Madrid Boulevard in Sofia

Bišumuiža in Riga

Arco Vara AS

Interim report I quarter and 3 months 2013

ARCO VARA

INTERIM REPORT FOR THE FIRST QUARTER OF 2013 (UNAUDITED)

Company name:	Arco Vara AS
Registry number:	10261718
Address:	Jõe 2b, 10151 Tallinn, Republic of Estonia
Telephone:	+372 6 144 630
Fax:	+372 6 144 631
E-mail:	info@arcovara.ee
Corporate website:	www.arcorealestate.com
Core activities:	Construction of buildings (EMTAK 41000)
	Civil engineering (EMTAK 42000)
	Specialised construction activities (EMTAK 43000)
	Real estate activities (EMTAK 6800)
Financial year:	1 January 2013 – 31 December 2013
Reporting period:	1 January 2013 – 31 March 2013
Supervisory board:	Richard Tomingas, Hillar-Peeter Luitsalu, Toomas Tool,
	Stephan David Balkin, Aivar Pilv, Arvo Nõges, Rain Lõhmus
Chief executive:	Tarmo Sild
Auditor:	AS PricewaterhouseCoopers

CONTENTS

Directors' report

ARCO VARA GROUP

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

The Service division is engaged in real estate brokerage, valuation, management and consulting, and short-term investment in residential real estate

The Development division develops complete living environments and commercial real estate. Fully developed housing solutions are sold to the end-consumer. Commercial properties are developed until they start generating cash flow after which they are sold to a real estate fund or another developer. Despite the strategy, the group is currently holding some completed commercial properties that generate rental income because their full potential has not been achieved.

The Construction division provides general construction and environmental engineering services, operating as a general contractor and construction manager as well as a subcontractor.

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

At the end of the first quarter of 2013, the group comprised of 22 companies (31 March 2012: 28). In addition, at 31 March 2013 the group had two joint ventures (31 March 2012: 5).

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

Mission, vision and shared values

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

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

Our core values include:

Partnership – our client is our partner

Reliability – we are reliable, open and honest

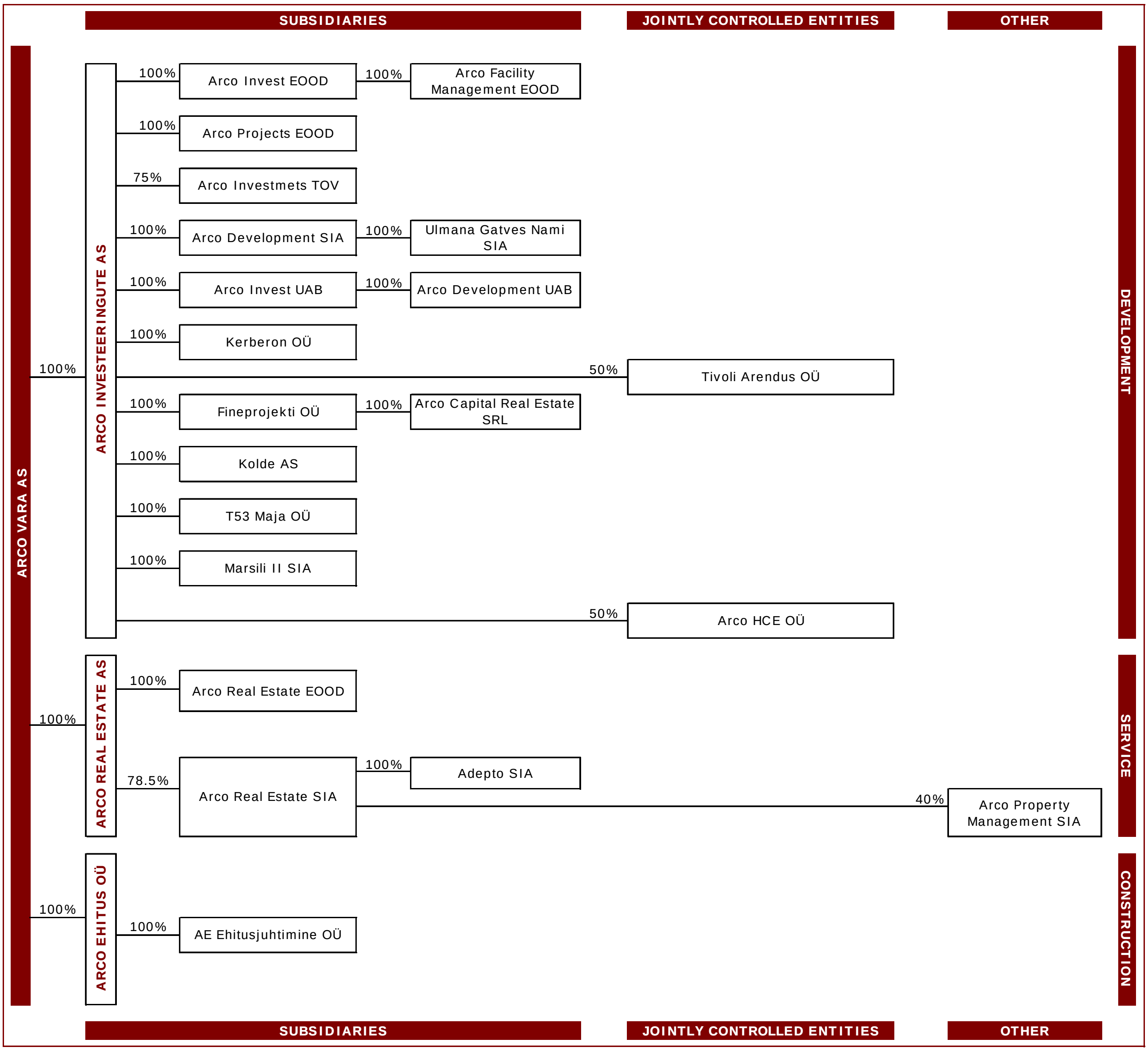
Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

GROUP STRUCTURE

As at 31 March 2013



CHANGES IN GROUP STRUCTURE

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

KEY PERFORMANCE INDICATORS

- In the first quarter of 2013, the group generated revenue of 2.8 million euros compared with 3.6 million euros in the first quarter of 2012. Revenue was 22% smaller than in the comparative period mainly because construction volumes decreased significantly. At the same time, the revenue of the Service division remained stable and the Development division increased its revenue by 71% (year over year).
- Operating profit for the first quarter amounted to 0.3 million. The same period in 2012 ended in an operating loss of 0.5 million euros.
- Net profit for the first quarter was 39 thousand euros compared with a net loss of 1.3 million euros incurred in the first quarter of 2012.
- Equity to assets ratio improved to 11.7% (31 December 2012: 10.8%).
- The loan burden (net loans) decreased to 14.2 million euros (31 March 2012: 22.3 million euros) and the average interest rate of loans dropped to 5.2% per year.
- At the end of the first quarter, the group's order backlog stood at 2.3 million euros compared with 12.9 million euros at the end of the first quarter of 2012. In 2013, the group will duly complete all environmental engineering projects, which are in progress. After that, the group is planning to discontinue provision of environmental engineering services.
- In the first quarter, the group sold 15 apartments and plots in its self-developed projects (2012 Q1: 4).

	Q1 2013	Q1 2012
In millions of euros		
Revenue	2.8	3.6
Operating profit/loss	0.3	-0.5
Net profit/loss	0.0	-1.3
EPS (in euros)	0.01	-0.18
Total assets at period-end	29.0	54.9
Invested capital at period-end	19.4	44.3
Net loans at period-end	14.2	22.3
Equity at period-end	3.4	20.3
Average loan term (in years)	2.1	2.3
Average interest rate of loans (per year)	5.2%	6.9%
ROIC (rolling, four quarters)	neg	neg
ROE (rolling, four quarters)	neg	neg
Number of staff at period-end	76	140

FORMULAS USED

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

Group Chief Executive's review

General commentary

In the first quarter the group's operations in Bulgaria stabilised because we succeeded in changing the conditions of the loan agreements with Piraeus bank that financed the Manastirski and Madrid projects. In addition, we restarted completion of the Bišumuiža apartments in Latvia.

At the same time, the situation in Estonia became more strained due to circumstances surrounding the group's Ahtri 3 and Tivoli projects that are 50/50 joint ventures with external partners. Danske bank, which had financed the Ahtri 3 project, initiated enforcement proceedings against the group's joint venture Arco HCE and called in the surety guarantee provided by its shareholders, Arco Investeeringute AS and OÜ Ahtrimaa. There are currently three litigations in progress and enforcement proceedings have been suspended. Parallel to legal action, the parties are seeking constructive solutions. It is quite probable that in the near future a solution will be found, which will satisfy all parties.

In the Tivoli project, the venture partner, International Invest Project OÜ, and Kylemore International Invest Corp, which had financed the project, terminated the loan agreement of the group's joint venture Tivoli Arendus OÜ. Moreover, due to contractor's breach, Tivoli Arendus OÜ was forced to terminate the construction contract. Realisation of the Tivoli project in the manner and timeframe foreseen in the business plan, which was difficult already at the end of 2012, became impossible. The group and the partner have been seeking solutions for restructuring or ending the project in the least damaging manner, considering the surety guarantee provided by Arco Vara AS, the rankings of the mortgages created on the Tivoli properties and the balances and interest rates of the loans provided to Tivoli Arendus OÜ. By the date of release of this report, the Tivoli property has been put up for auction. It is also probable that in the second or third quarter a solution can be found that will satisfy all involved.

Commentary on sales volumes

The decrease in first quarter revenue compared with the same period in 2012 was expected because the group is discontinuing its environmental engineering operations. In 2011-2012, the Construction division contributed around 40% of the group's turnover. Hence, shrinkage in its operations has a strong impact on the group's sales. I would like to emphasize that all construction-related commitments have been duly met although during last month this has required significant efforts from other group companies as well as Arco Ehitus OÜ itself.

The Development division increased its first quarter sales by 71% and the Service division maintained stable performance. However, in absolute terms the revenue of the Development division is relatively small and our target is to increase it.

Commentary on profit

The group's target for 2013 was to start earning operating profit. We ended the first quarter with an operating profit as well as a minimal net profit. However, to uphold the trend and increase profits, we will have to grow our sales volumes. Although growth is supported by the Service division, the main opportunities for growth lie in continuing and expanding development operations. It would be difficult to finance expansion of development operations with the group's current capital. Thus, in 2013 solutions will have to be found for raising additional capital.

Commentary on the loan burden

In the first quarter the group reduced its loan burden significantly. At 31 December 2012 interest-bearing loans and borrowings totalled 18.8 million euros and at 31 March 2013 16.6 million euros, a decrease of 2.2 million euros within three months. In addition, we lowered the average loan interest rate, which has had a positive impact on our performance, particularly in Bulgaria. The loan burden can be further reduced by selling finished goods. However, we will have to raise additional funds to continue and expand our development operations. Thus, we do not foresee a rapid decline in the group's loan burden.

Commentary on human resources

In the first quarter the number of people working for the group did not change considerably and we are not planning to make any major changes to personnel or personnel expenses except for those resulting from shrinkage of operations at the Construction division. The main focus is on streamlining our operations and creating intra-group synergies.

REVENUE AND PROFIT

In millions of euros	**Q1 2013**	Q1 2012
Revenue		
Service	0.6	0.6
Development	1.2	0.7
Construction	1.1	2.4
Eliminations	-0.1	-0.1
Total revenue	**2.8**	**3.6**
Operating profit/loss		
Service	0.0	0.0
Development	0.4	-0.6
Construction	0.0	0.4
Eliminations	0.0	0.0
Unallocated income and expenses	-0.1	-0.3
Total operating profit/loss	**0.3**	**-0.5**
Interest income and expense	-0.3	-0.4
Net profit/loss	**0.0**	**-0.9**

CASH FLOWS

In millions of euros	**Q1 2013**	Q1 2012
Cash flows from operating activities	0.1	-1.2
Cash flows from investing activities	1.4	1.0
Cash flows from financing activities	-1.8	-0.3
Net cash flow	**-0.3**	**-0.4**
Cash and cash equivalents at beginning of period	1.8	2.2
Cash and cash equivalents at end of period	**1.5**	**1.8**

At 31 March 2013, the largest current liabilities to be settled in the next 12 months comprised:

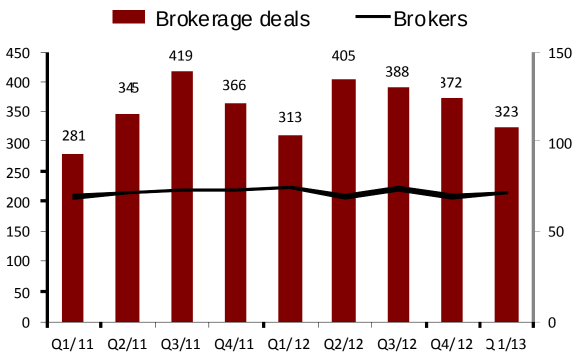
- repayments to be made under the settlement schedule of the loan of the Boulevard Residence Madrid project in Sofia of 0.7 million euros;
- repayments of the loan taken for the Manastirski project of 1.7 million euros;
- repayments of the loan taken for the Bišumuiža 1 project of 0.5 million euros.

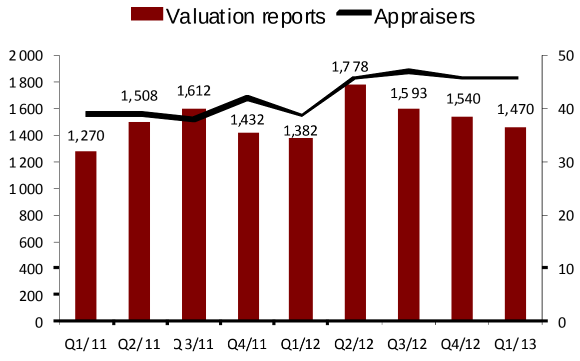
In the first quarter of 2013, the group made repayments of the loans taken for the Madrid and Manastirski projects in Sofia and repaid in full the loans taken by Pärnu Turg OÜ and Kolde AS.

In addition, sales-linked loan repayments were made by Marsili II SIA and repayments were made under the settlement schedule agreed for the bank loan taken by Arco Real Estate AS.

SERVICE DIVISION

In the first quarter of 2013, the Service division performed better than a year ago, generating an operating profit of 46 thousand euros compared with an operating loss of 5 thousand euros incurred in the first quarter of 2012. Revenue for the first quarter of 2013 was 572 thousand euros, which is practically equal to the figure posted a year ago. The number of brokerage transactions increased by 3% and the number of valuation reports issued grew by 6% year over year. At the same time, the number of brokers decreased by 5% and the number of appraisers increased by 18%.

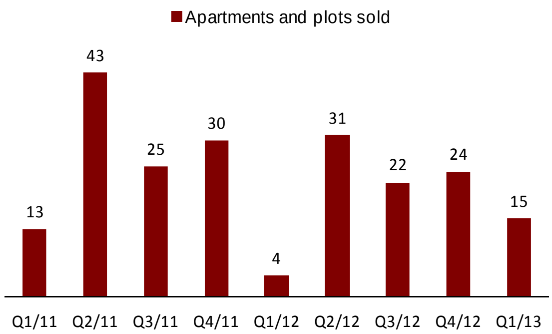




	Q1 2013	Q1 2012	Change, %
Number of completed brokerage transactions	323	313	3%
Number of projects on sale at end of period	177	162	9%
Number of valuation reports issued during the period	1,470	1,382	6%
Number of appraisers at end of period[1]	46	39	18%
Number of brokers at end if period[1]	71	75	-5%
Number of staff at end of period	37	45	-18%

[1] Includes people working under service contracts

DEVELOPMENT DIVISION



In the first quarter of 2013, Arco Vara sold 14 apartments and 1 plot in its own development projects: 1 plot in the Baltezers project in Latvia, 3 apartments in the Kodukolde project in Estonia and 11 apartments in the Manastirski project in Bulgaria.

Phase VI of the Kodukolde development project at Helme 16 in Tallinn, which consists of two apartment buildings with a total of 48 apartments, was completed in June 2012. Out of those apartments, 46 were sold (final sales under real right contracts) by May 2013. At the end of the first quarter the project's inventory comprised 3 unsold apartments and by the date of release of this report the figure has decreased to 2.

In January 2012, we obtained a permit for the construction of a residential and commercial building of energy class B called Kastanimaja (Chestnut House) at Tehnika 53 in Tallinn. According to plan, construction work will be completed by August 2013. Pre-sale of apartments, which began in May 2012, has been successful: by the date of release of this report 12 of the 14 apartments have been sold based on contracts under the law of obligations (pre-sale contracts).

In Bulgaria, the construction of phase I of the Manastirski project has been completed. At 31 March 2013, 90% of the 74 apartments were either reserved or sold. We have started planning phase II of the Manastirski project. In the commercial and residential building Boulevard Residence Madrid in Sofia we continue to lease out commercial and office premises and to sell the remaining free apartments.

In the third quarter of 2012, we suspended development and construction in the Bišumuiža 1 apartment buildings project in Latvia. However, in February 2013 we extended the construction permit to continue development of the project. A building with 14 apartments and a sellable area of 1,149 square metres, which is currently in the stage of interior finishing works, will be completed in August 2013. By the date of release of this report, 8 of the apartments have been reserved. After that we are going to develop the project's last building, also with 14 apartments. The outer shell has already been erected. All apartments in the project's previously completed 7 buildings have been sold.

On 1 March, Arco Investeeringute AS sold its 100% interest in the subsidiary Pärnu Turg OÜ to Bellvory Turg OÜ.

On 1 February 2013, Tivoli Arendus OÜ terminated the design and build contract with Nordecon AS because the counterparty had seriously breached its contractual obligations. On 11 April 2013, Kylemore International Invest Corp, a creditor of Tivoli Arendus OÜ, presented a claim for payment and initiated execution proceedings for satisfying its claim through sale of the properties belonging to Tivoli Arendus OÜ. Arco Vara AS joined the execution proceedings.

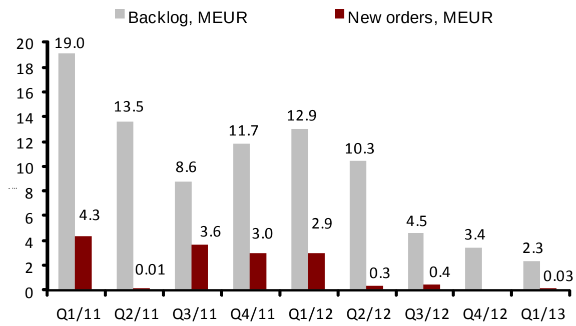
In order to recover a loan, Danske Bank A/S initiated enforcement proceedings against Arco HCE OÜ, which is a 50% joint venture of Arco Investeeringute AS. The object of the proceedings was to exercise a mortgage created for the benefit of Danske Bank A/S on the property located at Ahtri 3 in Tallinn. On 20 February 2013, the court suspended the enforcement proceedings against Arco HCE OÜ. Concurrently with the legal proceedings, Arco Vara AS is seeking alternative solutions for resolving the situation.

At the end of March 2013, the division employed 6 people (31 December 2012: 10).

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

CONSTRUCTION DIVISION

The Construction division specialises in environmental engineering and infrastructure construction.



At the end of the first quarter of 2013, the largest contracts in progress were the construction of the Paide wastewater treatment plant (remaining balance 1.3 million euros) and the construction of the Kuusalu public water and wastewater network (remaining balance 0.9 million euros).

In the first quarter of 2013, the group secured new construction contracts of 34 thousand euros. At the end of the first quarter, the order backlog stood at 2.3 million euros compared with 12.9 million euros at the end of the first quarter of 2012.

At 31 March 2013, the division employed 19 people (31 December 2012: 26 people).

SUMMARY TABLE OF ARCO VARA'S PROJECTS AS AT 31 MARCH 2013

Country	Passive m²	In preparation m²	Under construction m²	In stock m²	Cash flow m²	TOTAL m²
Estonia	504 488	60 900	1 118	69 773	0	636 279
Latvia	2 450	121 435	1 215	43 472	0	168 572
Lithuania	0	6 500	0	0	0	6 500
Bulgaria	0	19 492	0	3 903	8 117	31 512
ARCO VARA TOTAL	506 938	208 327	2 333	117 148	8 117	842 863

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

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

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

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

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

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

PEOPLE

At the end of the first quarter of 2013, the group employed 76 people compared with 140 at the end of the first quarter of 2012. Employee remuneration expenses for the first quarter of 2013 totalled 0.7 million euros compared with 0.9 million euros for the first quarter of 2012.

The first-quarter 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 amounted to 64 thousand euros compared with 57 thousand euros for the first quarter of 2012.

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

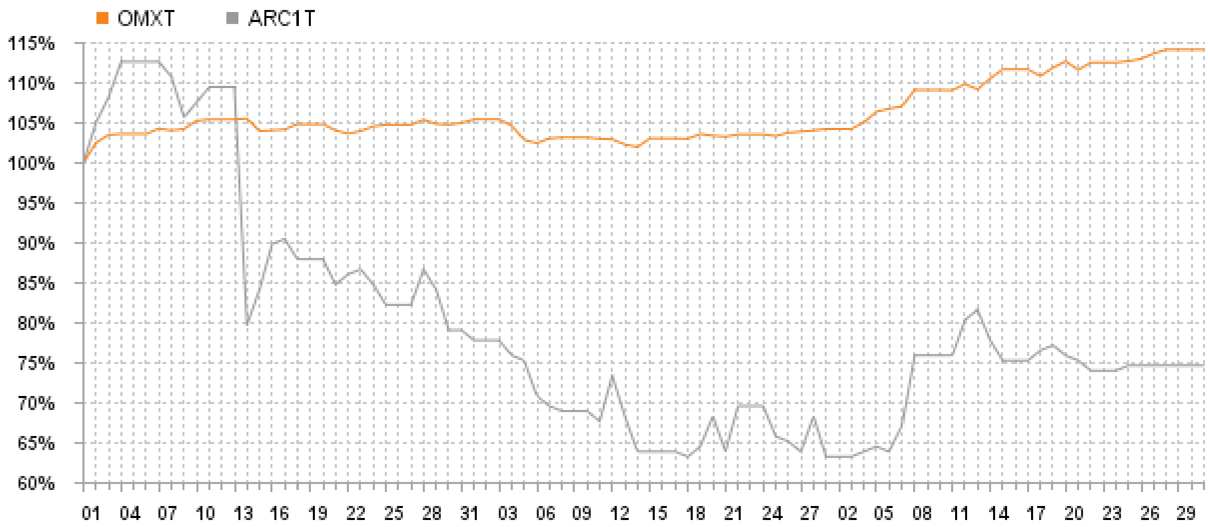
SHARE AND SHAREHOLDERS

Arco Vara AS has issued a total of 4,741,707 shares. At 31 March 2013, the company had 1,822 shareholders and the share price closed at 1.18 euros, a 25.32% decrease with three months.

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

In euros (EUR)

Changes in share price compared with the benchmark index OMX Tallinn in the first quarter of 2013



Index/equity	1 January 2013	31 March 2013	+/-%
OMX Tallinn	734.20	838.20	+14.17
ARC1T	EUR 1.58	EUR 1.18	-25.32

Major shareholders at 31 March 2013	Number of shares	Interest, %
OÜ HM INVESTEERINGUD	1,327,678	28.00%
OÜ TOLETUM	625,264	13.19%
OÜ BALTPLAST	614,278	12.95%
GAMMA HOLDING OÜ	405,105	8.54%
FIREBIRD REPUBLICS FUND LTD	205,064	4.32%
LHV PENSIONIFOND L	187,000	3.94%
Central Securities Depository of Lithuania	151,154	3.19%
FIREBIRD AVRORA FUND, LTD.	106,897	2.25%
FIREBIRD FUND L.P.	86,600	1.83%
Other	1,032,667	21.78%
Total	**4,741,707**	**100.00%**

Holdings of members of the management and supervisory boards at 31 March 2013	Position	Number of shares held	Interest, %
Tarmo Sild	member of the management board	0	0%
Richard Tomingas (Toletum OÜ)	chairman of the supervisory board	614.278	12.95%
Toomas Tool (OÜ Baltplast)	member of the supervisory board	1,327,678	28.00%
Hillar-Peeter Luitsalu			
(HM Investeeringud OÜ, connected persons)	member of the supervisory board	634.771	13.39%
Arvo Nõges (Gamma Holding OÜ)	member of the supervisory board	405.105	8.54%
Rain Lõhmus (LHV pension funds M, L, XL)	member of the supervisory board	270.145	5.70%
Stephan David Balkin	member of the supervisory board	0	0%
Aivar Pilv	member of the supervisory board	0	0%
Total		**3,251,977**	**68.58%**

DESCRIPTION OF THE MAIN RISKS

Credit risk

Credit risk exposure is the greatest at the Construction division. Accordingly, counterparties' settlement behaviour is monitored on an ongoing basis.

Liquidity risk

The group's free funds are placed in overnight or short-term fixed-interest term deposits with the largest banks operating in Estonia. Owing to high refinancing risk, cash flow management is critical. The group's cash and cash equivalents balance is constantly smaller than the balance of loans that require refinancing in the next 12 months. At 31 March 2013, the weighted average duration of interest-bearing liabilities was 2.1 years, which means that on average all loans need to be refinanced every two years. At the end of the first quarter of 2013 the group's cash and cash equivalents totalled 1.4 million euros and term deposits with maturities extending from 3 to 12 months totalled 0.3 million euros. Out of the above balance 1.1 million euros was under the group's own control and the rest was in accounts with restricted withdrawal opportunities (mostly accounts of designated purpose where withdrawals require the bank's consent). Liquidity and refinancing risks continue to be the most significant risks for the group.

Interest rate risk

The base currency of most of the group's loan agreements is the euro and the base interest rate is 3 or 6 month EURIBOR. As a result, the group is exposed to developments in international capital markets. At the moment, the group does not use hedging instruments to mitigate its long-term interest rate risk. In the first quarter of 2013, the group's interest-bearing liabilities decreased by 2.2 million euros to 16.6 million euros at 31 March 2013. In the first quarter of 2013, interest payments on interest-bearing liabilities totalled 0.2 million euros. Compared with the first quarter of 2012, the weighted average interest rate decreased from 6.9% to 5.2%, mainly thanks to a decline in EURIBOR and a decrease in the interest rates negotiated on refinancing the bank loans of the group's Bulgarian development company.

Currency risk

Purchase and sales contracts are mostly signed in local currencies: euros (EUR), Latvian lats (LVL) and Bulgarian levs (BGN). The group is not protected against currency devaluations. Most liquid funds are held in short-term deposits denominated in euros.

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

Tarmo Sild	Chief Executive and Member of the Management Board of Arco Vara AS	17 May 2013

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	**Q1 2013**	Q1 2012
In thousands of euros			
Revenue from rendering of services		1,940	3,368
Revenue from sale of own real estate		882	260
Total revenue	3	**2,822**	**3,628**
Cost of sales	4	-2,081	-2,815
Gross profit		**741**	**813**
Other income		19	192
Marketing and distribution expenses	5	-65	-82
Administrative expenses	6	-490	-697
Other expenses		-18	-716
Gain on sale of a subsidiary	11	98	0
Operating profit/loss		**285**	**-490**
Finance income	7	12	22
Finance costs	7	-258	-394
Profit/loss for the period attributable to		**39**	**-862**
Owners of the parent		*38*	*-847*
Non-controlling interests		*1*	*-15*
Total comprehensive income/expense for the period attributable to		**39**	**-862**
Owners of the parent		*38*	*-847*
Non-controlling interests		*1*	*-15*
Earnings per share (in euros)	**8**	**0.01**	**-0.18**

Consolidated statement of financial position

	Note	**31 March 2013**	31 December 2012
In thousands of euros			
Cash and cash equivalents		1,433	1,775
Receivables and prepayments	9	3,391	3,094
Inventories	10	11,542	11,701
Total current assets		**16,366**	**16,570**
Investments in equity-accounted investees		1	1
Investment property	11	12,083	14,097
Property, plant and equipment		526	540
Intangible assets		20	21
Total non-current assets		**12,630**	**14,659**
TOTAL ASSETS		**28,996**	**31,229**
Loans and borrowings	12	3,422	16,838
Payables and deferred income	13	6,558	6,645
Provisions		3,077	3,084
Total current liabilities		**13,057**	**26,567**
Loans and borrowings	12	12,533	1,231
Payables and deferred income	13	0	64
Total non-current liabilities		**12,533**	**1,295**
TOTAL LIABILITIES		**25,590**	**27,862**
Share capital	8	3,319	3,319
Statutory capital reserve		2,011	2,011
Retained earnings		-1,920	-1,958
Total equity attributable to owners of the parent		**3,410**	**3,372**
Equity attributable to non-controlling interests		-4	-5
Total equity		**3,406**	**3,367**
TOTAL LIABILITIES AND EQUITY		**28,996**	**31,229**

Consolidated statement of cash flows

	Note	**Q1 2013**	Q1 2012
In thousands of euros			
Cash receipts from customers		3,398	6,018
Cash paid to suppliers		-2,412	-6,818
Taxes paid		-543	-529
Taxes recovered		53	235
Cash paid to employees		-294	-417
Other cash payments and receipts related to operating activities		-57	-24
NET CASH FROM/USED IN OPERATING ACTIVITIES		**145**	**-1,535**
Purchase of property, plant and equipment and intangible assets		0	-12
Proceeds from sale of property, plant and equipment		2	0
Proceeds from sale of investment property		20	1,140
Proceeds from sale of non-current assets held for sale		0	373
Proceeds from sale of a subsidiary		1,610	0
Loans provided		0	-63
Placement of security deposits		-263	0
Interest received		4	3
Other payments related to investing activities		0	-29
NET CASH FROM INVESTING ACTIVITIES		**1,373**	**1,412**
Proceeds from loans received	12	93	261
Settlement of loans and finance lease liabilities	12	-1,666	-165
Interest paid		-248	-393
Other payments related to financing activities		-2	-2
NET CASH USED IN FINANCING ACTIVITIES		**-1,823**	**-299**
NET CASH FLOW		**-305**	**-422**
Cash and cash equivalents at beginning of period		1,775	2,209
Decrease in cash and cash equivalents		-305	-422
Decrease in cash and cash equivalents through sale of a subsidiary		-37	0
Cash and cash equivalents at end of period		**1,433**	**1,787**

Consolidated statement of changes in equity

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Share capital	Statutory capital reserve	Retained earnings	Total		
In thousands of euros						
Balance as at 31 December 2011	**3,319**	**2,011**	**16,306**	**21,636**	**-447**	**21,189**
Total comprehensive expense for the period	0	0	-847	-847	-15	**-862**
Balance as at 31 March 2012	**3,319**	**2,011**	**15,459**	**20,789**	**-462**	**20,327**
Balance as at 31 December 2012	**3,319**	**2,011**	**-1,958**	**3,372**	**-5**	**3,367**
Total comprehensive income for the period	0	0	38	38	1	**39**
Balance as at 31 March 2013	**3,319**	**2,011**	**-1,920**	**3,410**	**-4**	**3,406**

Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the first quarter of 2013 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the consolidated annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

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

2. Segment information

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

Revenue and operating profit by operating segment

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	Q1 2013	Q1 2012	Q1 2013	Q1 2012	Q1 2013	Q1 2012	Q1 2013	Q1 2012	Q1 2013	Q1 2012	Q1 2013	Q1 2012
In thousands of euros												
External revenue	1,203	765	531	501	1,088	2,362	0	0	0	0	2,822	3,628
Change	*57%*	*-92%*	*6%*	*11%*	*-54%*	*-19%*					*-22%*	*-73%*
Inter-segment revenues	6	6	41	72	0	0			-47	-78	0	0
Total revenue	**1,209**	**771**	**572**	**573**	**1,088**	**2,362**	**0**	**0**	**-47**	**-78**	**2,822**	**3,628**
Operating profit/loss	**379**	**-603**	**46**	**-5**	**24**	**381**	**-170**	**-339**	**6**	**76**	**285**	**-490**

Assets and liabilities by operating segment

Segment	Development		Service		Construction		Unallocated assets and liabilities		Consolidated	
	31 March 2013	31 Dec 2012	31 March 2013	31 Dec 2012	31 March 2013	31 Dec 2012	31 March 2013	31 Dec 2012	31 March 2013	31 Dec 2012
In thousands of euros										
Assets	24,636	27,605	504	486	2,031	2,310	1,825	828	28,996	31,229
Liabilities	21,283	23,382	588	623	2,576	2,746	1,143	1,111	25,590	27,862

3. Revenue

In thousands of euros	**Q1 2013**	Q1 2012
Construction services	1,082	2,463
Sale of real estate	882	260
Brokerage services	512	452
Rental services	284	383
Property management services	29	53
Other revenue	33	17
Total revenue	**2,822**	**3,628**

4. Cost of sales

In thousands of euros	**Q1 2013**	Q1 2012
Construction services purchased	-830	-1,898
Cost of real estate sold	-668	-236
Personnel expenses	-429	-470
Property management costs	-102	-132
Vehicle expenses	-33	-45
Depreciation, amortisation and impairment losses	-4	-5
Other costs	-15	-29
Total cost of sales	**-2,081**	**-2,815**

5. Marketing and distribution expenses

In thousands of euros	**Q1 2013**	Q1 2012
Advertising expenses	-44	-34
Personnel expenses	-8	-11
Brokerage fees	-2	-18
Market research	-2	-2
Other marketing and distribution expenses	-9	-17
Total marketing and distribution expenses	**-65**	**-82**

6. Administrative expenses

In thousands of euros	**Q1 2013**	Q1 2012
Personnel expenses	-235	-409
Office expenses	-124	-137
Legal and consulting fees	-91	-64
Vehicle expenses	-12	-40
Depreciation, amortisation and impairment losses	-12	-18
Other expenses	-16	-29
Total administrative expenses	**-490**	**-697**

7. Finance income and costs

Finance income

In thousands of euros	**Q1 2013**	Q1 2012
Interest income	12	22
Total finance income	**12**	**22**

Finance costs

In thousands of euros	**Q1 2013**	Q1 2012
Interest expense	-226	-343
Foreign exchange loss	-2	-3
Other finance costs	-30	-48
Total finance costs	**-258**	**-394**

8. Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

	Q1 2013	Q1 2012
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707
Net profit/loss attributable to owners of the parent (in thousands of euros)	38	-847
Earnings per share (in euros)	**0.01**	-0.18

Diluted earnings per share are calculated by taking into account the effects of all dilutive potential ordinary shares. At the reporting date, the group did not have any dilutive potential ordinary shares. Therefore, diluted earnings per share equalled basic earnings per share.

9. Receivables and prepayments

In thousands of euros	**31 March 2013**	31 December 2012
Trade receivables		
Receivables from customers	2,239	2,214
Allowance for doubtful receivables	-463	-463
Total trade receivables	**1,776**	**1,751**
Other receivables		
Loans provided	581	580
Term deposits (with maturities from 3 to 12 months)	283	19
Miscellaneous receivables	217	202
Total other receivables	**1,081**	**801**
Accrued income		
Interest receivable	238	230
Prepaid and recoverable taxes	126	112
Other accrued income	1	12
Total accrued income	**365**	**354**

Prepayments	**169**	**188**
Total short-term receivables and prepayments	**3,391**	**3,094**

10. Inventories

	31 March 2013	31 December 2012
In thousands of euros		
Real estate purchased and being developed for resale	11,447	11,090
Materials and goods for sale	82	92
Prepayments for inventories	13	519
Total inventories	**11,542**	**11,701**

11. Investment property

In thousands of euros	
Balance at 31 December 2011	**21,252**
Capitalised development costs	325
Sales	-4,065
Balance at 31 March 2012	**17,512**
Balance at 31 December 2012	**14,097**
Reclassification from inventories	9
Sales	-2,023
Balance at 31 March 2013	**12,083**

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

12. Loans and borrowings

	31 March 2013			31 December 2012		
	Total	*Of which current portion*	*Of which non-current portion*	**Total**	*Of which current portion*	*Of which non-current portion*
In thousands of euros						
Bank loans	15,922	3,409	12,513	18,032	16,824	1,208
Finance lease liabilities	33	13	20	37	14	23
Total	**15,955**	**3,422**	**12,533**	**18,069**	**16,838**	**1,231**

In March 2013, the group’s Bulgarian development company Arco Invest EOOD agreed with the bank amendments to its loan agreements according to which out of the total liability of 15,717 thousand euros 4,018 thousand euros was to be repaid in 2013 and 11,699 thousand euros in 2014-2015. In addition, as a result of the amendments, the interest rate of the loan was lowered by 1.5 percentage points. Repayments made to the bank in March totalled 1,268 thousand euros.

In the first quarter of 2013, the group settled loans and borrowings of 1,666 thousand euros (Q1 2012 : 165 thousand euros) through cash transactions and raised new loans and borrowings of 93 thousand euros (Q1 2012: 261 thousand euros). The group’s loans and borrowings were also decreased through non-cash transactions:

- by 447 thousand euros through the sale of Pärnu Turg OÜ (see also note 11);
- by 94 thousand euros that customers who purchased apartments paid directly to banks.

13. Payables and deferred income

Short-term payables and deferred income

	31 March 2013	31 December 2012
In thousands of euros		
Trade payables	**2,086**	**2,050**
Miscellaneous payables	**731**	**739**
Taxes payable		
Corporate income tax	216	220
Value added tax	204	291
Social security tax	76	61
Personal income tax	43	33
Other taxes	91	91
Total taxes payable	**630**	**696**
Accrued expenses		
Interest payable	69	91
Payables to employees	175	217
Other accrued expenses	7	29
Total accrued expenses	**251**	**337**
Deferred income		
Prepayments received in connection with sale of real estate	2,148	2,080
Due to customers under long-term construction contracts	709	742
Other deferred income	3	1
Total deferred income	**2,860**	**2,823**
Total short-term payables and deferred income	**6, 558**	**6, 645**

Long-term payables

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

14. 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 members of the supervisory board of Arco Vara AS that have a significant interest in the group's parent company** – OÜ Toletum and OÜ HM Investeeringud;
3) **other related parties** – companies under the control of the chief executive /member of the management board and the members of the supervisory board of Arco Vara AS (excluding companies that have a significant interest in the group's parent company).

Transactions with related parties

In thousands of euros	Q1 2013	Q1 2012
Joint ventures and associate		
Loans provided	0	63
Properties sold	0	0
Services sold	0	1
Other related parties		
Services sold	1	1
Services purchased	7	145
Settlement of other liabilities	0	309
Loans received	0	63
Repayment of loans received	0	2

Balances with related parties

In thousands of euros	31 March 2013	31 December 2012
Joint ventures and associate		
Loans provided	6	6
Companies that have a significant interest in the group's parent company		
Trade receivables	4	4
Other short-term receivables[1]	376	376
Short-term interest receivables[1]	141	136
Other related parties		
Short-term loan receivables[1]	175	175
Short-term interest receivables[1]	95	93
Trade receivables	1	0
Other short-term receivables	7	7
Trade payables	3	3

[1] At 31 March 2013, the group's interest-bearing receivables from companies controlled by the members of the supervisory board of Arco Vara AS totalled 551 thousand euros. Associated interest receivables totalled 236 thousand euros. Underlying interest rates range from 4% to 6%. The maturity date for the receivables is in September 2013.

At 31 March 2013, receivables from joint ventures that had been written down in full totalled 3,163 thousand euros.

In the first quarter of 2013, the remuneration provided to the group's key management personnel, i.e. the chief executive/member of the management board and the members of the supervisory board of the group's parent company, including social security charges, amounted to 64 thousand euros (Q1 2012: 57 thousand euros) in aggregate. The remuneration provided to the chief executive/member of the management board is based on his service contract. The remuneration provided to the members of the supervisory board is based on the resolution of the general meeting of Arco Vara AS adopted in 2009. The group's key management personnel was not paid any other remuneration or benefits (bonuses, termination benefits, etc) in the first quarter of 2013.

15. Contingent assets and liabilities

Available credit line

Group company T53 Maja OÜ has a credit line that was made available to it by Swedbank in connection with the construction of a residential and commercial building at Tehnika 53 in Tallinn. The credit line was made available on 16 August 2012 and it has to be repaid in full by 16 September 2013. The credit limit is 730 thousand euros. At 31 March 2013, the line of credit liability amounted to 93 thousand euros.

Claims and statements of claim related to Arco Ehitus OÜ

At 31 March 2013, Arco Ehitus OÜ was a respondent to 8 statements of claim of 1,624 thousand euros in aggregate. According to the group's assessment, the statements of claim are largely baseless and their realisation probability is remote. At the same time, Arco Ehitus OÜ has claims in four different bankruptcy proceedings of 847 thousand euros in aggregate and it has filed two statements of claim of 1,043 thousand euros in aggregate.

Bank guarantees for construction activities

Group entities' obligations under construction contracts are secured with various guarantees and surety bonds. Banks have issued the letters of guarantee required by customers against mortgages. The guarantees expire within up to three years. The group considers the probability of the realisation of the guarantees and surety bonds remote. Therefore, relevant provisions have not been recognised in the statement of financial position. At 31 March 2013, bank guarantees provided to customers to secure group entities' commitments under construction contracts totalled 1,356 thousand euros (31 December 2012: 1,434 thousand euros).

Surety guarantee provided to joint venture Tivoli Arendus OÜ

Arco Vara AS has agreed to stand surety for a bank loan taken by the group's joint venture Tivoli Arendus OÜ to the extent of 5,650 thousand euros. The group's management board has estimated the probability of the realisation of the surety guarantee and has made a provision extending to 17.7% of the maximum surety obligation, i.e. 1,000 thousand euros.

16 Subsequent events

On 11 April 2013 Kylemore International Invest Corp, a creditor of Tivoli Arendus OÜ (Tivoli Arendus), presented a claim for payment and initiated execution proceedings for satisfying its claim through sale of the properties belonging to Tivoli Arendus. Arco Vara group joined the execution proceedings with its claims of approximately 2.9 million euros. The properties will be sold at a public auction conducted by a bailiff.

Since Arco Investeeringute AS has provided a surety guarantee to Arco HCE OÜ's bank loan, the creditor Danske Bank A/S sent Arco Investeeringute AS a claim for paying out the guarantee in the maximum amount, which extends to 1.9 million euros. Arco Investeeringute AS challenged the claim for paying out the surety guarantee. In response, Danske Bank A/S filed a petition for declaring Arco Investeeringute AS bankrupt.

Statement by the chief executive/member of the management board

The chief executive/member of the management board of Arco Vara AS has prepared the interim report for the first quarter of 2013 as set out on pages 15-25.

The interim report has been prepared in accordance with IAS 34 *Interim Financial Reporting* and it gives 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

17 May 2013