
Number of shares	4,741,707	4,741,707
Earnings per share	0.08	0.01
Gross profit margin	44%	36%
Operating profit margin	55%	15%
Net profit margin	35%	2%
Return on assets	6%	1%
Return on equity	22%	5%
Equity ratio	28%	11
Current ratio = Current assets divided by current liabilities	91%	125%

Calculation of key ratios and indicators:

Earnings per share	=	Net annualised profit attributable to equity holders of the parent divided by average number of common shares outstanding
Gross profit margin	=	Gross profit divided by total revenue
Operating profit margin	=	Operating profit divided by total revenue
Net profit margin (%)	=	Net profit attributable to equity holders of the parent divided by total revenue
Return on assets (%)	=	Net profit attributable to equity holders of the parent divided by average total assets (quarterly profits have been annualised)
Return on equity (%)	=	Net profit attributable to equity holders of the parent divided by average equity attributable to equity holders of the parent (quarterly profits have been annualised)
Equity ratio (%)	=	Period average equity attributable to equity holders of the parent divided by annual average total assets
Current ratio (%)	=	Current assets divided by current liabilities as end of period

In the opinion of the Management, the above-referred key ratios and indicators are used commonly to describe capital intense industries like real estate development. Therefore, in the opinion of the Management, these key ratios and indicators describe adequately the financial status and results of the Group. Additional key ratios and indicators may be found in the financial statements of the Group incorporated into this Prospectus by reference (please see the Section “Index of Financial Statements” for further information).

13. RESULTS OF OPERATIONS AND OUTLOOK

This Section accommodates the discussion on the results of the operations of the Group for financial years ended 31 December 2012 and 31 December 2013, as well as the important developments affecting results of operations in the financial year 2014. This Section should be read in conjunction with the other parts of this Prospectus which include important information on the operations and financial condition of the Group, as well as in conjunction with the consolidated financial statements of the Group for the relevant accounting periods.

13.1. Results of Operations

Detailed information on results of operations of the Group has been provided in the Financial Statements annexed to this Prospectus.

13.2. Factors Affecting Operations

Capital and Time Intensive Projects. The real estate development projects require significant investments and are time-consuming. The process of making an initial investment into a real estate development project until the sale thereof may take up to several years. Therefore the Group is concurrently able to get engaged only in a limited number of real estate development projects. Thus it is difficult to plan a steady flow of developed real estate for sale. Although the inventories of the Group remained at the level of MEUR 10.78 as at 31 December 2013, the Group faced a decrease in the revenue of the real estate development business segment in Estonia and Latvia. The reason thereof is that there was not enough real estate to sell – in Estonia there were no suitable objects for sale and in Latvia there were only two apartments for sale.

Activity in Real Estate Market. The Group's revenues are affected by the activity of real estate markets in all three target markets. In Estonia residential real estate market is growing and prices are increasing, in Latvia the market is growing at a much smaller pace compared to Estonia and the market sentiment is more cautious if compared to Estonia. In Bulgaria the market is picking up momentum as volumes and prices are growing in the metropolitan area.

Construction Prices. Construction cost is the most important cost for the entire Group. In Estonia construction costs have put pressure on margins and reduced the gross margins of Group's operations, whereas the improvement of gross profit margin in 2013, if compared to 2012, has occurred due to the restructuring of the operations of the Group as described in the Section "History of the Group" and is therefore not characteristic of the general trends in the real estate development business segment as a whole. In Latvia and Bulgaria, construction prices have stayed on a more favourable level compared to Estonia. As the Estonian construction market appears to be losing momentum in the next few years, Management expects the decrease of construction prices in Estonia.

Conservative Approach to Evaluation. The re-evaluations (upwards and downwards) of assets of the Group have had a material adverse effect on the financial position of the Group as described in the Section "History of Group", the Group is now taking the most conservative approach in respect of valuation of its inventories and assets with the purpose of ensuring stable growth of the Group and ensure profitability of its operations. Due to the above, the Management is of the opinion that instead of the discounted cash-flow method (DCF), the comparable analysis should be used as the DCF method may have a greater tendency to increase the recorded value of the inventories and assets.

Shifting Focus. In the course of the restructuring of the Company and the entire Group and re-defining the strategy thereof as described in the Sections "History of Group" and "Strategy", the main focus of the Group is turned towards residential real estate development operations. In connection with that the Company is currently introducing new production management principles, which will result in the increase of inventory turnover and decrease of the value of the inventory during the upcoming years.

13.3. Changes in Sales and Revenue

Introductory Remarks. The Group generates revenue from two business segments (real estate services and real estate development business segments) and three target markets (Estonia, Latvia and Bulgaria). Therefore the changes in the sales and revenues of the Group are mainly driven by either changes in consumer preferences or changes in the macroeconomic situation of the target markets. The main result of the changes in the macroeconomic situation having material effect on the sales and revenue of the Group is the change in availability of bank financing and the increase or decrease of interest rates, as the case may be.

Macroeconomic Effects. In Bulgaria, the macroeconomic-related confidence has been rising since the beginning of 2010. In Estonia, the trend of consumer confidence has turned positive since January 2013. In Latvia, consumer confidence has increased since July 2012. Considering these trends the Management believes that it is safe to assume that the market sentiment on all three target markets remains positive and people's ability and willingness to purchase real estate remains stable or increases. In the Latvian market, it appears that the banks have sold the majority of their residential portfolios acquired as a result of the financial crisis by the end of 2014 and market turns back into a normal cycle, where sales prices must cover all development expenditures.

Availability of Real Estate for Sale. As to the changes and revenue of the Group, the revenue generated in the real estate services business segment has slightly decreased over the last couple of years, whereas the revenues generated from the real estate development business segment fluctuate from market to market and are indicating signs of a decrease over the last couple of years. The revenue from the real estate development business segment mainly depends on the ability of the Group to develop and construct real estate for sale. During the period of 2011 - 2012 the Group has been engaged only in a limited number of real estate development projects and this is the reason why the Group has run low on inventories in 2012 - 2013. In 2013 the Group succeeded to restart production and in 2014 the construction of approximately 150 apartments will be finalised and approximately 120 apartments will be ready for sale.

13.4. Public Policies Affecting Operations

Latvian Residence Permits. In Latvia, a substantial part of residential real estate market activity is related to obtaining residence permits. Namely, there have been significant amendments in the local legislation according to which since September 2014 all foreigners who invest at least EUR 250,000 into real estate in Riga are entitled to apply for a residence permit. Considering that Latvia is a member of the European Union, this is an attractive opportunity for non-EU citizens to enter into the EU. This change in policy has significantly influenced brokerage activity in Latvia. Should the respective policy be changed in Latvia, there might be an adverse effect on the revenues generated in the real estate services business segment in this target market.

Planning and Construction Policies. The Group's operations, sales and revenues are highly dependent on the planning and construction policies of the target markets and any amendments thereof. As at the date of this Prospectus, the Management is not aware of any planned amendments of the laws and regulations related to planning and construction in the target markets of the Group.

14. MANAGEMENT

14.1. Management Structure

In accordance with the Estonian law, the operational management of the Company is structured as a two-tier system. The Management Board is responsible for the day-to-day management of the Company's operations and is eligible to represent the Company on the basis of the law and the Articles of Association. The Supervisory Board of the Company is responsible for the strategic planning of the business activities of the Company and supervising the activities of the Management Board.

The address of operations of the Management and Supervisory Board is the registered address of the Company - Jõe 2B, 10151 Tallinn, Estonia.

14.2. Management Board

Role. The Management Board of the Company is responsible for the day-to-day management of the Company's operations, the representation of the Company and the organisation of its accounting. Further, according to the Estonian Commercial Code, it is the obligation of the Management Board to draft the annual accounts and submit the accounts to the Supervisory Board's review and to the General Meeting of shareholders for approval. The Management Board is accountable to the Supervisory Board and must adhere to its lawful instructions.

Specific Undertakings. The Management Board must present an overview of the economic activities and economic situation of the Company to the Supervisory Board at least once every three months and is under the obligation to give immediate notice of any material deterioration of the economic condition of the Company or of any other material circumstances related to its operations. If the Company is insolvent and the insolvency, due to the Company's financial situation, is not temporary, the Management Board must immediately submit a voluntary bankruptcy petition in respect of the Company.

The Management Board may only enter into transactions which lie outside the Company's ordinary scope of business with the consent of the Supervisory Board. According to the Articles of Association, the consent of the Supervisory Board is required for the following transactions:

(i) acquiring and termination of a holding in other companies;

(ii) establishing or termination of a subsidiary;

(iii) approval and amendment of activity strategy;

(iv) considerable changes in the activity of the Company or involving the Company in a business activity that is not related to the objectives of the present business activity.

Members of Management Board. According to the Articles of Association, the Management Board comprises of one to five members who are elected by the Supervisory Board for a term of three years. Currently the Company has only one member of the Management Board – Mr Tarmo Sild.

Mr Tarmo Sild. Mr Tarmo Sild was born in 1975. Mr Tarmo Sild graduated from the Law Faculty of the University of Tartu in 1998; during 1997-1998 he studied in the Law Faculty of the University of Helsinki. He was awarded a LLM degree from the Vrije University of Brussels from where he graduated with honours. During the years 1998 - 2003 Mr Sild worked as an attorney at law in the law firm HETA. In 2003, he was one of the founders of the law firm LEXTAL, where he worked as an attorney of law and the member of Management Board until 2012. As from 2000, Mr Sild has served as the founder and member of the Management Board of MFV Lootus OÜ, engaged in international oceanic fisheries. From 2008, Mr Sild serves as the founder and member of the Management Board of AS IuteCredit Europe, engaged in consumer credit in Moldova. As at the date of this Prospectus Mr Sild serves as a member of the Management Board of the following legal entities (in addition to the ones referred to above) – OÜ Aia Tänav, OÜ Catsus, OÜ Alarmo Kapital and as a member of the

Supervisory Board of the following entities – AS Kolde and AS Arco Real Estate. The authorities of Mr Tarmo Sild as the member of the Management Board will expire on 21 October 2015.

14.3. Supervisory Board

Role. In accordance with the Estonian Commercial Code, the Supervisory Board of the Company is responsible for the strategic planning of the business activities of the Company and supervising the activities of the Management Board. The Supervisory Board is accountable before the Shareholders of the Company (acting through the General Meeting).

Specific Undertakings. In accordance with the Estonian Commercial Code, before the ordinary General Meeting of shareholders is held, the Supervisory Board must review the annual accounts and provide the General Meeting of shareholders with a written report on the annual accounts indicating whether Supervisory Board approves the accounts but also providing information on how the Supervisory Board has organised and supervised the activities of the Company. In practise the referred report is made available along with the notice on convening the General Meeting of shareholders.

Members of Supervisory Board. According to the Articles of Association of the Company, the Supervisory Board consists of five to seven members who are appointed by the General Meeting of shareholders for a period of five years. The members of the Supervisory Board elect among themselves a Chairman of the Supervisory Board who is responsible for organising the activities of the Supervisory Board. The meetings of the Supervisory Board of the Company are held according to the actual necessity but in any case at least once in every three months. According to the Articles of Association, a meeting of the Supervisory Board has a quorum if more than one half of the members of the Supervisory Board participate and a resolution of the Supervisory Board is if more than one half of the members of the Supervisory Board who participate in the meeting vote in favour.

Mr Hillar-Peeter Luitsalu. Mr Hillar-Peeter Luitsalu was born in 1959. Mr Hillar-Peeter Luitsalu graduated from the University of Tartu in 1994. In 1993, Mr Luitsalu joined AS Arco Vara and has been active in the management of different Group companies since then. During the years 1996 - 2004 Mr Luitsalu was the member of the Management Board of the Company and during the years 1993 - 2005 Mr Luitsalu was the member of the Supervisory Board of AS Arco Vara Kinnisvarabüroo. Currently Mr Luitsalu serves as a member of the Supervisory Board of the Company. As at the date of this Prospectus Mr Luitsalu serves as the member of the Management Board of the following legal entities – OÜ HM Investeeringud, Loodusvarade Halduse Mittetulundusühing, OÜ TIK Spordimaja and as a member of the Supervisory Board of Arco Investeeringute AS and AS Kolde. The authorities of Mr Hillar-Peeter Luitsalu as the member of the Supervisory Board will expire on 11 December 2014.

Mr Toomas Tool. Mr Toomas Tool was born in 1964. Mr Tool graduated from the Estonian Academy of Agriculture in where he acquired a veterinarian profession. Mr Tool has been a member of the Supervisory Board of the Company since 2012. As at the date of this Prospectus Mr Tool serves as a member of the Supervisory Board of the following legal entities – AS Baltplast and AS Silvano Fashion Group. The authorities of Mr Toomas Tool as a member of the Supervisory Board will expire on 30 April 2017.

Mr Allar Niinepuu. Mr Allar Niinepuu was born in 1973. Mr Niinepuu graduated from the Estonian Marine Education Centre in 1992 where he acquired a shipmaster's profession. Mr Niinepuu is the manager of OÜ Kavass. Mr Niinepuu serves as the Chairman of the Supervisory Board of AS IuteCredit Europe since 2008 and he is a member of the Management Board of OÜ Alarmo Kapital since 2009. As at the date of this Prospectus, Mr Niinepuu serves as the member of the Management Board of the following legal entities – Intelligent Robots OÜ, OÜ Alarmo Kapital, GEST Invest Grupp OÜ, OÜ Kavass and as a member of the Supervisory Board of AS IuteCredit Europe. The authorities of Mr Allar Niinepuu as a member of the Supervisory Board will expire on 5 August 2018.

Mr Stephan David Balkin. Mr Stephan David Balkin was born in 1971. Mr Balkin has been a member of the Supervisory Board of the Company since 2012. As at the date of this Prospectus, Mr Balkin serves as a member of the Supervisory Board of AS Silvano Fashion Group. The authorities of Mr Stephan Balkin as a member of the Supervisory Board will expire on 30 April 2017.

Mr Aivar Pilv. Mr Aivar Pilv was born in 1961. Mr Pilv graduated from the Faculty of Law of Tartu University in 1984. During the years 1984 - 1992, Mr Pilv was an attorney at Tallinn II Legal Advisory Board; since February 1993, Mr Pilv was been the managing partner and director of Aivar Pilv Law Office. During the years 2004 - 2010, Mr Pilv served as the Chairman of the Estonian Bar Association. Mr Pilv has been a member of the Supervisory Board of the Company since 2012. As at the date of this Prospectus, Mr Pilv serves as a member of the Management Board of the following legal entities – AS Advokaadibüroo Aivar Pilv, Avamar Invest Group OÜ. The authorities of Mr Aivar Pilv as a member of the Supervisory Board will expire on 14 May 2017.

Mr Arvo Nõges. Mr Arvo Nõges was born in 1969. Mr Nõges is a member of the Supervisory Board of the Company since 2012. As at the date of this Prospectus, Mr Nõges serves as a member of the Management Board of the following legal entities – Fenton Ehitus OÜ, Nõges Vara OÜ, OÜ Barholm Holding, Gamma Holding Investment OÜ, OÜ DOCS Nordic, OÜ Gamma Holding, OÜ Püü 7a and as the member of the Supervisory Board of Cleveron OÜ. The authorities of Mr Arvo Nõges as a member of the Supervisory Board will expire on 30 July 2017.

Mr Rain Lõhmus. Mr Rain Lõhmus was born in 1966. Mr Lõhmus graduated from the Tallinn Polytechnic Institute in 1988 and from Harvard Business School in 1999. Mr Lõhmus was one of the founders of Eesti Pank and Hansapank (currently Swedbank). During the years 1991 - 1999, Mr Lõhmus served as the Vice-Chairman of the Management Board of Hansapank. In 1999, Mr Lõhmus founded LHV Direct (currently AS LHV Pank). As at the date of this Prospectus, Mr Lõhmus serves as the member of the Management Board of the following legal entities – Zerospotnrg OÜ, OÜ Umblu Records, AS Lõhmus Holdings, OÜ Merona Systems, AS LHV Group, AS LHV Capital and as the member of the Supervisory Board of AS LHV Pank, AS Audentes, Kodumajagrupi AS (in bankruptcy), AS Arhiveerimiskeskus, EfTEN Kinnisvarafond AS, Baltic Digital Archive AS, AS LHV Finance, Kodumaja AS. The authorities of Mr Rain Lõhmus as a member of the Supervisory Board will expire on 30 July 2017.

14.4. Other Key Executive Personnel

Mr Marko Err (Chief Financial Officer (CFO)). Mr Marko Err was born in 1971. Mr Err graduated from the Tallinn Technical University in 1999 and from the Tallinn Commercial College in 1992 where he obtained degrees of economist and accountant, respectively. During 1993 - 1995, Mr Err worked as an analyst in Hansapank; during 1995 - 1997, Mr Err worked as an assistant auditor in Coopers & Lybrand; during 1997 - 1999, Mr Err was the head of research in Estib-Talinvest Asset Management; during 2000 - 2003, Mr Err was the corporate finance manager at Rimess MRI. As of 2003 Mr Err was the manager at EL Konsult OÜ. Mr Err joined the Company in 2013 and he is currently serving as the chief financial officer of the Company. As at the date of this Prospectus, Mr Err serves as the member of the Management Board of the following legal entities - Meie Investeeringute OÜ, Taristu Projekteerimise OÜ, and as a member of the Supervisory Board of the following entities - Arco Real Estate AS, Arco Investeeringute AS, AS Kolde.

Mr. Tiit Nõu (Chief Development Officer Estonia (CDO)). Mr Tiit Nõu was born in 1967. He graduated from the Tallinn Technical University and acquired a degree in wood technology in 1989. He has worked as a chief development officer of AS Ober Haus under Paul Oberschneider between 1995 - 2012. Under his management, several major residential and retail real estate projects in Tallinn were commenced and successfully implemented. Mr Nõu joined the Group in 2014.

Mr Ivaylo O. Mishev (Chief Development Officer Bulgaria (CDO)). Mr Ivaylo Mishev was born in 1984. Mr Mishev obtained a Bachelor’s degree from the University of Portsmouth in 2007 and an executive MBA in finance from the University of Sheffield in 2013. During 2005 - 2006, Mr Mishev worked as a product manager in Antipodes Media OOD; during 2007 - 2010, Mishev worked as a project manager/ financier at Arco Invest EOOD. As of 2010, Mr Mishev is the general manager of Arco Facility Management EOOD and the general manager and the head of Bulgarian Development Division at Arco Invest EOOD. As at the date of this Prospectus, Mr Mishev serves as a member of the Management Board of the following legal entities - Arco Invest EOOD, Arco Manastirski EOOD, Arco Facility Management EOOD.

Mr Aigars Šmits (Head of Latvian Real Estate Unit). Mr Aigars Šmits was born in 1975. Mr Šmits obtained a law degree from the Latvian Police Academy in 1998. In 1998, Mr Šmits worked as a chief specialist at the State Youth Indicative centre; during 1998 -1999, Mr Šmits worked as the "Youth for Europe" Project coordinator and legal advisor; during 1999 - 2000, Mr Šmits worked as a lawyer and HR manager at A/S Latvia trade bank; during 2000 - 2001, Mr Šmits worked as the deputy head of centre branch and lawyer at "Latvijas Hipotēku un zemes banka". In 2001, Mr Šmits worked as the deputy of banking insurance department of insurance company BTA; during 2001 - 2002, Mr Šmits worked at Metrolina Greenhouses in North Carolina, USA; from May 2003 - November 2003, Mr Šmits worked as the restaurant Lido marketing manager of SIA Lido; as of 2003, Mr Šmits is a broker at SIA Arco Real Estate. In 2004, Mr Šmits was elected as the chairman of the board of SIA Arco Real Estate; in 2008, Mr Šmits was appointed as the head of the service division of the Company. As of 2010, Mr Šmits is the chairman of the board of SIA Arco Real Estate. As at the date of this Prospectus, Mr Šmits serves as the member of the Management Board of the following legal entities - SIA Arco Real Estate and SIA F.A. Consulting, and as a member of the Supervisory Board of SIA Arco Property Management.

Mr Evgeni Vasilev (Head of Bulgarian Real Estate Unit). Mr Evgeni Vasilev was born in 1979. Mr Vasilev obtained a Bachelor's degree in marketing and management from the University of National and World Economy in 2003. In 2007, Mr Vasilev obtained a Master's degree in tourism from the University of National and World Economy. As of 2014, Mr Vasilev is studying at the University of National and World Economy to obtain Master's degree in real estate. During 1998 - 1999, Mr Vasilev worked as a sales agent at "D.I.K." L.T.D; during 1999 - 2002, Mr Vasilev worked at the guest services department of Burj Al Arab Hotel, Jumeirah International; during 2002 - 2003, Mr Vasilev worked as the sales manager at "Da,Da" – Globul (Cosmote OTP); during 2003 - 2006, Mr Vasilev worked as the key account and community auctions manager at Mercurius; during 2006 - 2007, Mr Vasilev worked as the sales director of KD Investments EAD; during 2007 - 2008, Mr Vasilev worked as the director agency at DB Richard Ellis in association with Elta Consult AD. As of February 2008, Mr Vasilev is working as the CEO of Arco Real Estate Bulgaria. As at the date of this Prospectus, Mr Vasilev serves as a member of the Management Board of Arco Imoti EOOD.

Ms Maia Daljajev (Head of Estonian Real Estate Unit). Mrs Maia Daljajev was born in 1966. In 1999, Mrs Daljajev graduated from the University of Tartu and obtained a degree in economics. Mrs Daljajev worked as a sales manager of AS Strooker1 during the period of 1996 - 2003. In 2003, she joined the Group as a real estate broker and as from 2013 she is the member of the Management Board of AS Arco Vara Real Estate. Mrs Daljajev serves as a member of the Management Board of DMV Invest OÜ.

Ms Evelin Kanter (Chief Legal Officer (CLO)). Ms Evelin Kanter was born in 1987. Ms Kanter graduated from the Faculty of Law of Tartu University in 2010 and is currently obtaining a Master's Degree from the Faculty of Law of Tartu University. In 2011, she studied as an exchange student in Tampere University. During 2009 - 2012, Ms Kanter worked as an assistant in the law firm LAWIN Lepik & Luhaäär; from May 2012 to August 2012, Ms Kanter worked as a lawyer of Arco Ehitus OÜ. Ms Kanter joined the Company in September 2012 and she is currently serving as the head of legal department of the Company. As at the date of this Prospectus, Ms Kanter serves as the member of the Management Board of the following legal entities – Arco Development SIA, Ulmaņa Gatves Nami SIA, Mārsili II SIA, Arco Development UAB, Arco Invest UAB, Arco Investeeringute AS, AS Kolde, Fineprojekt OÜ, Arco Vara Haldus OÜ, Tivoli Arendus OÜ, Kerberon OÜ and as a member of the Supervisory Board of the following entity - Arco Real Estate AS.

Mr Marek Pontus (Chief Accountant (CA)). Mr Marek Pontus was born in 1972. Mr Pontus graduated from the Pärnu College of the University of Tartu in 1999 where he obtained a diploma in business management. During 1999 - 2003, Mr Pontus worked as the chief accountant of Kehtna Hoiu-Laenuühistu; during 2004 2006, Mr Pontus worked as an accountant of Rako Raamatupidamise Büroo OÜ; during 2006 2010, Mr Pontus worked as the project manager of auditing at Deloitte Audit Eesti AS. Mr Pontus joined the Company in 2010 and he is serving as the chief accountant of the Group. As at the date of this Prospectus, Mr Pontus serves as a member of the Management Board of Blue Heaven OÜ.

Mr Rene Oruman (Chief Information Officer (CIO)). Mr Rene Oruman was born in 1984. Mr Oruman holds a Master's degree in IT management from Tallinn University and a Bachelor's degree in physiotherapy from Tartu University. During 2008 - 2010, Mr Oruman worked as an IT specialist at IT Grupp AS; in 2010, Mr Oruman joined the Company and worked as IT manager until 2012. As of 2012, Mr Oruman is working as team leader in Helmes AS; however, still acting as the Chief Information Offer of the Company. As at the date of this Prospectus, Mr Oruman serves as a member of the Management Board of Premium Agent OÜ.

14.5. Audit Committee

Under applicable law, public companies are required to form an audit committee as an advisory body to the Supervisory Board. The Company has failed to comply with such an obligation; however, intends to remedy the breach at the earliest convenience but in any case by 31 December 2014 at the latest. The reason for not complying with this legal requirement is that the main focus of the Company has been the restructuring of the operations of the Group (as described in detail in the Section "History of Group").

14.6. Remuneration and Benefits

The Company has executed a management board member agreement with Mr Tarmo Sild. Under the agreement, Mr Tarmo Sild receives a monthly remuneration of EUR 5,500 (gross amount). In addition to the monthly remuneration, the motivation package of Mr Tarmo Sild includes the convertible bonds described in the Section "Other Securities" and compensation of car expenses. Upon termination of the management board member agreement executed with Mr Tarmo Sild, he is entitled to compensation in the amount corresponding to his five months' remuneration payable under the management board member agreement.

Currently there are no written agreements executed between the Company and the members of the Supervisory Board; nevertheless, the members of the Supervisory Board are entitled to receive remuneration for their participation in the work of the Supervisory Board. Namely, in accordance with the resolution of the General Meeting of Shareholders of the Company, dated 1 July 2013, the members of the Supervisory Board are entitled to remuneration in the amount of EUR 500 (net amount) per each meeting of the Supervisory Board when they participate; however, the amount of remuneration cannot exceed the amount of EUR 1,000 (net amount) per calendar month. The members of the Supervisory Board of the Company are not entitled to any contractual compensation upon termination.

The aggregate remuneration of the members of the senior management of the Group (including members of the Management and Supervisory Boards and the key executive personnel mentioned above) in the financial year ended 31 December 2013 was approximately TEUR 130 (gross amount).

14.7. Share Ownership

Some members of the senior management of the Group hold minority shareholdings in the Company either directly or through companies owned by such members of senior management. The details of the shareholdings of the members of senior management as at the date of this Prospectus are summarised below:

Name of Shareholder	Number of Shares	Proportion
AS Baltplast (a company under the control of a member of the Supervisory Board Toomas Tool)	897,999	18.9383%
Gamma Holding Investment OÜ (a company under the control of a member of the Supervisory Board Arvo Nõges)	500,585	10.5571%
OÜ HM Investeeringud (a company under the control of a member of the Supervisory Board Hillar-Peeter Luitsalu)	450,000	9.4902%
Alarmo Kapital OÜ (a company under the control of Mr Tarmo Sild, the member of the Management Board, and Mr Allar Niinepuu, a member of the Supervisory Board of the Company)	374,188	7.8914%
Lõhmus Holdings AS (a company under the control of a member of the Supervisory Board Rain Lõhmus	312,378	6.5879%

14.8. Conflicts of Interest and Other Declarations

The members of the Management or Supervisory Boards of the Company have not had interest in transactions effected by the Company or its Subsidiaries, which are unusual in their nature or which contain unusual terms or conditions during the financial years of 2011 - 2013.

There are no actual or potential conflicts of interest between the duties to the Company and the interests of any of the members of the Supervisory Board and Management Board of the Company or any Subsidiary thereof.

The Company is not aware of any convictions in relation to fraudulent offences or any official public incrimination and/or sanctions with respect to the members of senior management of the Group during the financial years of 2011 - 2013, nor were any of such persons in the same period associated with any bankruptcies, except for the conviction of Mr Toomas Tool, a member of the Supervisory Board, in the beginning of 2014 in market manipulation concerning the Shares of the Company.

The Company is not aware that any member of senior management of the Group has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of the affairs of any company for the previous five years.

14.9. Statement of Compliance with Corporate Governance

The Company complies with any and all corporate governance rules and requirements for forth by applicable law and the Rules of the NASDAQ OMX Tallinn Stock Exchange, unless stated differently in this Prospectus or any documents incorporated into this Prospectus by reference.

15. LISTING

As at the date of this Prospectus, the Shares are listed and admitted to trading on the main list of the NASDAQ OMX Tallinn Stock Exchange. The Company intends to apply for the listing of the New Shares on the main list of the NASDAQ OMX Tallinn Stock Exchange as soon as possible after the registration of the New Shares in the Estonian Commercial Register. The Company will to take all necessary measures in order to comply with the NASDAQ OMX Tallinn Stock Exchange rules so that its application will be approved. The expected date of listing the New Shares on the main list of the NASDAQ OMX Tallinn Stock Exchange is on or about 17 September 2014. For the general information on the NASDAQ OMX Tallinn Stock Exchange, please see the Section "Estonian Securities Market" below.

16. ESTONIAN SECURTIES MARKET

16.1. NASDAQ OMX Tallinn Stock Exchange

NASDAQ OMX Tallinn Stock Exchange is the only regulated secondary securities market in Estonia. The ultimate owner of the NASDAQ OMX Tallinn Stock Exchange is NASDAQ OMX, Inc. The NASDAQ OMX Group, Inc. is the world's largest exchange company, operating a total of 80 marketplaces. It delivers trading, exchange technology and public company services in 26 markets and for 3,300 listed companies. NASDAQ OMX Group offers multiple capital raising solutions to companies around the globe, including its U.S. listings market; NASDAQ OMX Nordic, NASDAQ OMX Baltic, including NASDAQ OMX First North; and the U.S. 144A sector. The company offers trading across multiple asset classes including equities, options, fixed income, derivatives, commodities, futures and structured products.

NASDAQ OMX Group technology supports the operations of over 70 exchanges, clearing organizations and central securities depositories in more than 50 countries. NASDAQ OMX Nordic and NASDAQ OMX Baltic are not legal entities but describe the common offering from NASDAQ OMX Group exchanges in Helsinki, Copenhagen, Stockholm, Iceland, Tallinn, Riga, and Vilnius.

The NASDAQ OMX stock exchanges in Tallinn, Riga and Vilnius form the Baltic Market, the core idea of which is to minimize to the extent possible the differences between the three Baltic markets in order to facilitate cross-border trading and attract more investments to the region. This includes sharing the same trading system and harmonizing rules and market practices, all with the aim of reducing the costs of cross-border trading in the Baltic region.

NASDAQ OMX Tallinn is a self-regulated organisation, issuing and enforcing its own Rules and Regulations consistent with standard exchange operating procedures. NASDAQ OMX Tallinn is licensed and supervised by the Financial Supervisory Authority of Estonia. NASDAQ OMX Tallinn is a member of Nordic-Baltic stock exchange alliance NOREX since April 2004. The NOREX Alliance was unique in being the first stock exchange alliance to implement a joint system for equity trading and harmonizing rules and requirements between the exchanges with respect to trading and membership.

NASDAQ OMX Tallinn uses the NASDAQ OMX, Inc. trading system INET, which is NASDAQ OMX's core technology used in NASDAQ OMX Group's exchanges in the US and in the London-based market for trading in equities. All NASDAQ OMX equity markets across the world trade on the same global trading platform - INET.

16.2. ECRS and Registration of Shares

The shareholders' registers of all public limited companies (and some private limited companies who opted to register their shares) including those that are traded in NASDAQ OMX Tallinn Stock Exchange are held by the Estonian Central Register of Securities (the ECRS). The ECRS also keeps book entry records of all securities, pension accounts, registered bonds and all other electronic securities and transactions with the same. This register is maintained by a securities market infrastructure enterprise AS Eesti Väärtpaberikeskus that is owned by NASDAQ OMX TALLINN AS and belongs to the NASDAQ OMX Group.

Every individual and legal person, regardless of nationality, has the right to open an account with the ECRS, where all securities are registered in book entry form on securities accounts of their owners. All transactions are recorded and can be performed only through account administrators. Account administrators may be either investment companies or credit institutions operating in Estonia, or other certified individuals. For shares registered in the ECRS, no physical share certificates are issued.

The amount of information from the ECRS that is available to the public is limited and includes information on the issuer (name, address and register code) and the details of securities (type, nominal value and number of shares). Unless shares are listed on the stock exchange, information about shareholders is not available to the public (except for shareholdings exceeding 10% of the entire share capital that need to be disclosed in annual accounts of companies).

In addition to regular securities accounts, professional participants of securities market (account holders) can open a nominee account. This account type gives the account holder the right to hold securities in its own name but on behalf of another person (a client). The client retains the right to dispose of the securities and use its rights as a shareholder of the issuer, though a power of attorney must be obtained for the latter purpose.

16.3. Listing Shares on NASDAQ OMX Tallinn Stock Exchange

The Baltic stock exchanges have a common presentation of all listed Baltic companies on a common list, the companies in which are grouped in the lists below. In legal terms, the companies are listed on home market, i.e. the exchange in Tallinn, Riga or Vilnius and supervised by the local financial supervisory authority.

The structure of lists of securities traded in the NASDAQ OMX Tallinn, Riga and Vilnius exchanges are as follows:

(i) Baltic Main List;

(ii) Baltic Secondary List;

(iii) Baltic Bond List;

(iv) Baltic Fund List;

(v) First North (alternative marketplace for trading in shares).

<u>Baltic Main List</u>. The Baltic Main List is a line-up of all blue-chip companies listed on the Tallinn, Riga and Vilnius stock exchanges. To be eligible for inclusion, a company must have 3 years of operating history, an established financial position, market cap of not less than MEUR 4, with reporting according to the International Financial Reporting Standards, and a free float of 25% or worth at least MEUR 10.

<u>Baltic Secondary List</u>. The Baltic Secondary List comprises companies that do not meet quantitative admission requirements (free float, capitalization) for the Baltic Main List.

<u>Baltic Funds List</u>. The Baltic Funds List contains the investment fund units or shares of collective investment subjects that are listed and traded on the Baltic exchanges in a similar manner to equities.

<u>Baltic Bond List</u>. The Baltic fixed-income instruments are presented in a joint Baltic Bond List. The fixed-income instruments include Latvian and Lithuanian government bonds, corporate and mortgage bonds of different maturities. The listing of and trading in fixed-income instruments is possible in both national (EUR, LTL) and international currencies (USD, EUR and RUB).

<u>First North</u>. NASDAQ OMX First North is a multilateral trading facility (MTF), also known as an alternative market, operated by the different exchanges within NASDAQ OMX. It does not have the legal status of an EU-regulated market. Companies on First North are subject to the rules of First North and not the legal requirements for admission to trading on a regulated market.

16.4. Trading on NASDAQ OMX Tallinn Stock Exchange

NASDAQ OMX Tallinn, NASDAQ OMX Riga and NASDAQ OMX Vilnius employ the NASDAQ OMX, Inc. trading system INET. The trading system has the following features besides the common ones:

(i) transactions can be made simultaneously with securities traded on different exchanges;

(ii) investors' transaction orders can be entered and matched automatically without the direct involvement of a broker;

(iii) multiple types of transaction orders can be used (limit order, market order, etc.).

Trades on the Baltic stock exchanges may be effected as automatically matched trades or manual trades.

Orders, entered into the order book, participate in the opening call auction at the beginning of the trading hours, automatic matching in the trading system during the continuous trading and in the closing auction conducted after the trading hours. As a result automatically matched trades could be concluded.

Manual trades are trades, which are concluded outside the order book. A manual trade can be standard and non-standard. A standard trade is a trade concluded on standard market terms in respect of price, time of the trade and with standard delivery and settlement schedule. A non-standard trade in equity market can be concluded by specifying one of the trade types, which are:

(i) Derivative Related Transaction - exercise or expiration of options, forwards or futures contracts that imply an exchange of securities or a trade that relates to a derivatives trade and that forms an unconditional part of a combination together with a derivative trade;

(ii) Portfolio Trade - a transaction in more than one security where those securities are grouped and traded as a single lot against a specific reference price;

(iii) Volume-Weighted Average Price - a trade, where the price is based on a volume-weighted average price of trades made within pre-defined time period;

(iv) Exchange-Granted Trade concluded pursuant to individual or general authorization from the exchange. Joint authorization of the exchange may be granted to all members for conclusions of a particular type of transactions.

16.5. Financial Supervision

The Estonian Financial Supervision Authority (the EFSA) is the agency that supervises the NASDAQ OMX Tallinn Stock Exchange under the rules established by the Financial Supervisory Authority Act. The main purpose of the EFSA is not only to ensure reliable and secure operation of the securities market and the financial sector as a whole. In addition to the EFSA, the Listing and Supervisory Committee of the Tallinn NASDAQ OMX Stock Exchange has a specific duty to ensure that the members of the NASDAQ OMX Tallinn Stock Exchange comply with applicable rules and regulations.

Transactions that can unfairly alter the price of a security (e.g. transactions based on inside information or manipulating the market) are strictly prohibited. All suspicious transactions must be notified by the NASDAQ OMX Tallinn Stock Exchange to the EFSA immediately.

16.6. Disclosure of Information

Whenever a person acquires (directly or indirectly, alone or in concert with a third party) 5%, 10%, 15%, 20%, 25%, 33%, 50% or 66% of all shares issued by one public limited company, such person must inform the Estonian Financial Supervision Authority (the EFSA), the public limited company and the account holder about the number of shares obtained from the transaction. These same rules also apply to the investor whose shareholding falls below any of the same levels. Exceptions to the above requirements may be granted by the EFSA alone. The same requirement applies to holders of nominee accounts, who must report to the EFSA when a particular account exceeds or falls below the above-mentioned thresholds.

It is prohibited to enter into agreements concerning the shares of a public limited company that restrict free transfers in the market or have a significant impact on the price of a security, and the public limited company involved in such transactions must report to the EFSA.

In addition, the Rules of the Tallinn Stock Exchange include certain specific regulations related to disclosing information on the transactions entered into by an issuer and involving its own securities.

16.7. Abuse of Securities Market

According to the Securities Market Act, the abuse of the securities market is defined as either the misuse of inside information or market manipulation. The provisions of the Securities Market Act relating to abuse of the securities market also apply to such securities that are not traded in the Estonian securities market or in any of the Member States of the European Economic Area, but whose value depends on the financial instruments traded on those markets.

According to the Estonian Securities Market Act, “inside information” is defined as specific information that directly relates to the issuer or its securities. Among numerous other things, this includes information on operations and future prospects of the issuer, insofar as not yet officially disclosed. When such information is made public, there is an increased risk of fluctuations in the price of the relevant security and related derivative instruments. Inside information can only be possessed by “insiders”. As defined in the Securities Market Act, an insider is a member of the management of the issuer, a person who obtains access to inside information in discharge of his/her professional duties or a shareholding in the issuer, as well as third persons who obtain inside information and is aware or should be aware that the information obtained is inside information by its nature. Inside information is usually regarded to be misused when used as basis for transactions (or as basis for advise to third parties) or disclosed to the public. In order to reduce the risk of the abuse of inside information, each issuer whose shares are listed on a regulated market is required to establish internal information rules, extending to individuals, which are related to the issuer. The connection can be directly through the issuer, through its subsidiary, or through its parent undertaking. It is also forbidden that members of the management, officials of the company, or individuals related to them use inside information for their personal benefit. It is illegal to take advantage of the short-term price changes and trade during time periods when trading is not accessible to other members of the market. Exclusions to these rules can only be made by the Listing and Supervisory Committee of the Tallinn Stock Exchange.

As to market manipulation, the Securities Market Act sets forth a non-exhaustive list of actions, which qualify as market manipulation, such as transactions, which are misleading in respect of bid, ask or price of a security, actions and transactions distorting the price of a security, disclosing misleading information, etc.

The Estonian Securities Market Act establishes a number of administrative offences related to inside information and market abuse that are punishable with fines of variable gravity. Dependant on the circumstances of the offence, misuse of inside information and market abuse may be qualified as criminal offences under the Estonian Penal Code.

16.8. Mandatory Takeover Bid

A mandatory takeover bid must be made by a shareholder who, acting alone or in concert with others, gains control over a company whose shares are listed on the NASDAQ OMX Tallinn Stock Exchange.

According to the law, control is obtained when a person: (i) owns over 50% of the votes represented by shares, or (ii) as a shareholder of the company, has the right to assign or recall a majority of the Management Board or Supervisory Board of the company, or (iii) as a shareholder of the company, controls at least 50% of the votes represented by shares on the basis of an agreement entered into with other shareholders.

A person acquiring control over a listed company has to make a mandatory takeover bid for all the outstanding shares of the company within 20 days. Only in special cases, the Estonian Financial Supervision Authority can make exceptions to the above rule.

17. TAXATION

Introductory Remarks. The general principles of corporate and industry-specific taxation in Estonia are summarised below. This Section is meant to give an overview of the tax regime applicable to the Company and its Shareholders, including the taxation of dividends and capital gains as applied to the dividends paid out and Shares issued by the Company. The below summary is in no way exhaustive and is not meant to constitute professional advice to any person. In order to establish particular tax consequences of the Offering or the ownership of Shares, each individual investor is strongly encouraged to seek specialist assistance.

Corporate Income Tax. The system of taxation of corporate income currently in force in Estonia differs from the traditional model of corporate income taxation in that it shifts the point of corporate taxation from the moment of earning to the moment of distribution. Therefore, in Estonia corporate income tax is charged only on the distributed profit with the reinvested profits remaining untaxed until distribution.

Corporate income tax is charged on profit distributions such as dividends, payments in the course of the reduction of share capital and redemption of own shares, as well as on implicit distributions such as fringe benefits, gifts and donations, expenditures and payments not related to the business activities of the Company.

All of the above profit distributions are taxed at the rate of 21/79 (approximately 26.6%) of the net amount of the distribution, i.e. 21% of the gross amount of the distribution (to be reduced to 20% starting from 01.01.2015). The corporate income tax charged on above profit distributions is payable only at the company level with the Company being responsible for calculating, declaring and paying of the respective corporate income tax. Corporate income tax imposed on distributed profit is not a withholding tax and thus is not influenced by the applicable international tax treaties.

Payments made in the course of the reduction of share capital and redemption of shares are taxable at the company level only to the extent such payments exceed the monetary and non-monetary contributions previously made by the shareholders into the company.

Taxation of Dividends. Dividend payments made by Estonian resident companies are exempt from income tax in Estonia at the level of the recipient of dividend payments, regardless of the corporate (legal person or individual) and residential status of the recipient. Therefore, no withholdings are made from the dividends, instead, all distributions in the form of dividends are taxed with corporate income tax at the company level as described above. Note that the non-resident shareholders receiving dividends from the Company may be subject to declaring and paying income tax from such dividend payments in their respective countries of residence.

There are certain exceptions, however, under which Estonian resident companies are exempt from the payment of income tax on dividends. In particular, dividend payments are not subject to income tax, if the income underlying the dividends originates from dividends that have been received by the Estonian resident company from a company which is a resident taxpayer in an EEA member state or Switzerland (except offshore territories), and provided that at the moment of receiving the dividends the Estonian company was the owner of at least 10% of the votes in the subsidiary.

Capital Gains from Sale or Exchange of Shares. Gains realized by Estonian resident individuals upon the sale or exchange of Shares shall be subject to income tax at the rate of 21%. Since all earnings of resident legal persons, including capital gains, are taxed only upon distribution, capital gains realized by resident legal persons are not subject to immediate taxation.

Income tax is charged on capital gains realized by non-residents from the sale or exchange of shares in an Estonian company only under very limited circumstances. Namely, non-residents will be subject to paying income tax at the rate of 21% in Estonia only in the case of sale or exchange of shares in a company of whose property, at the time of transfer or during certain period within two years immediately preceding the transfer, more than 50% was directly or indirectly made up of immovable property or structures as movables located in Estonia, and in which at the time of transfer such non-resident held at least a 10% shareholding.

Due to the Company being engaged in the real estate business in Estonia, non-residents holding at least 10% shareholding in the Company should consider the potential income tax obligations arising upon the sale or exchange of the Shares.

For the purposes of capital gains taxation, the gain derived from the sale of shares is the difference between the acquisition cost and the sales price of the shares. The gain derived from the exchange of shares is the difference between the acquisition cost of the shares subject to exchange and the market price of the property received as the result of the exchange. The certified expenses directly related to the sale or exchange of shares may be deducted from the shareholder's gain.

Estonian resident individuals and non-residents are subject to paying income tax (21%) on the gains from the receipt of payments in the course of the reduction of share capital or redemption of shares or from the receipt of liquidation proceeds. The taxable gain is calculated as the difference between the value of the received payment and the acquisition cost of the relevant shareholding (which has been reduced, redeemed or liquidated), whereas part of the gain that has been already taxed at company level, shall be exempt.

18. INDEX OF FINANCIAL STATEMENTS

The following audited consolidated financial statements of the Group have been incorporated into this Prospectus by reference:

Financial Statements	Available at
The audited consolidated financial statements for the financial year 2012	http://www.nasdaqomxbaltic.com/upload/reports/arc/2012_ar_en_eur_con_00.pdf?_=1400981826
The audited consolidated financial statements for the financial year 2013	http://www.nasdaqomxbaltic.com/upload/reports/arc/2013_ar_en_eur_con_00.pdf?_=1400981826
The unaudited interim consolidated financial statements for the 3 months ended 31 March 2014	http://www.nasdaqomxbaltic.com/upload/reports/arc/2014_q1_en_eur_con_00.pdf?_=1400981826

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