INTERIM REPORT FOR THE

THIRD QUARTER AND NINE MONTHS

ENDED 30 SEPTEMBER 2014

(UNAUDITED)

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Corporate website:	www.arcorealestate.com
Core activities:	Renting and operating of real estate (EMTAK 6820)
	Activities of real estate agencies (EMTAK 6831)
	Real estate management (EMTAK 6832)
Financial year:	1 January 2014 – 31 December 2014
Reporting period:	1 January 2014 – 30 September 2014
Supervisory board:	Hillar-Peeter Luitsalu, Toomas Tool, Aivar Pilv,
	Stephan David Balkin, Arvo Nõges, Rain Lõhmus,
	Allar Niinepuu
Chief executive:	Tarmo Sild
Auditor:	AS PricewaterhouseCoopers

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Directors' report

ARCO VARA GROUP

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

The Service division is engaged in real estate brokerage, valuation, management and consulting as well as in short-term investment in residential real estate. The Service division offers to the group additional value by generating analytical data on market demand and supply, also behaviour of potential clients. Analytical data allows to make better decisions on purchase of land plots, planning and designing, also on timing the start of construction.

The Development division develops complete living environments and commercial real estate. Fully developed housing solutions are sold to the end-consumer. In some cases the group is developing also commercial properties until they start generating cash flow for two possible purposes: for the support of the groups' cash flows or for resale. The group is currently holding completed commercial properties that generate rental income.

The Construction division provided general construction and environmental engineering services, operating as a general contractor and construction manager as well as a subcontractor. In 2013, the provision of construction services was finished and in February 2014, the group sold its construction company Arco Ehitus OÜ. Arco Vara is still responsible for completing possible warranty works, together with Arco Ehitus. The last warranty period will end in October 2015.

At 30 September 2014, the group comprises of 22 companies (31 December 2013: 23). At 31 December 2013, the group had interests also in one joint venture and one associate. In Q3 2014, was sold 40% ownership in associate Arco Property Management SIA and was acuired all shares of joint venture Tivoli Arendus OÜ, after which Tivoli Arendus OÜ became a subsidiary of the group.

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

The goal and core values

Common **goal** for all Arco Vara companies is:

1) to provide clients with trustworthy real estate services which are based on quality information and integrated real estate products of high value in use, being innovative in the same time;
2) to gain stable and high return on equity for the shareholders, which beats the competiton in real estate business and justifies investing and holding Arco Vara shares;
3) to create the best conditions for self-realization in real estate industry for the people working for the group.

Arco Vara's **core values** include:

Partnership – our client is our partner

Reliability – we are reliable, open and honest

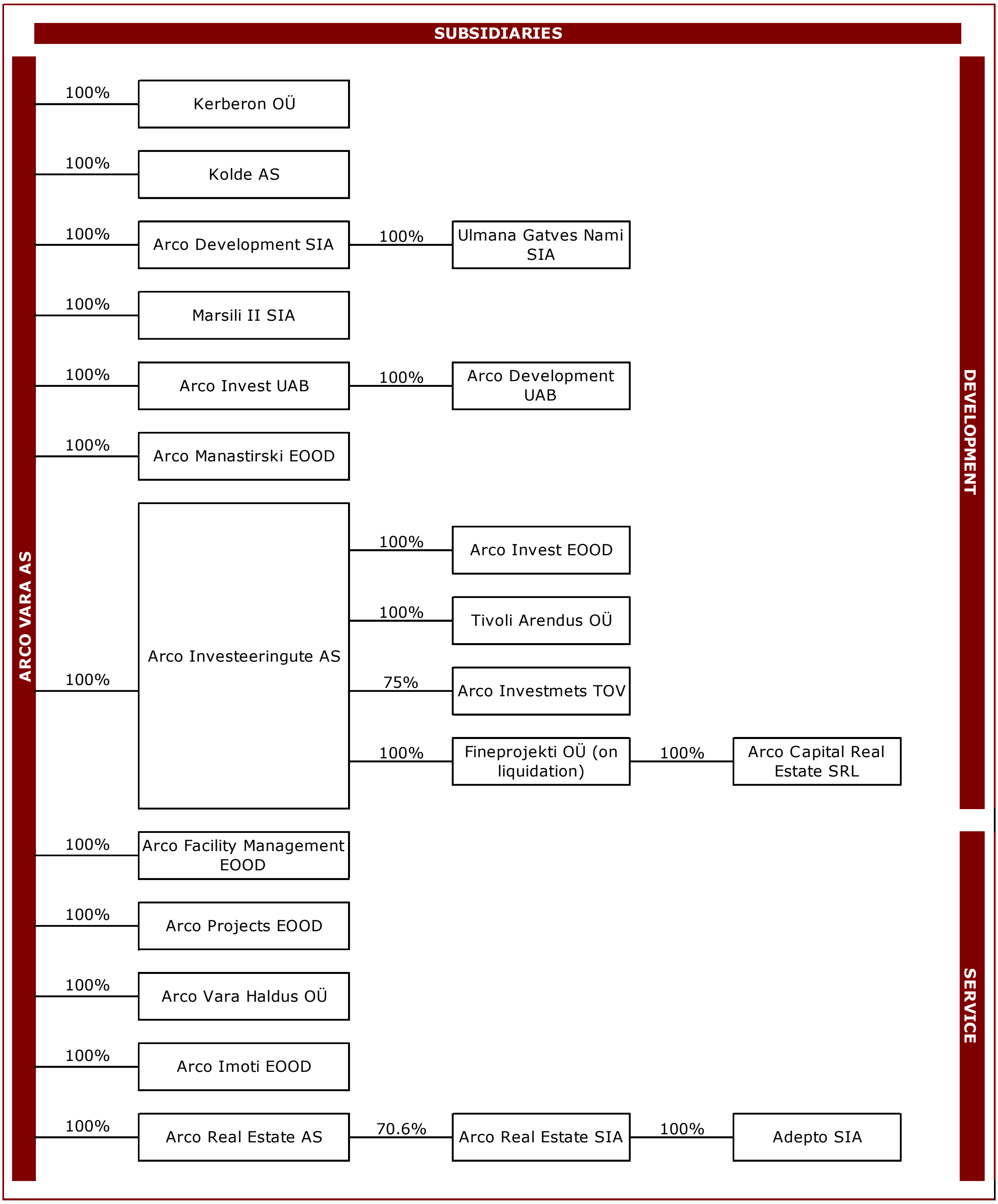
Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

GROUP STRUCTURE

As at 30 September 2014



CHANGES IN GROUP STRUCTURE DURING 9 MONTHS 2014

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

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

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

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

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

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

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

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

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

On 15 August 2014, the group's Latvian subsidary Arco Real Estate SIA divested it's 40% share in associate Arco Property Management SIA. The sale price was the share's nominal value of 1 thousand euros. The transaction has no impact on the group's financial position and income statement.

On 30 September 2014, the group's Estonian subsidary Arco Investeeringute AS acquired for the purchase price of 1 euro additional 50% ownership in the group's joint venture Tivoli Arendus OÜ. As a result of the transaction, Arco Investeeringute AS has 100% ownership of Tivoli Arendus OÜ and Tivoli Arenuds OÜ became a subsidiary for the group. The transaction has no direct impact on the group's financial position and income statement. But there could be long-term impact depending on the results of ongoing court disputes between Tivoli Arendus OÜ and Nordecon AS, where Tivoli Arendus claims Nordecon for 1.2 million euros and Nordecon claims Tivoli Arendus for 0.2 million euros.

KEY PERFORMANCE INDICATORS

- In 9 months 2014, the group's revenue from continuing operations was 3.3 million euros, which was 5.4 million euros less compared to the same period of previous year. Revenue of Service division has increased by 10% up to 2.4 million euros. Revenue of Development division amounted to 1.3 million euros in 9 months 2014 (9 months 2013: 6.8 million euros). The main reason for such a big drop in revenue in Development division is because the group's development projects are in such stage, where revenue is not accrued yet. More than 60% of Development division revenue in 2014 has been generated from letting out commercial and office space in Madrid Blvd building in Sofia. Substantial increase of revenue from Development division is expected in Q4 of 2014.
- Operating profit for Q3 2014 from continuing operations was 0.6 million euros (in Q3 2013: 0.3 million euros). The group's net profit amounted to 0.4 million euros in Q3 2014 (in Q3 2013: 0.1 million euros). In 9 months 2014, the group's operating profit amounted to 1.1 million euros and net profit amounted to 0.4 million euros. In previous year the corresponding profit figures were 2.3 million euros and 1.6 million euros. Profit figures are worse mainly due to the temporary drop in revenue from development division.
- Equity to assets ratio has increased compared to the year end 2013. At 30 September 2014, it was 29.1% (at 31 December 2013: 27.2%). The main reason is share issue conducted in Q3 2014, 1.3 million euros was raised in equity. The group's activities have been profitable too.
- The balance of the group's total assets is increased by 4.1 million euros in 9 month 2014. Main reason is increase of inventory in apartment development projects of Manastirski Livadi II stage in Sofia and Bisumuiza-1 in Riga. Invested capital is increased in parallel with the increase of assets, because construction of Manastriski Ii stage is financed with bank loan.
- The group's net loans have increased by 2.3 million euros in 9 months 2014. As at 30 September 2014, the average annual interest rate of loans is 5.8%, a decrease by 0.2 procentage point since the end of year 2013.
- During first 9 months 2014, were sold 4 apartments and 4 plots in projects developed in the group (in 9 months 2013 was sold 55 apartments or commercial areas and 4 plots), that includes one apartment and 4 plots in Q3 2014 (19 apartments or commercial areas and 2 plots in Q3 2013).

	9 months 2014	9 months 2013	**Q3 2014**	Q3 2013
In millions of euros				
Revenue from continuing operations	3.3	8.7	1.2	3.5
Operating profit from continuing operations	1.1	2.3	0.6	0.3
Net profit from continuing operations	0.4	1.6	0.4	0.1
Net profit from discontinued operations	0.0	0.4	0.0	0.4
Net profit for the period	0.0	2.0	0.4	0.5
EPS (in euros)	0.08	0.42	0.07	0.09
ROIC (rolling, four quarters)	7.7%	neg		
ROE (rolling, four quarters)	24.7%	neg		
ROA (rolling, four quarters)	6.9%	neg		

	30 September 2014	31 December 2013
In millions of euros		
Total assets at period-end	29.3	25.2
Invested capital at period-end	26.3	21.7
Net loans at period-end	16.4	14.1
Eguity at period-end	8.5	6.9
Average loan term (in years, at period-end)	2.4	0.3
Average interest rate of loans (per year, at period-end)	5.8%	6.0%
Number of staff at period-end	189	178

FORMULAS USED

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

CONTINUING OPERATIONS

Statement of comprehensive income

In millions of euros	**9 months 2014**	9 months 2013	**Q3 2014**	Q3 2013
Revenue				
Development	1.3	6.8	0.5	2.8
Service	2.4	2.2	0.8	0.8
Eliminations	-0.3	-0.2	-0.1	-0.1
Total revenue	**3.4**	**8.8**	**1.2**	**3.5**
Operating profit				
Development	0.7	2.7	0.6	0.4
Service	0.2	0.2	0.1	0.1
Eliminations	0.2	-0.3	-0.2	-0.1
Unallocated items	0.0	-0.3	0.1	-0.1
Total operating profit	**1.1**	**2.3**	**0.6**	**0.3**
Finance income and expenses, net	-0.7	-0.7	-0.2	-0.2
Net profit	**0.4**	**1.6**	**0.4**	**0.1**

Cash flows

In millions of euros	**9 months 2014**	9 months 2013	**Q3 2014**	Q3 2013
Cash flows from/used in operating activities	-3.3	-0.1	-1.4	0.2
Cash flows from/used in investing activities	0.2	1.3	0.1	0.0
Cash flows from/used in financing activities	3.7	-2.4	2.1	-0.4
Net cash flows	**0.6**	**-1.2**	**0.8**	**-0.2**
Cash and cash equivalents at beginning of period	0.8	1.8	0.6	0.8
Cash and cash equivalents at end of period	1.4	0.6	1.4	0.6

Group Chief Executive's review

Introduction

For the first 9 months of this year, the group has been earning income only from the rent of the Madrid Blvd building in Sofia in addition to activities of the service division. Therefore, the sales result of Q3 2014 and net profit of 0.4 million euros meet our expectations as a whole and have been a crucial middle step in restarting the development division. Restarting the development activities in 2013 is only now bearing fruit, which are evident in the balance sheet and the income statement. In Q4, the sale of completed apartments will begin in Riga and Sofia.

The service division and developments in Arco Vara home markets

The service division has positive cash flow and is a profitable division which consists of three companies in Estonia, Latvia and Bulgaria, which are primarily involved in real estate brokerage and appraisal (Arco Real Estate AS, Arco Real Estate SIA, Arco Imoti EOOD), two companies in Estonia and Bulgaria which are involved in real estate management (Arco Vara Haldus OÜ and Arco Facility Management EOOD) and a company which is involved in operating the rental apartments in Madrid Blvd (Arco Projects EOOD). The owner of the Madrid Blvd building Arco Invest EOOD is not part of the service division. The revenue of service division has increased by 10% compared to 9 months of the last year. The revenue from brokering units in Latvia and Bulgaria has increased and the revenue from the brokering unit in Estonia has decreased.

In all of Sofia, 5,063 transactions were made with real estate in Q3, which continues the high transaction activity achieved in the Q2. This is the most active Q3 after the year 2008. Real estate prices have remained stable or on a slight increase depending on the location. The average market price range of middle class apartments is 706-840 euros per square metre depending on the type of apartment (it must be taken into consideration that in Bulgaria, a legal share of the public premises of the building is also considered part of the area of the apartment and that apartments sold on the secondary market predominantly include interior finishing, whereas new apartments have no interior finishing). An even higher transaction activity has probably been hindered by the fall of the Bulgarian government and appointing a new so-called interim government which was in power until the parliament elections on 5 October, which slowed the work of public institutions and banks among other things, as well as by the collapse of the fourth largest bank in Bulgaria.

The transaction activity of the Riga market has also an increasing trend, there were a total of 3,116 transactions in Q3, which is 15% more than the 2,713 transactions of the Q2 and nearly 5% more than in Q3 2013. The range of real estate prices for new middle class apartments is enormous, ranging between 800 and 1,800 euros per square metre. There were also more transactions with 1,500 euros per m2 than there were transactions below this price. At the same time, the local population does not buy apartments with a higher than average square metre price. The market volume of so-called residence permit apartments is declining and is also unpredictable. The further activity of the Riga real estate market will be influenced by a law amendment which will enter into force on 1 January 2015, providing that in the case of bankruptcy proceedings of a private person, the mortgage loan granted to him or her is paid also when the realizable value of the mortgage is less than the outstanding loan (so-called non-recourse loans). In simple terms, people will have the right to give the keys to the bank and not worry about reimbursing the loan. We can predict that the self-financing requirements of banks will increase up to approx. 40% and it will hinder transaction activity and prices, especially for newer real estate.

In Tallinn, 2,682 transactions of purchase and sale of real estate have been completed in Q3, so there has been essentially no change in transaction activity compared to Q2 with its 2,680 transactions. At the same time, there were 3.6% fewer transactions in Q3 than in the same period of 2013, when 2,782 transactions for purchase and sale of real estate were concluded in the city. 1,850 transactions for purchase and sale of apartment ownerships were carried out in Q3 in Tallinn, which is 0.7% more than in the last quarter and 9.1% less than in Q3 2013. The average sales price for apartment ownerships was 1,459 euros per m2 in Q3, which is 14.4% more than in Q3 2013. In view of the ratio of number of transactions to the number of residents in a city, the relative activity of the real estate market continues being highest in Tallinn (in comparison with Riga and Sofia). Despite the slight decline of transaction activity in past months, there are no dramatic changes predicted for the Tallinn real estate market. Terms and conditions of banks for granting loans have not changed over the year. If anything, buyers have more choices thanks to increased supply. More research is done before finalizing a purchase than in the past few years when there was a deficit of new developments in particular on the market and the buyer had less time to make a choice.

The Development division

The triggering plan of the development division is keep at least 60 apartments in development and for sale in Sofia and the annual sales volume on the level of at least 60 apartments as well. The equity capital held in middle class apartment developments in Sofia is approximately 3 million euros and its net productivity for shareholders should exceed 600 thousand euros per year. In Tallinn, we will also be keeping at least 50 apartments per year in development and for sale and the equity capital being held in Tallinn apartment development is approximately 3.5 million euros starting from the end of year 2015. Net productivity for shareholders should be at least 700 thousand euros per year. The difference between Sofia and Tallinn is that the whole cycle of development is already in operation in Sofia and we have products concurrently in planning, under construction and for sale. In Tallinn, the cycle is still being started and we will see first sales figures as late as in 2016, on the condition that the construction of stage I of Paldiski mnt 70C will begin in the second half of 2015. In Riga, existing developments must be sold, but the group does not plan to start new ones before we can see the demand of the Riga market in the conditions of the new credit legislation (see the comment by the Latvian service division) and will appear promising conditions for purchasing land. In Riga, different from Tallinn and Sofia, the group's land bank is depleted.

Sofia

The construction works of Manastirski II stage (block AB) in Sofia went according to the plan in Q3. The works have been completed as at the interim report date and obtaining the permit for use of the apartment building is in progress. The speed of pre-sales is exceeding expectations, by the end of the Q3 over 65% of total volume for sale was covered with preliminary sales contracts (over 8,200 m2) and if the entire project is realized (GSA 12,500 m2), sales revenue will exceed 9 million euros and profit will exceed 2 million euros. Apartments which are not sold yet should be realized by the end of 2015.

The group has begun preparations for designing, financing and marketing the III stage of Manastirski (block D) in order to keep a minimum of 60 apartments (GSA approx. 5,000 m2) under construction or for sale in Sofia. Construction should begin in Q1 2015. The expected gross saleable area (GSA) of Manastirski block D is 6,900 m2 and at least 80 apartments and smaller commercial areas.

It is also planned to obtain the next plot of land to construct apartments analogous to the Manastirski apartment type in 2016, in order to maintain consistent development activities if the market situation remains favourable also after the year 2016.

In Sofia, the building at Madrid Blvd continues earning rent income to the group, which formed 23.5% of the sales revenue of 9 months of the year 2014 for the group. Revenue fro rent was sufficient to cover the interest for the bank loan on the building and earn free cash for the group. As the share capital of the group could be increased nearly 60% less than planned, the management faced a dilemma – whether to place involved cash for reimbursing the Piraeus bank loan in amount of 1.2 million euros, or direct it to the development activities of other projects. At present, the management has decided to primarily direct the cash involved with the issue to the development of other projects, mainly Paldiski mnt 70C in Tallinn. The principal amount of the loan from Piraeus bank to the amount of 0.25 million euros has been reimbursed and it has been proposed to reimburse the remaining 0.95 million euros in the case of the sale of apartments in the building. As at the interim report date, the amendment to the loan contract concluded with Piraeus bank has entered into force and the loan contract for the Madrid Blvd building has extended to the end of 2017, but depending on the activities of the bank, the situation may again arise with the reimbursement of the remaining 0.95 million euros where the owner of the Madrid Blvd building Arco Invest EOOD is in violation of the contract and the loan contract could be canceled.

The long-term action plan of the group is realizing the apartments, commercial and office premises in the Madrid Blvd building by the end of 2017. The prerequisite for successful realization is smooth cooperation with the bank and renewing or replacing long-term rental contracts, which cover over 50% of the leasable area of the building, in the second half of 2015.

Riga

In Riga, the construction works of Bisumuisa apartments ended in Q3 and we received the permit of use for the building at the end of the quarter. Delivering apartments to clients and entering into sales contracts has begun as at the interim report date and there are 3 more apartments left without preliminary sales contracts (*i.e.* unsold). The goal is to sell all products of the project by the end of 2015 at the latest. The sales revenue of the entire project exceeds 1.1 million euros and the profit exceeds 0.2 million euros.

In Q3, we also sold four plots in the Marsili residential area. The transaction activity of the area is low and people's low purchasing power in planning and constructing their houses is noticeable. The balance sheet of the group still includes the other residential development area in Marsili, which has not been fully developed (there are no roads and utilities). The sale of Marsili plots is not profitable, but enables the group to release equity from assets with low liquidity and to carry it over to productive projects.

Tallinn

The detailed plan of the project for Paldiski mnt 70c was adopted in early September. The value of this immovable also increased with obtaining the construction permit and the group reversed the write-down made on the same property in 2012 to the amount of 572 thousand euros. As of the quarterly report date, the preparation works for designing have begun. The plan is to complete designing and enter into the construction contract for the first stage in Q3 2015 at the latest.

The detailed plans of Liimi 1b and Lehiku tee 21-23 continue, the group hopes to reach the approval of detail plans by the end of 2015 at the latest.

The group has suspended the development in Harku for designing and constructing a product with approximately 30 apartments at Instituudi tee 7 and 9 due to the need to consolidate and focus its free finances on realizing projects with best productivity (Paldiski mnt 70c). The sale of the development project could be also an option.

Summary and prognosis

The management maintains the group's revenue forecast for the year 2014 on the level of 9 million euros and increases the profit forecast to 0.9 million euros.

The establishment of the detailed plan for Paldiski mnt 70c in Tallinn was achieved in the third quarter. The sale of apartments in Sofia and Riga and the designing works for Paldiski mnt 70c will begin in the fourth quarter.

As only 1.3 million euros were involved with the share issue in Q3, the majority of the involved cash has been allocated to the development of the Paldiski mnt 70c project and 0.25 million euros will be directed to the reimbursement of the principal part of loan for the Madrid Blvd building.

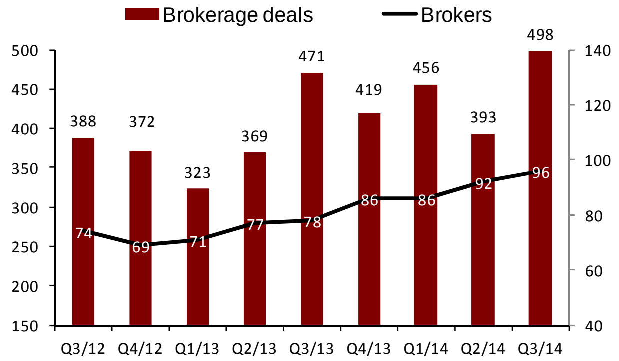
SERVICE DIVISION

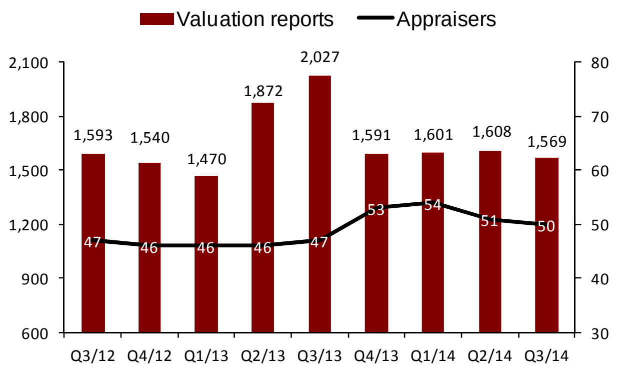
In Q3 2014, revenue of service division was 791 thousand euros, that included intra-group revenue of 93 thousand euros (Q3 2013: 812 thousand and 58 thousand euros, respectively). In 9 months, revenue is increased by 10% compared to the same period of previous year and amounted to 2,401 thousand euros (includes intra-group revenue of 321 thousand euros). Sales growth came from Latvia and Bulgaria, where 9 months revenue from main activities of real estate agencies, brokerage and valuation of real estate, increased by 20% and 65%, respectively. 9 months revenue of Estonian real estate agency is decreased by 12% compared to the same period of previous year. If we compare second quarters of 2013 and 2014, then the decline is even 23%.

Revenue of real estate agencies from brokerage activities

	9 months 2014	9 months 2013	Change %	**Q3 2014**	Q3 2013	Change %
In thousands of euros						
Estonia	927	1,050	-12%	293	383	-23%
Latvia	879	732	20%	312	272	15%
Bulgaria	382	232	65%	118	93	27%
Total	**2,188**	**2,014**	**9%**	**723**	**748**	**-3%**

The revenue growth of Latvian and Bulgarian agencies was caused both by general increased activity on the market and strongly seizing the market by increasing the number of employees. Brokerage of the group's own assets has significant part of Bulgarian agency's revenue. In 9 months 2014, intermediation of presale of apartments and commercial areas in Manastirski project II stage made 43% out of total revenue of Bulgarian agency. The main reason behind the decline in revenue of Estonian real estate agency is rapid price rise in real estate market during last two years, and this has led to the decline in the number of transactions during last few months. Also, the number of mandates intermediated by Estonian agency is decreased.





All three real estate agencies ended up 9 months 2014 with a net profit: Estonian agency's net profit was 2 thousand euros (9 months 2013: 127 thousand euros), Latvian agency's net profit was 61 thousand euros (9 months 2013: 66 thousand euros) and Bulgarian agency's net profit was 81 thousand euros (9 months 2013: 20 thousand euros).

In addition to brokerage and valuation services, the service division also provides real estate management service in Estonia and Bulgaria, as well as accommodation service in Bulgaria. The revenue from real estate management was 124 thousand euros in 9 months 2014, 86 thousand of which was external revenue (9 months 2013: 101 thousand and 78 thousand, repectively). Revenue from accommodation services amounted to 55 thousand euros in 9 months 2014 (9 months 2013: 14 thousand euros). The accommodation services have been provided since July 2013.

The number of staff in service division has been increased to 175 employees as at 30 September 2014, growing by 14 people during 9 months.

DEVELOPMENT DIVISION

In Q3 2014, revenue of Development division totalled 487 thousand euros (Q3 2013: 2,764 thousand euros) and 1,289 thousand euros in 9 months (9 months 2013: 6,783 thousand euros). Revenue of Development division has dropped over recent months because the group's own development projects are in construction or planning stage. In Q3 2014, was sold one apartment in Manastirski project I stage in Bulgaria and four Marsili residential plots in Latvia. Revenue from sale of own real estate property amounted to 222 thousand euros in Q3 2014. Comparable results of Q3 2013 were 16 sold apartments, 3 smaller commercial areas and 2 plots with corresponding revenue of 2,503 thousand euros. Operating profit of Development division was 696 thousand euros in 9 months 2014 (9 months 2013: 2,655 thousand euros). Profit figures are affected positively by reversal on inventory write-down in amount of 572 thousand euros in 2014 and by reversal of provision in amount of 1,000 thousand euros in 2013.

Most of other revenue of Development division consisted of rental income from commercial and office space of Madrid Blvd building in Sofia in amount of 718 thousand euros in 9 months 2014 (9 months 2013: 711 thousand euros).

In Q3 2014, was continued construction on II stage of Manastirski Livadi project. By the date of publishing interim report, the apartment building has been accepted and has been taken over from constructor and use of permit is expected to be received at the end of November. At the same time with the start of construction, in Novemebr 2013, was started presale of apartments. And it is turned out to be successful, because more than 70% of apartments are covered with pre-agreements by the date of publishing interim report.

At the end of Q3 2014, were accepted permit of use for the last apartment building (14 apartments, 960 m2 of saleable area) in Bisumuiza-1 project. In October, were started concluding sale agreements and delivering presold apartments to clients. At the date of publishing interim report, the buyer was not found yet for the last 2 apartments out of 14. The last apartment of previous stage in the same project are unsold yet.

As at the end Q3 2014, 2 apartments and 31 parking spaces have not been sold in the apartment building of Manastirski Livadi C-block (also named as Manastirski I stage) in Bulgaria. Madrid complex contains 34 unsold apartments and 120 parking spaces. 11 apartments and all parking spaces, out of all unsold Madrid properties, are rented out.

The group has started preparations for the design project of Manastirski Livadi D-block (also named as Manastirski III stage) in Bulgaria. Construction should start in Q1 2015. The building will have at least 80 apartments and commercial ares with saleable area of nearly 6,900 m2 and construction will be finished by the end of 2015.

In February 2014, the group acquired as an additon to the land bank, two land plots with building right for 2 apartment buildings (30 apartments with estimated GSA of 2,100 m2) near Tallinn, at Instituudi tee 7 and 9 in Harku. In Q3 2014, the development of the project was suspended due to the need to use the group's finances for carrying out best yielded projects (Paldiski road 70c for example). The sale of the development project could also be an option.

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

Find out more about the projects at: www.arcorealestate.com/arendus.

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

Project name	Address	Product main type	Stage	Area of plot(s) (m^2)	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Manastirski A/B	Manastirski, Sofia	Apartments	S5	4,445	12,524	135
Manastirski C	Manastirski, Sofia	Apartments	S5/S6	-	204	2
Manastirski D	Manastirski, Sofia	Apartments	S3	2,223	<6,869>	<87>
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	16
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	3,800	34
Bisumuiza-1	Kometas 2, Riga	Apartments	S5	-	105	1
Bisumuiza-1	Kometas 4, Riga	Apartments	S5	2,118	960	14
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	28,573	15
Marsili residential plots	Marsili, near Riga	Residential plots	S2	120,220	<120,220>	<68>
Instituudi 7, 9	Instituudi tee 7,9 Harku	Apartments	S3	5,003	<2,035>	<32>
PM 70C	Paldiski mnt 70C, Tallinn	Apartments	S3	28,498	<21,420>	<334>
Lehiku carpet building	Lehiku 21,23 Tallinn	Apartments	S2	5,915	<1,100>	<5>
Liimi	Liimi 1b, Tallinn	Lease: Office	S2	2,463	<6,500>	<1>
Viimsiranna	Haabneeme, Viimsi vald	Office/Mix	S3/S5	14,174	500	1

Note: Value presented inbetween < > means future target value as the project is in early (S1, S2) development stage and the building rights or the design have not been finished yet. The table does not reflect sellable or letteble volumes below grade including parking spaces and storages.

Description of stages

S1: Landplot acquired
S2: Building Rights Procedure
S3: Design and Preparation Works
S4: Construction
S5: Marketing and Sale
S6: Facility Management and/or Lease

PEOPLE

As at 30 September 2014, 189 people worked for the group (178 at the end of 2013). Employee remuneration expenses for 9 months 2014 amounted to 1.8 million euros (in 9 months 2013: 1.8 million euros).

The remuneration of the member of the management board/chief executive and the members of the supervisory board of the group's parent company including social security charges for the first 9 months of 2014 amounted to 76 thousand euros compared with 148 thousand euros for 9 months 2013.

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

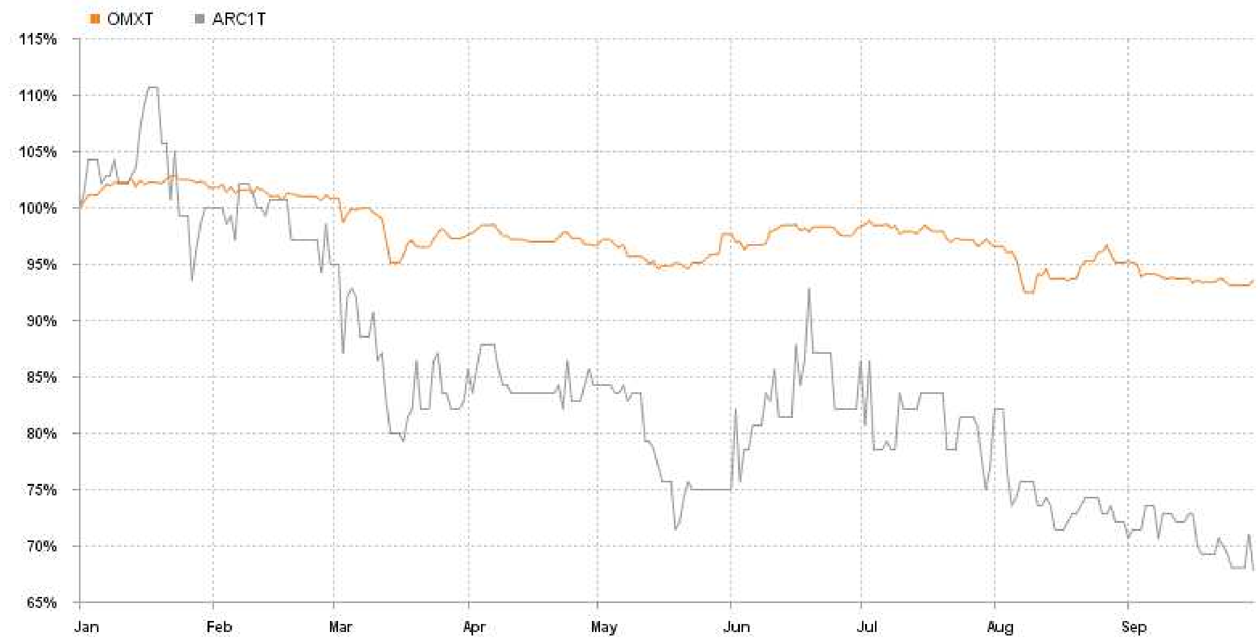
SHARE AND SHAREHOLDERS

Arco Vara AS has issued a total of 6,117,012 shares. In September 2014, share capital was raised by issuing 1,375,305 new shares. As at 30 September 2014, the company had 1,679 shareholders and the share price closed at 0,951 euros, a 32.07% decrease within nine months.

The following charts reflect movements in the price and daily turnover of Arco Vara share in the first 9 months of 2014.

In euros (EUR)

Changes in share price compared with the benchmark index OMX Tallinn in first 9 months of 2014.



Indeks/equity	1 Jan 2014	30 Sept 2014	+/-%
OMX Tallinn	817.72	765.22	-6.42
ARC1T	1.40 EUR	0.951 EUR	-32.07

Major shareholders at 30 September 2014	No of shares	Interest %
AS Baltplast	862,820	14.1%
AS Lõhmus Holdings	587,378	9.6%
Gamma Holding Investment OÜ	506,615	8.3%
HM Investeeringud OÜ	500,000	8.2%
Alarmo Kapital OÜ	474,188	7.8%
LHV PENSIONIFOND L	378,765	6.2%
FIREBIRD REPUBLICS FUND LTD	356,428	5.8%
OÜ Rimonne Baltic	207,300	3.4%
FIREBIRD AVRORA FUND, LTD.	185,800	3.0%
LHV PENSIONIFOND XL	169,583	2.8%
Other shareholders	1,888,135	30.9%
Total	**6,117,012**	**100.0%**

Holdings of members of the management and supervisory boards at 30 September 2014	Position	No of shares	Interest %
Toomas Tool (AS Baltplast)	member of supervisory board	862,820	14.1%
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	587,378	9.6%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	chairman of supervisory board	528,884	8.6%
Arvo Nõges (Gamma Holding Investment OÜ)	member of supervisory board	506,615	8.3%
Tarmo Sild ja Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	474,188	7.8%
Stephan David Balkin	member of supervisory board	-	-
Aivar Pilv	member of supervisory board	-	-
Total		**2,959,885**	**48.4%**

DESCRIPTION OF THE MAIN RISKS

Liquidity risk

The group's free funds are placed on current accounts or short-term deposits with the banks operating in Estonia, Latvia and Bulgaria. Owing to high refinancing risk, cash flow management is critical. The group's cash and cash equivalents balance is constantly smaller than the balance of loans that require refinancing in the next 12 months. At 30 June 2014, the weighted average duration of interest-bearing liabilities was 2.4 years. At the end of Q3 2014, the group's cash and cash equivalents totalled 1.4 million euros. Out of the cash and cash equivalents balance 0.3 million euros was in accounts with restricted withdrawal opportunities (mostly accounts of designated purpose where withdrawals require the banks' consent). Liquidity and refinancing risks continue to be the most significant risks for the group.

Interest rate risk

The base currency of most of the group's loan agreements is the euro and the base interest rate is 3 or 6 months EURIBOR. As a result, the group is exposed to developments in international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In 9 months 2014, the group's interest-bearing liabilities has increased by 2.9 million euros and amounted to 17.8 million euros at 30 September 2014. In first 9 months 2014, interest payments on interest-bearing liabilities totalled 0.5 million euros. The group's weighted average loan interest rate is 5.8%. This is a decrease by 0.2 percentage point in 9 months 2014 mainly due to decreased Euribor rates.

Currency risk

Purchase and sales contracts are mostly signed in local currencies: euros (EUR), and Bulgarian levs (BGN). Real estate sales are mostly nominated in euros, as a result of which the group's assets and liabilities structure does not denote a significant currency risk. The group is not protected against currency devaluations. Most liquid funds are held in short-term deposits denominated in euros. Devalution risk decreased since the beginning of year 2014 because Republic of Latvia transferred to euro.

The chief executive/member of the management board confirms that the directors' report of Arco Vara AS for the third quarter and nine months ended 30 September 2014 provides a true and fair view of the development, financial performance and financial position of the group as well as a description of the main risks and uncertainties.

Tarmo Sild

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

On 6 November 2014

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	**9 months 2014**	9 months 2013	**Q3 2014**	Q3 2013
In thousands of euros					
Continuing operations					
Revenue from rendering of services		2,861	2,821	953	1,016
Revenue from sale of own real estate		485	5,925	222	2,503
Total revenue	2, 3	**3,346**	**8,746**	**1,175**	**3,519**
Cost of sales	4	-1,898	-6,309	-649	-2,715
Gross profit		**1,448**	**2,437**	**526**	**804**
Other income	7	593	198	574	13
Marketing and distribution expenses	5	-240	-192	-66	-66
Administrative expenses	6	-1,222	-1,175	-307	-383
Other expenses	7	-137	-62	-100	-34
Gain on transactions involving joint ventures		0	1,000	0	0
Gain on sale of subsidiaries	16	662	98	0	0
Operating profit		**1,104**	**2,304**	**627**	**334**
Finance income and costs	8	-694	-738	-259	-257
Net profit from continuing operations		**410**	**1,566**	**368**	**77**
Discontinued operations					
Profit/loss from discontinued operations	16	-13	435	0	377
Net profit for the period		**397**	**2,001**	**368**	**454**
attributable to owners of the parent		*379*	*1,984*	*357*	*443*
attributable to non-controlling interests		*18*	*17*	*11*	*11*
Total comprehensive income for the period		**397**	**2,001**	**368**	**454**
attributable to owners of the parent		*379*	*1,984*	*357*	*443*
attributable to non-controlling interests		*18*	*17*	*11*	*11*
Earnings per share (in euros)	9				
- basic		**0.08**	0.42	**0.07**	0.09
- diluted		**0.07**	0.39	**0.06**	0.09

Consolidated statement of financial position

	Note	**30 September 2014**	31 December 2013
In thousands of euros			
Cash and cash equivalents		1,415	818
Receivables and prepayments	10	622	656
Inventories	11	15,371	10,780
Assets belonging to sales group	16	0	847
Total current assets		**17,408**	**13,101**
Investments in equity-accounted investees		0	1
Receivables and prepayments	10	6	252
Investment property	12	11,336	11,331
Property, plant and equipment		443	459
Intangible assets		60	13
Total non-current assets		**11,845**	**12,056**
TOTAL ASSETS		**29,253**	**25,157**
Loans and borrowings	13	5,996	12,589
Payables and deferred income	14	2,719	1,746
Provisions		229	172
Liabilities belonging to sales group	16	0	1,488
Total current liabilities		**8,944**	**15,995**
Loans and borrowings	13	11,803	2,308
Total non-current liabilities		**11,803**	**2,308**
TOTAL LIABILITIES		**20,747**	**18,303**
Share capital	15	4,282	3,319
Share premium	15	292	0
Statutory capital reserve		2,011	2,011
Other reserves		60	60
Retained earnings		1,826	1,452
Total equity attributable to owners of the parent		**8,471**	**6,842**
Equity attributable to non-controlling interests		35	12
TOTAL EQUITY		**8,506**	**6,854**
TOTAL LIABILITIES AND EQUITY		**29,253**	**25,157**

Consolidated statement of cash flows

In thousands of euros	Note	**9 months 2014**	9 months 2013	**Q3 2014**	Q3 2013
Cash receipts from customers		5,068	8,274	1,809	2,748
Cash paid to suppliers		-7,244	-5,946	-2,761	-1,749
Taxes paid		-844	-1,528	-308	-561
Taxes recovered		531	183	182	48
Cash paid to employees		-622	-637	-195	-209
Other cash payments and receipts related to operating activities		-204	-141	-158	-68
Net cash flow of discontinued operations		0	-354	0	25
NET CASH FROM/USED IN OPERATING ACTIVITIES		**-3,315**	**-149**	**-1,431**	**234**
Purchase of property, plant and equipment		-32	-18	-17	-9
Proceeds from sale of property, plant and equipment		0	18	0	16
Proceeds from sale of investment property		0	20	0	0
Proceeds from sale of a subsidiary	16	10	1,610	0	0
Proceeds from sale of an associate		1	0	1	0
Loans provided		-3	-37	0	-29
Placement of security deposits		-416	-263	-89	0
Release of security deposits		679	0	227	0
Interest received		3	5	1	1
NET CASH FROM/USED IN INVESTING ACTIVITIES		**242**	**1,335**	**123**	**-21**
Proceeds from loans received	13	4,053	2,881	1,472	1,461
Settlement of loans and finance lease liabilities	13	-1,192	-4,484	-647	-1,558
Interest paid		-515	-742	-89	-285
Proceeds from share capital issue	15	1,375	0	1,375	0
Other payments related to financing activities		-51	-9	-28	0
NET CASH FROM/USED IN FINANCING ACTIVITIES		**3,670**	**-2,354**	**2,083**	**-382**
NET CASH FLOW		**597**	**-1,168**	**775**	**-169**
Cash and cash equivalents at beginning of period		818	1,775	640	739
Change in cash and cash equivalents		**597**	**-1,168**	**775**	**-169**
Decrease in cash and cash equivalents through sale of a subsidiary		0	-37	0	0
Cash and cash equivalents at end of period		1,415	570	1,415	570

Consolidated statement of changes in equity

	Equity attributable to owners of the parent							
	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	**Total equity**
In thousands of euros								
Balance as at 31 December 2012	**3,319**	**0**	**2,011**	**0**	**-1,958**	**3,372**	**-5**	**3,367**
Total comprehensive income for the period	0	0	0	0	1,984	1,984	17	**2,001**
Balance as at 30 September 2013	**3,319**	**0**	**2,011**	**0**	**26**	**5,356**	12	**5,368**
Balance as at 31 December 2013	**3,319**	**0**	**2,011**	**60**	**1,452**	**6,842**	**12**	**6,854**
Total comprehensive income for the period	0	0	0	0	379	379	18	**397**
Increase of share kapital (note 15)	963	292	0	0	0	1,255	0	**1,255**
Change in non-controlling interests	0	0	0	0	-5	-5	5	**0**
Balance as at 30 September 2014	**4,282**	**292**	**2,011**	**60**	**1,826**	**8,471**	**35**	**8,506**

Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the third quarter and nine months ended 30 September 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the consolidated annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

2. Segment information

The group has the following reportable operating segments:

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

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

Revenue and operating profit by operating segment

Segment	**Development**		**Service**		**Unallocated items**		**Eliminations**		**Consolidated**	
	9m 2014	**9m 2013**	**9m 2014**	**9m 2013**	**9m 2014**	**9m 2013**	**9m 2014**	**9m 2013**	**9m 2014**	**9m 2013**
In thousands of euros										
External revenue	1,263	6,770	2,080	1,974	3	2			3,346	8,746
Annual change	*-81%*	*20%*	*5%*	*13%*					*-62%*	*18%*
Inter-segment revenues	26	13	321	195			-347	-208	0	0
Total revenue	**1,289**	**6,783**	**2,401**	**2,169**	**3**	**2**	**-347**	**-208**	**3,346**	**8,746**
Operating profit/loss	**696**	**2,655**	**188**	**158**	**189**	**-231**	**31**	**-278**	**1,104**	**2,304**
Of which reversal of inventory write-down	*572*	*0*	*0*	*0*	*0*	*0*			*572*	*0*
gain on sale of subidiaries	*0*	*98*	*0*	*0*	*662*	*0*			*662*	*98*
gain on reversal of provisons	*0*	*1,000*	*0*	*0*	*0*	*0*			*0*	*1,000*

Segment	**Development**		**Service**		**Unallocated items**		**Eliminations**		**Consolidated**	
	Q3 2014	**Q3 2013**	**Q3 2014**	**Q3 2013**	**Q3 2014**	**Q3 2013**	**Q3 2014**	**Q3 2013**	**Q3 2014**	**Q3 2013**
In thousands of euros										
External revenue	476	2,764	698	754	1	1			1,175	3,519
Annual change	*-83%*	*49%*	*-7%*	*27%*					*-67%*	*44%*
Inter-segment revenues	11	3	93	58			-104	-61	0	0
Total revenue	**487**	**2,767**	**791**	**812**	**1**	**1**	**-104**	**-61**	**1,175**	**3,519**
Operating profit/loss	**632**	**396**	**56**	**90**	**-170**	**-105**	**109**	**-47**	**627**	**334**
Of which reversal of inventory write-down	*572*	*0*	*0*	*0*	*0*	*0*			*572*	*0*

Assets and liabilities by operating segment

Segment	Development		Service		Construction [1]		Unallocated items		Consolidated	
	30 Sept 2014	31 Dec 2013	30 Sept 2014	31 Dec 2013	30 Sept 2014	31 Dec 2013	30 Sept 2014	31 Dec 2013	30 Sept 2014	31 Dec 2013
In thousands of euros										
Assets	27,830	23,456	667	557	0	847	756	297	29,253	25,157
Liabilities	19,177	15,324	530	557	0	1,488	1,040	934	20,747	18,303

[1] - As at 31 December 2013, presented in statement of financial position as sales group assets and liabilities

3. Revenue

	9 months 2014	9 months 2013	Q3 2014	Q3 2013
In thousands of euros				
Sale of own real estate	485	5,925	222	2,503
Real estate brokerage and valuation	1,932	1,895	647	714
Rental of real estate	719	756	234	237
Property management services	98	80	32	27
Other revenue	112	90	40	38
Total revenue	**3,346**	**8,746**	**1,175**	**3,519**

4. Cost of sales

	9 months 2014	9 months 2013	Q3 2014	Q3 2013
In thousands of euros				
Cost of real estate sold	-443	-4,827	-206	-2,202
Personnel expenses	-1,171	-1,160	-376	-426
Property management costs	-189	-244	-40	-57
Vehicle expenses	-13	-16	-4	-5
Depreciation, amortisation and impairment losses	-9	-8	-3	-3
Other costs	-73	-54	-20	-22
Total cost of sales	**-1,898**	**-6,309**	**-649**	**-2,715**

5. Marketing and distribution expenses

	9 months 2014	9 months 2013	Q3 2014	Q3 2013
In thousands of euros				
Advertising expenses	-129	-113	-36	-33
Personnel expenses	-45	-31	-11	-15
Market research	-6	-7	0	-4
Brokerage fees	-1	-6	0	-2
Other marketing and distribution expenses	-59	-35	-19	-12
Total marketing and distribution expenses	**-240**	**-192**	**-66**	**-66**

6. Administrative expenses

	9 months 2014	9 months 2013	**Q3 2014**	Q3 2013
In thousands of euros				
Personnel expenses	-558	-583	-189	-181
Office expenses	-261	-262	-84	-81
Services purchased	-163	-121	19	-42
IT expenses	-109	-70	-30	-30
Legal service fees	-60	-62	2	-23
Vehicle expenses	-29	-27	-9	-9
Depreciation, amortisation and impairment losses	-27	-18	-11	-6
Other expenses	-15	-32	-5	-11
Total administrative expenses	**-1,222**	**-1,175**	**-307**	**-383**

7. Other income and expenses

Other income

	9 months 2014	9 months 2013	**Q3 2014**	Q3 2013
In thousands of euros				
Gain on reversal of inventory write-down (note 11)	572	0	572	0
Gain on sale of property, plant and equipment	0	4	0	4
Miscellaneous income	21	194	2	9
Total other income	**593**	**198**	**574**	**13**

Other expenses

	9 months 2014	9 months 2013	**Q3 2014**	Q3 2013
In thousands of euros				
Loss on realisation of construction guarantees	-101	0	-82	0
Late payment interest and penalty charges	-6	-35	-4	-30
Loss on sale and impairment of other non-current assets	-1	-1	-1	0
Loss on changes in the fair value of investment property	0	-3	0	0
Inventory write-down	0	-3	0	0
Write-down of receivables	0	-10	0	-1
Miscellaneous expenses	-29	-10	-13	-3
Total other expenses	**-137**	**-62**	**-100**	**-34**

8. Finance income and costs

	9 months 2014	9 months 2013	**Q3 2014**	Q3 2013
In thousands of euros				
Interest expense	-644	-659	-225	-230
Interest income	3	20	1	1
Other finance income and costs	-53	-99	-35	-28
Total finance income and costs	**-694**	**-738**	**-259**	**-257**

9. Earnings per share

Basic earnings per share are calculated by dividing profit or loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by taking into account the effects of all dilutive potential ordinary shares.

	9 months 2014	9 months 2013	**Q3 2014**	Q3 2013
Weighted average number of ordinary shares outstanding during the period	4,872,688	4,741,707	5,130,380	4,741,707
Number of ordinary shares potentially to be issued	390,000	390,000	390,000	390,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	379	1,984	357	443
Earnings per share (in euros)	**0.08**	0.42	**0.07**	0.09
Diluted earnings per share (in euros)	**0.07**	0.39	**0.06**	0.09

According to the decision of the annual general shareholders' meeting of Arco Vara AS, held on 1 July 2013, one convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the chief executive of the group's parent company the right to subscribe up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2016. As at 31 December 2013, an equity reserve was created in amount of 60 thousand euros for the option associated with the bond. See also note 17.

In September 2014, share capital of Arco Vara AS was increased by issuing additional shares. The number of ordinary shares has been increased by 1,375,305 shares. See also note 15.

10. Receivables and prepayments

Short-term receivables and prepayments

	30 September 2014	31 December 2013
In thousands of euros		
Trade receivables		
Receivables from customers	96	164
Allowance for doubtful trade receivables	-22	-22
Total trade receivables	**74**	**142**
Other receivables		
Loans provided	36	33
Term deposits (with maturities from 3 to 12 months)	0	23
Miscellaneous receivables	169	163
Total other receivables	**205**	**219**
Accrued income		
Prepaid and recoverable taxes	202	127
Other accrued income	10	9
Total accrued income	**212**	**136**
Prepayments	**131**	**159**
Total short-term receivables and prepayments	**622**	**656**

Long-term receivables

	30 September 2014	31 December 2013
In thousands of euros		
Term deposits (with maturities more than 1 year)	0	240
Prepayments	6	12
Total long-term receivables and prepayments	**6**	**252**

11. Inventories

	30 September 2014	31 December 2013
In thousands of euros		
Properties purchased and being developed for resale	15,350	10,762
Materials and finished goods	5	5
Prepayments for inventories	16	13
Total inventories	**15,371**	**10,780**

Properties purchased and being developed for resale

In thousands of euros	
Balance at 31 December 2013	**10,762**
Properties purchased for development	120
Construction costs of apartment buildings	3,899
Capitalized borrowing costs	175
Reversal of inventory write-down (note 11)	572
Other capitalized costs	250
Cost of sold properties	-428
Balance at 30 September 2014	**15,350**

12. Investment property

In thousands of euros	
Balance at 31 December 2013	**11,331**
Capitalised development costs	5
Balance at 30 September 2014	**11,336**

13. Loans and borrowings

	As at 30 September 2014			As at 31 December 2013		
	Total	*of which current portion*	*of which non-current portion*	**Total**	*of which current portion*	*of which non-current portion*
In thousands of euros						
Bank loans	16,844	5,799	11,045	14,121	12,576	1,545
Bonds	911	160	751	751	0	751
Finance lease liabilities	44	37	7	25	13	12
Total	**17,799**	**5,996**	**11,803**	**14,897**	**12,589**	**2,308**

In 9 months 2014, the group settled loans and borrowings of 1 192 thousand euros (in 9 months 2013: 4,484 thousand euros) through cash transactions and raised new loans of 4,053 thousand euros (in 9 months 2013: 2,881 thousand euros).

Balance of loans and borrowings is increased in first 9 months 2014 mainly due to loan used for financing the construction of Manastirski Livadi project II stage in Bulgaria. The open limit of the loan was used in amount of 3,178 thousand euros in 9 months 2014. There was also made repayments of the same loan in total amount of 532 thousnad euros.

On 21 March 2013, Arco Vara AS issued bonds as targeted issue in total amount of 160 thousand euros. The bonds maturity date is 20 June 2015 and annual interest rate is 9.8%. See also note 17.

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

14. Payables and deferred income

	30 September 2014	31 December 2013
In thousands of euros		
Trade payables	**279**	**464**
Miscellaneous payables	**443**	**15**
Taxes payable		
Value added tax	55	172
Corporate income tax	42	11
Personal income tax	16	20
Social security tax	31	41
Other taxes	272	270
Total taxes payable	**416**	**514**
Accrued expenses		
Interest payable	289	8
Payables to employees	125	132
Other accrued expenses	12	38
Total accrued expenses	**426**	**178**
Deferred income		
Prepayments received on sale of real estate	1,155	575
Total deferred income	**1,155**	**575**
Total short-term payables and deferred income	**2,719**	**1,746**

15. Share capital

The extraordinary general meeting of shareholders of Arco Vara AS held on 4 July 2014 adopted the decision to approve the issuance of 3.5 million new shares with the nominal value of 0.7 euros per share and the issuance price of 1 euro per share, therefore the amount of share premium will be 0.3 euros per share. The subscription period lasted from 8 August until 29 August 2014 and pre-emptive right of subscription had shareholders who were in the list of Arco Vara AS shareholders as at 7 August 2014. 1,375,305 shares were subscribed in total, 39.3% out of targeted volume. The raise of share capital was registered in trade register on 15 September 2014. As a result of share issue the equity of Arco Vara AS has been increased by 963 thousand euros and new share capital amounts to 4,282 thousand euros. The increased share capital consists of 6,117,012 shares with nominal value of 0.7 euros per share.

The share issue was conducted with share premium in amount of 292 thousand euros, of which 412 thousand euros was total premium paid by investors over nominal value of shares and the amount is decreased by direct costs of share issue amounted to 120 thousand euros. The group’s equity has been increased by 1,255 thousand euros as a result of share issue.

16. Sale of a subsidiary

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

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

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

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

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

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

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

Components of net profit/loss from discontinued operations

In thousands of euros	**9 months 2014**	9 months 2013	**Q3 2014**	Q3 2013
Revenue	0	3,657	0	1,222
Cost of sales	0	-2,972	0	-770
Aministrative expenses	-13	-246	0	-72
Other operating income and expenses	0	-4	0	-3
Net profit/loss from discontinued operations	**-13**	**435**	**0**	**377**

Sales group assets and liabilities

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

17. Related party disclosures

The group has conducted transactions or has balances with the following related parties:

1) **the group's joint ventures and associates**;
2) **companies under the control of the chief executive and the members of the supervisory board of Arco Vara AS that have a significant interest in the group's parent company**;
3) **other related parties** – the chief executive and the members of the supervisory board of Arco Vara AS and companies under their control (excluding companies that have a significant interest in the group's parent company).

Transactions with related parties

In thousands of euros	**9 months 2014**	9 months 2013
Joint ventures and associate		
Revenue	0	1
Services purchased	26	0
Provision of loans	3	37
Companies that have a significant interest in the group's parent company		
Services purchased	232	24
Bonds issued	150	500
Paid interest	60	8
Other related parties		
Services sold	3	0
Services purchased	2	21
Bonds issued	0	251
Paid interest	26	4

Balances with related parties

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

On 21 March 2014, Arco Vara AS issued bonds as targeted issue in total amount of 160 thousand euros. 150 thousand euros out of the total issued bonds were subscribed by the companies that have significant interest in the group's parent company. The bonds maturity date is 20 June 2015 and annual interest rate is 9.8%. The issued bonds are guaranteed with mortgage on property that belongs to the subsidiary of Arco Vara AS. See also note 13.

In 9 months 2014, the remuneration provided to the group's key management personnel, i.e. the chief executive/member of the management board and the members of the supervisory board of the group's parent company, including social security charges, amounted to 76 thousand euros (in 9 months 2013: 148 thousand euros). The remuneration provided to the chief executive/member of the management board is based on his service contract. The termination benefits agreed with Tarmo Sild, who was appointed chief executive officer/member of the management board of Arco Vara AS in October 2012, amount to up to five months' basic board member remuneration. The basis for the remuneration provided to the members of the supervisory board was changed since July 2013. According to the resolution of the general meeting of Arco Vara AS, the members of the supervisory board will get paid 500 euros (net amount) for every participated meeting but not more than 1,000 euros (net amount) per month. The payment of the renumeration is made dependent on the signing of the minutes of the meetings of the supervisory board. The group's key management personnel was not provided or paid any other remuneration or benefits (bonuses, termination benefits, etc) in first 9 months 2014.

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

Statement by the chief executive/member of the management board

The chief executive/member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the third quarter and nine months ended 30 September 2014.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and they give a true and fair view of the financial position, financial performance and cash flows of Arco Vara AS. Arco Vara AS is a going concern.

Tarmo Sild

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

On 6 November 2014