



Arco Vara AS

Interim report 3 quarter and 9 months 2012

**INTERIM REPORT FOR THE
THIRD QUARTER AND NINE MONTHS
ENDED 30 SEPTEMBER 2012
(UNAUDITED)**

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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 2012 – 31 December 2012

Reporting period: 1 January 2012 – 30 September 2012

Supervisory board: Richard Tomingas, Hillar-Peeter Luitsalu, Toomas Tool,
Stephan David Balkin, Aivar Pilv, Rain Lõhmus, Arvo Nõges

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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Directors' report

Arco Vara group

Arco Vara AS and other entities of Arco Vara group (the "Group") are engaged in various aspects of the real estate business. The Group's three business lines – services, development and construction have been organised into corresponding divisions that provide a broad range of real estate services.

At the end of the third quarter of 2012, the Group comprised of 23 companies (30 September 2011: 28). At 30 September 2012, the Group had two joint ventures (30 September 2011: 5) and one associate (30 September 2011: 0).

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 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 income-yielding commercial properties because they have not been developed to their full potential.

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 the winter.

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

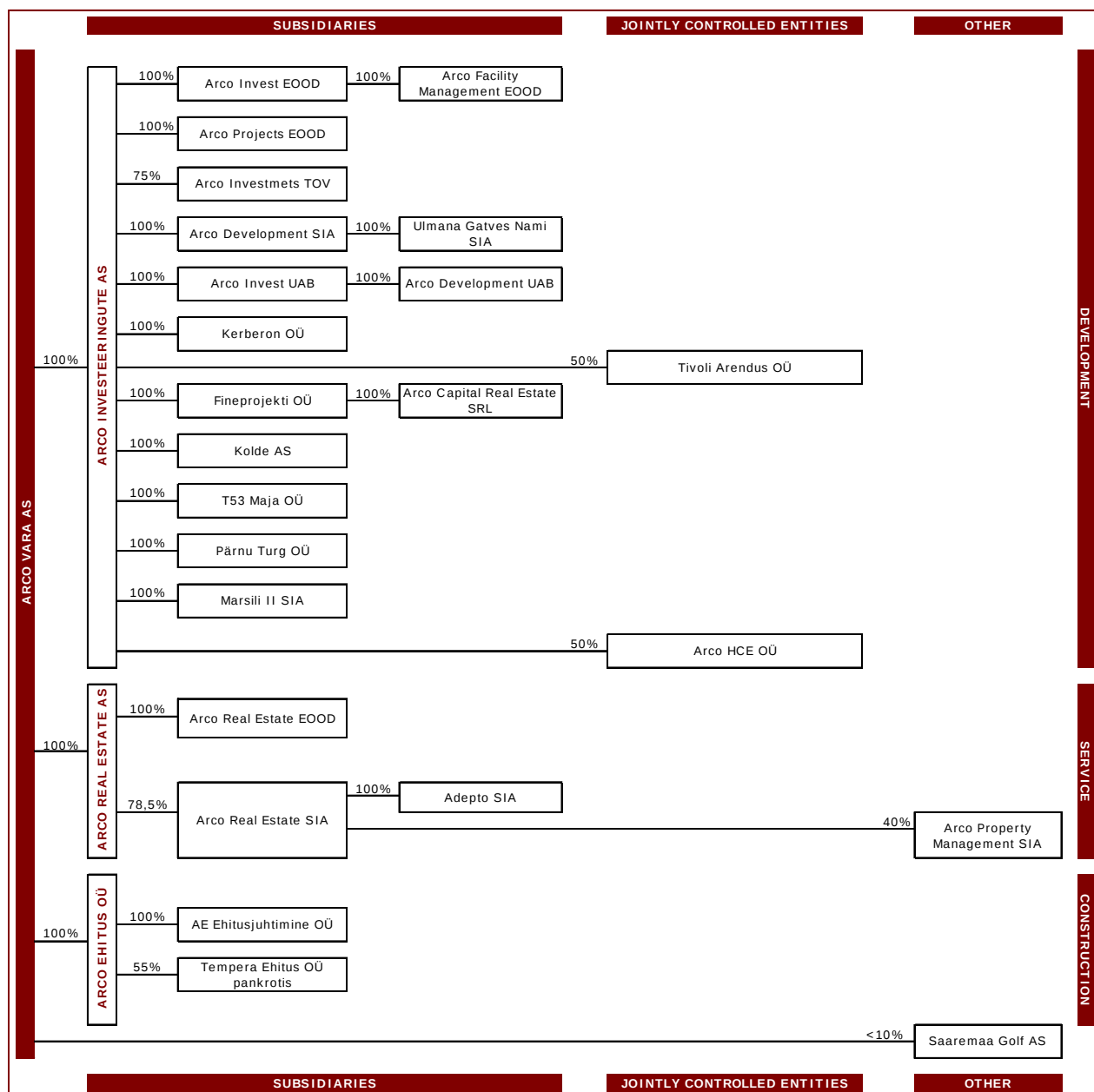
Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

GROUP STRUCTURE

As at 30 September 2012



CHANGES IN GROUP STRUCTURE

On 27 April 2012, Arco Vara AS's wholly-held subsidiary Arco Investeeringute AS sold its 49.4% stake in the joint venture Bišumuižas Nami SIA for 2 euros to the co-venturer SIA Linstow Baltic. Through the transaction, the Group disposed of its interest in Bišumuižas Nami SIA and SIA Linstow Baltic became the sole shareholder of the entity. The transaction had no significant effect on the Group's financial position and financial performance. However, by divesting the interest the Group disposed of a potential obligation to support the joint venture in the development of apartment buildings and in servicing loan liabilities. As a result of the transaction, the Group's interest in Bišumuižas Nami SIA's subsidiary Sportings Riga SIA also decreased from 49.4% to nil.

On 20 June 2012, Group entities Fineprojekti OÜ, Waldrop Investments OÜ, AIP Projekti OÜ and Arco Vara Ärikinnistute OÜ signed a merger agreement. The acquirer in the transaction aimed at streamlining the Group's structure and cutting administration costs was Fineprojekti OÜ. The merger was entered in the Commercial Register on 24 July 2012. The transaction had no significant effect on the Group's financial position and financial performance.

On 28 June 2012, Group entities Arco Real Estate AS, AS Arco Vara Kinnisvarabüroo and OÜ Koduküla signed a merger agreement. The acquirer in the transaction aimed at streamlining the Group's structure and cutting administration costs was Arco Real Estate AS. The transaction had no significant effect on the Group's financial position and financial performance. The merger was completed on 17 August 2012.

On 8 August 2012, Group company Fineprojekti OÜ divested its 4% interest in Balti Kindlus Kinnisvara OÜ. The transaction was conducted at the nominal value of the stake. The transaction had no significant effect on the Group's financial position and financial performance.

Through a transaction finalised on 5 September 2012, the Latvian entity Arco Development SIA in which Arco Vara AS's subsidiary Arco Investeeringute AS had a 70% stake was divided into two companies - Arco Development SIA and Newcom SIA. By the transaction, Newcom SIA acquired some of the assets and liabilities that used to belong to Arco Development SIA. Under the division agreement, Arco Investeeringute AS became the sole owner of Arco Development SIA and the former non-controlling shareholder Viktors Savins became the sole owner of the new entity Newcom SIA. The transaction was undertaken to enable the non-controlling shareholder to exit from the investment in Arco Development SIA. The transaction had no significant effect on the Group's financial position and financial performance. As a result of the division of assets, the Group's stake in Ulmana Gatves Nami SIA increased from 70% to 100% and its stake in Arco Development SIA's joint venture AD Saulkrasti SIA decreased from 35% to nil.

KEY PERFORMANCE INDICATORS

- The Group ended the first nine months of 2012 with revenue of 16.0 million euros. Revenue for the first nine months of 2011 was 31.3 million euros (including 8.3 million euros earned on the sale of the Tivoli properties). Excluding the effect of the Tivoli transaction, revenue for the first nine months of 2012 was 30% smaller than a year ago.
- Operating profit for the period was 0.1 million euros. In the same period in 2011, the Group incurred an operating loss of 2.7 million euros.
- Net loss for the first nine months was 1.1 million euros, a 69% decrease from the net loss of 3.6 million euros incurred in the first nine months of 2011.
- Equity to assets ratio at period-end was 44.1% (30 September 2011: 37.0%). Return on equity (12 months rolling) was negative.
- At the end of the third quarter, the Group's order backlog stood at 4.5 million euros compared with 8.6 million euros at the end of the third quarter of 2011.
- Within the first nine months, the Group sold 57 apartments and plots (9M 2011: 81 apartments and plots) in its self-developed projects.

	9M 2012	9M 2011	Q3 2012	Q3 2011
In millions of euros				
Revenue	16.0	31.3	4.9	7.8
Operating profit/loss	0.1	-2.7	0.7	-1.2
Net profit/loss	-1.1	-3.6	0.2	-1.7
EPS (in euros)	-0.23	-0.77	0.04	-0.36
Total assets at period-end	51.9	64.0		
Invested capital at period-end	42.5	49.0		
Net loans at period-end	18.4	23.4		
Equity at period-end	22.9	23.7		
Average loan term (in years)	1.9	2.0		
Average interest rate of loans (per year)	6.5%	7.6%		
ROIC (rolling, four quarters)	neg	neg		
ROE (rolling, four quarters)	neg	neg		
Number of staff at period-end	103	147		

FORMULAS USED

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

Earnings per share (EPS) = net profit attributable to owners of the parent / (weighted average number of ordinary shares outstanding during the period – own shares)

Group Chief Executive's review

In the third quarter of 2012, the most important internal developments for Arco Vara AS were changes on the supervisory board and in the Group's structure and staffing.

In our second quarter report we informed you about the resignation of three members of the supervisory board and the election of three new members - Toomas Tool, Stephan David Balkin and Aivar Pilv. At an extraordinary general meeting, which convened on 30 July 2012, the supervisory board was further strengthened by the election of Arvo Nõges and Rain Lõhmus. The new board members' contribution to the Group's development has triggered reshuffling aimed at modernising the Group's management and improving internal efficiency. We are not planning any other major staffing changes. From now on, we are going to focus on utilising our existing resources more effectively and streamlining our management structure (mostly by reducing the formal levels of management and simplifying the decision-making and accountability mechanism).

In the third quarter, we reduced the number of staff by 23 (by 13 in Estonia, 5 in Latvia and 5 in Bulgaria).

The structural change in Latvia was aimed at gaining complete control and ownership of the Bišumuiža apartments, which from the point of view of further development constitute assets with additional profit potential, and dividing the Mazais Baltezers plots, which are located in naturally beautiful surroundings near Riga, with the former Latvian development partner.

In other respects, we continued our ordinary business operations.

Development operations in Estonia

Tivoli project (joint venture Tivoli Arenduse OÜ): In May we signed a construction contract of 13 million euros and continued preparations for commencing construction.

Kodukolde project: Construction of phase VI (48 apartments) at Helme 16 in Tallinn ended in June 2012. By the end of the third quarter, 35 apartments had been sold.

Tehnika 53 project: The contract for the construction of a residential and commercial building called Kastanimaja (Chestnut House) was signed in June 2012 and construction began in July. Sales have been successful - by the end of the third quarter 11 of the 14 apartments were covered with contracts under the law of obligations (pre-sale contracts).

Ahtri 3 project (joint venture Arco HCE OÜ): We continued preparing the business plan together with a partner.

Development operations in Latvia

The Bišumuiža apartment buildings development project in Latvia was suspended in the third quarter but sales of completed apartments continued. At the reporting date, three completed apartments were still unsold. The number of uncompleted apartments is 28.

We also continued selling the Mazais Baltezers plots.

Development operations in Bulgaria

The construction of phase I in the Manastirski project in Sofia (over 7,000 square metres) has been completed. At the reporting date, 57 of the 74 apartments had either been sold or reserved (on a prepayment basis).

In addition, we continue to lease out commercial premises and to sell the remaining free apartments in the commercial and residential building Boulevard Residence Madrid in Sofia (approximately 7,000 square metres). At the reporting date, 66 units had either been sold or reserved (on a prepayment basis) and 21 units were still on sale.

Construction operations

In the third quarter, the Group signed construction contracts of 0.4 million euros. At the reporting date, the order backlog was 4.5 million euros compared with 8.6 million euros at the end of the third quarter of 2011. The Construction division ended the first nine months of 2012 with a operating profit of 0.2 million euros compared with an operating loss of 2.2 million euros for the first nine months of 2011.

Service operations

In the first nine months of 2012, the Service division generated revenue of 1.9 million euros, 9% up on the first nine months of 2011, and earned an operating profit of 663 thousand euros (includes non-recurring income of 556 thousand euros from the reassessment of the carrying values of liabilities performed on the merger of companies). Excluding non-recurring income, the operating profit of the Service division would have been 107 thousand euros, which is still 18% larger than the 91 thousand euros earned a year ago. The number of brokerage transactions increased by 6% and the number of valuation reports issued grew by 8% year over year. At the same time, the number of brokers has increased by 1% and the number of appraisers by 31%.

Action plan for the fourth quarter

In the fourth quarter we are going to continue: (i) enhancing the Group's structure, (ii) completing the cost-cutting programme, (iii) streamlining our management operations and (iv) making preparations for improving the Group's capitalisation and reducing its liquidity risks. At the same time, we will have to resolve significant sustainability issues surrounding the business plans of several subsidiaries and joint ventures and to renegotiate the terms of some important contracts which currently do not meet our long-term targets of earnings a profit and increasing our business volumes. It is possible that the values of some assets will be reassessed. All significant developments and transactions will first be disclosed via the stock exchange information system.

REVENUE AND PROFIT

	9M 2012	9M 2011	Q3 2012	Q3 2011
In millions of euros				
Revenue				
Development	5.7	17.0	1.9	3.0
Service	1.9	1.8	0.6	0.6
Construction	8.6	12.8	2.5	4.3
Eliminations	-0.2	-0.3	-0.1	-0.1
Total revenue	16.0	31.3	4.9	7.8
Operating profit/loss				
Development	0.0	0.2	0.4	0.4
Service	0.6	0.1	0.6	0.0
Construction	0.2	-2.2	-0.1	-1.4
Eliminations	0.0	0.2	-0.2	0.0
Unallocated income and expenses	-0.7	-1.0	0.0	-0.3
Total operating profit/loss	0.1	-2.7	0.7	-1.2
Interest income and expense	-0.9	-1.2	-0.3	-0.4
Other finance income and costs	-0.3	0.2	-0.2	-0.1
Net profit/loss	-1.1	-3.6	0.2	-1.7

In 2011, the Development division's revenue was significantly impacted by the sale of inventory of 8.3 million euros to the joint venture Tivoli Arendus OÜ.

CASH FLOWS

	9M 2012	9M 2011
In millions of euros		
Cash flows from operating activities	0.2	-1.9
Cash flows from investing activities	0.8	0.0
Cash flows from financing activities	-2.0	-0.4
Net cash flow	-1.0	-2.3
Cash and cash equivalents at beginning of period	2.2	4.2
Cash and cash equivalents at end of period	1.2	1.9

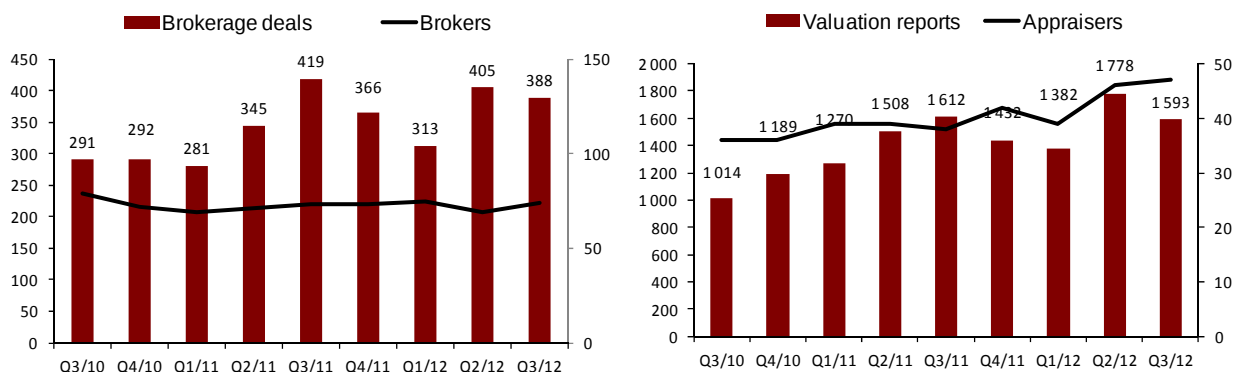
At 30 September 2012, the largest current liabilities to be settled in the next 12 months comprised:

- estimated principal repayments to be made on the sale of reserved premises and payments under the settlement schedule of the loan of the Boulevard Residence Madrid project in Sofia of 2.6 million euros;
- repayments of the loan taken for the Manastirski project of 3.0 million euros;
- repayments of the loan taken for the Bišumuiža 1 project of 0.5 million euros;
- repayments of the construction loan taken for the Kodukolde project of 0.4 million euros;

In the reporting period, we made repayments of the loans taken for the Bišumuiža 1 project in Riga, the Baltezers 5 project near Riga, the Kodukolde project in Tallinn, the Manastirski project in Sofia and repaid the Kerberon loan in full. In addition, we made scheduled repayments of the loans taken for our cash flow generating projects, Madrid and Pärnu market, and followed the principal repayments schedule agreed for the bank loan taken by Arco Real Estate AS (previously the loan of Koduküla OÜ).

SERVICE DIVISION

In the first nine months of 2012, the Service division performed better than in the comparative period, generating an operating profit of 663 thousand euros (includes non-recurring income of 556 thousand euros from the reassessment of the carrying values of liabilities performed on the merger of companies) compared with an operating profit of 91 thousand euros a year ago. Revenue for the first nine months of 2012 was 1,927 thousand euros, 9% up on the first nine months of 2011. The number of brokerage transactions increased by 6% and the number of valuation reports issued grew by 8% year over year. At the same time, the number of brokers has increased by 1% and the number of appraisers by 31%.

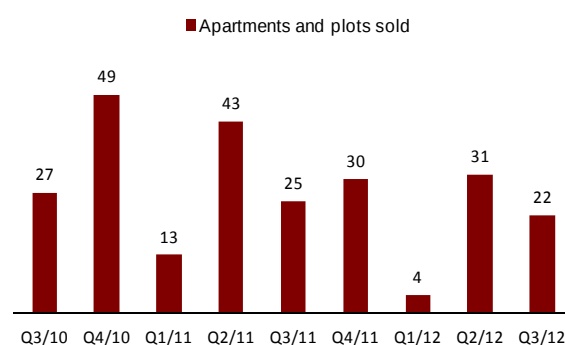


	9M 2012	9M 2011	Change, %
Number of completed brokerage transactions	1,106	1,045	6%
Number of projects on sale	229	178	29%
Number of valuation reports issued	4,753	4,390	8%
Number of appraisers*	47	36	31%
Number of brokers*	74	73	1%
Number of staff at end of period	37	46	-20%

* Includes people working under service contracts

DEVELOPMENT DIVISION

In the first nine months of 2012, Arco Vara sold 53 apartments and four plots in its own projects: five apartments in the Bišumuiža project and four plots in the Baltezers project in Latvia and 37 apartments in the Kodukolde project in Estonia. In addition, in the third quarter we sold 11 apartments in the Manastirski project in Bulgaria. It should be noted that the Bulgarian sales figures do not yet include all the apartments sold in the Manastirski project. The sales of 46 apartments are still being finalised. Respective revenue will be recognised from the fourth quarter onwards.



In June, the division completed phase VI of the Kodukolde development project at Helme 16 in Tallinn, which consists of two apartment buildings with a total of 48 apartments. Out of the latter, 35 were sold during the second and third quarter (under real right contracts). In October four more apartments were sold. At the reporting date, the inventory of the project included nine unsold apartments, four of which were reserved.

In the fourth quarter of 2011, Tivoli Arendus OÜ obtained a permit for the construction of six residential buildings. The design and build contract with Nordecon AS was signed in May 2012. Because of the time required for making changes

to the design documentation and obtaining appropriate approvals, commencement of construction operations has been scheduled for winter 2012-2013.

In January 2012, the division obtained a permit for the construction of a residential and commercial building of energy class B called Kastanimaja (Chestnut House), designed to be located at Tehnika 53 in Tallinn. The work was put out to tender in the first quarter and the construction contract with AS Parmeron was signed in June. According to plan, construction work will be completed in 12 months. Pre-sale of apartments, which began in May 2012, has been successful: by the end of the third quarter 11 of the 14 apartments were covered with contracts under the law of obligations (under Estonian legislation, in a real estate transaction a contract under the law of obligations is signed when the buyer makes a prepayment and the parties agree the terms and conditions of sale, thus it is essentially a presale contract; title to the property transfers under a real right contract, which is usually signed when the real estate is complete).

In Bulgaria, the construction of phase I of the Manastirski project has been completed. At 30 September 2012, 77% of the 74 apartments were reserved or sold. In the commercial and residential building Boulevard Residence Madrid in Sofia the division continues to lease out commercial premises, to deliver reserved apartments under real right contracts, and to sell the remaining free apartments.

In the Bišumuiža 1 project in Latvia further development and construction has been suspended. There are two buildings of 14 apartments each in different stages of completion. The completed phases include three unsold apartments.

In April 2012 we divested our stake in the joint venture Bišumuižas Nami SIA to the co-venturer SIA Linstow Baltic. Arco Vara sought possibilities for exiting the project for over a year. Through the transaction, the Group disposed of the obligation to support the joint venture in the development of apartment buildings and in servicing loan liabilities. Bišumuižas Nami SIA's loan liabilities totalled 14 million euros.

In July, we completed the merging of some small project companies. Arco Vara Ärikinnistute OÜ, OÜ Waldrop Investments and AIP Projekti OÜ were merged with Fineprojekti OÜ.

Through a transaction finalised on 5 September 2012, the Latvian development entity Arco Development SIA was divided into two companies - Arco Development SIA and Newcom SIA. By the transaction, Newcom SIA acquired some of the assets and liabilities that used to belong to Arco Development SIA. As a result of the transaction, Arco Investeeringute AS became the sole owner of Arco Development SIA and the former non-controlling shareholder Viktors Savins became the sole owner of the new entity Newcom SIA. The transaction was undertaken to enable the non-controlling shareholder to exit from the investment in Arco Development SIA.

At the end of September 2012, the Development division employed 12 people (30 September 2011: 24).

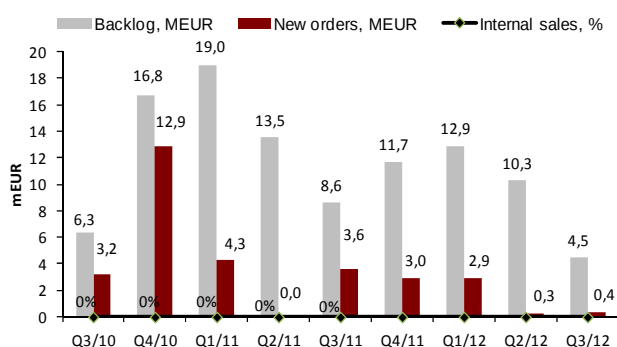
For further information on our projects, please refer to: www.arcorealestate.com/development.

CONSTRUCTION DIVISION

The Construction division specialises in environmental and civil engineering.

At the end of the third quarter of 2012, the largest contracts in progress were the construction of the Paide wastewater treatment plant (remaining balance 2.6 million euros) and the construction of the Kuusalu public water and wastewater network (remaining balance 2 million euros).

In the third quarter of 2012, the division secured new



construction contracts of 0.4 million euros. At the reporting date, the order backlog stood at 4.5 million euros compared with 8.6 million euros at the end of the third quarter of 2011.

At the end of September 2012, the Construction division employed 40 people (30 September 2011: 58).

SUMMARY TABLE OF MAJOR PROJECTS

Project type	Project name	Location	Legal interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Commercial	Ahtri 3	Estonia, Tallinn	50%	48,518 m ²	Building rights have been obtained.	Investments in joint ventures
Project type	Project name	Location	Legal interest	Leasable area	Current status	Classification in the statement of financial position
Cash flow	Madrid	Bulgaria, Sofia	100%	7,350 m ²	Generates cash flow.	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	2,529 m ²	Building rights have been obtained. Generates cash flow.	Investment property
Project type	Project name	Location	Legal interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Apartments	Bišumuiža 1	Latvia, Riga	70%	Unsold: 31 apartments with a total area of 2,487 m ²	Sale and the completion of two buildings are under way.	Inventories
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m ²	Building rights have been obtained.	Inventories
Apartments	Kodukolde	Estonia, Tallinn	100%	Area of unsold/ unreserved apartments 976 m ²	Construction of phase VI was completed in June 2012. Sale of apartments is under way.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Area of unsold/ unreserved apartments 2,121 m ²	The building is complete, sales continue.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Area of unsold/ unreserved apartments and commercial premises 1,730 m ²	Construction of phase I (Block C) is complete. On sale.	Inventories
Apartments	Paldiski mnt 70c	Estonia, Tallinn	33%	ca 34,000 m ²	The preliminary design of the final design plan is under preparation.	Investment property
Apartments	Tehnika 53	Estonia, Tallinn	100%	Area of unsold/ unreserved apartments 258 m ²	Construction began in June 2012.	Inventories
Apartments	Tivoli	Estonia, Tallinn	50%	58,470 m ²	The construction contract was signed in May 2012. The design is being changed.	Investments in joint ventures
Plots	Baltezers-3	Latvia, Riga	100%	66 residential plots with a total area of 115,905 m ²	Land has been privatised. Preparations for construction of phase I infrastructure are under way.	Investment property
Plots	Baltezers-5	Latvia, Riga	100%	Total area of unsold plots: 45 thousand m ²	Building rights have been obtained. On sale.	Inventories
Plots	Palusambla 1	Estonia, Nõmme	100%	55,466 m ²	The detailed plan for the formation of 12 plots for one detached building each is in the final phase of adoption.	Inventories
Plots	Pärtli	Estonia, Saue	100%	84 plots, average plot 1,500 m ²	No building rights. The detailed plan process is under way. Is awaiting an improvement in the market situation.	Investment property
Plots	Tooma	Estonia, Saue	100%	107 plots, average plot 1,802 m ²	No building rights. The detailed plan process is under way. Is awaiting an improvement in the market situation.	Inventories
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3,363 m ²	Building rights have been obtained. Construction design documentation has been prepared. Is awaiting an improvement in the market situation.	Inventories

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. The information presented in the table, such as building rights according to business plan, current status, project type and classification of the project in the statement of financial position, has been recorded based on management's intentions and best judgment and may change in line with changes in the planning process. 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.

PEOPLE

At the end of the third quarter of 2012, the Group employed 103 people compared with 147 at the end of the third quarter of 2011. Employee remuneration expenses for the first nine months of 2012 totalled 2.7 million euros. The figure for the nine months of 2011 was 2.8 million euros.

The remuneration of the member of the management board and the members of the supervisory board of the Group's parent company for the first nine months of 2012 including social security charges amounted to 176 thousand euros. A year ago, the corresponding figure was 154 thousand euros.

Following the reporting date there has been a change on the management board of Arco Vara AS. As from 22 October 2012, the member of the management board is Tarmo Sild. The service contract of the former member of the management board Lembit Tampere was terminated by mutual agreement as from the same date. The management board of Arco Vara AS has one member.

SHARE AND SHAREHOLDERS

Arco Vara AS has issued a total of 4,741,707 shares. At 30 September 2012, the company had 1,857 shareholders and the share price closed at 2.16 euros, a 4.85% increase on the previous year-end.

The following charts reflect movements in the price and daily turnover of the Arco Vara share in the nine months of 2012:

In euros (EUR)



Changes in share price compared with the benchmark index OMX Tallinn in the nine months of 2012



Index/equity	1 January 2012	30 September 2012	+/-%
OMX Tallinn	531.17	668.21	+25.80
ARC1T	EUR 2.06	EUR 2.16	+4.85

Major shareholders at 30 September 2012	Number of shares	Interest, %
OÜ HM INVESTEERINGUD	906,938	19.13%
OÜ TOLETUM	905,196	19.09%
OÜ BALTPLAST	778,000	16.41%
GAMMA HOLDING OÜ	464,025	9.79%
FIREBIRD REPUBLICS FUND LTD	205,064	4.32%
LHV PENSIONIFOND L	187,000	3.94%
Central Securities Depository of Lithuania	139,259	2.94%
FIREBIRD AVRORA FUND, LTD.	106,897	2.25%
FIREBIRD FUND L.P.	86,600	1.83%
Other	962,728	20.30%
Total	4,741,707	100.00%

Holdings of members of the management and supervisory boards at 30 September 2012	Position	Number of shares held	Interest, %
Lembit Tampere	Member of Management Board	0	0%
Richard Tomingas (Toletum OÜ)	Chairman of Supervisory Board	905,196	19.09%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	Member of Supervisory Board	916,445	19.33%
Toomas Tool (OÜ Baltplast)	Member of Supervisory Board	778,000	16.41%
Stephan David Balkin	Member of Supervisory Board	0	0%
Aivar Pilv	Member of Supervisory Board	0	0%
Rain Lõhmus (LHV Pensionifondid M, L, XL)	Member of Supervisory Board	270,145	5.70%
Arvo Nõges (Gamma Holding OÜ)	Member of Supervisory Board	464,025	9.79%
Total		3,333,811	70.31%

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. The duration of a term deposit is generally one week. Owing to high refinancing risk, cash flow management is tight. The Group's cash and cash equivalents balance is constantly smaller than the balance of loans that require refinancing in the next 12 months. At 30 September 2012, the weighted average duration of interest-bearing liabilities was 1.9 years, which means that on average all loans need to be refinanced every two years. Although at the end of the third quarter of 2012 the Group's cash and cash equivalents totalled 1.2 million euros, 0.6 million euros of this was under the Group's own control but 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 nine months of 2012, the Group's interest-bearing liabilities decreased by 4.8 million euros to 20.2 million euros at 30 September 2012. The period's interest payments on interest-bearing liabilities totalled 1.4 million euros. Compared with the first nine months of 2011, the weighted average interest rate has decreased from 7.6% to 6.5%, mainly thanks to a decrease in EURIBOR over the past year.

Currency risk

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

The management board confirms that the directors' report provides a true and fair view of the development, financial performance and financial position of Arco Vara group as well as a description of the main risks and uncertainties.

Tarmo Sild

Chief Executive Officer
and Member of the Management Board

16 November 2012

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	9M 2012	9M 2011	Q3 2012	Q3 2011
In thousands of euros					
Revenue from rendering of services		11,564	16,280	3,448	5,942
Revenue from sale of goods		4,455	15,033	1,494	1,866
Total revenue	2, 3	16,019	31,313	4,942	7,808
Cost of sales	4	-13,787	-30,640	-4,175	-8,198
Gross profit/loss		2,232	673	767	-390
Other income	7	884	18	675	6
Marketing and distribution expenses	5	-203	-281	-60	-67
Administrative expenses	6	-2,010	-2,970	-626	-744
Other expenses	7	-754	-108	-18	-49
Operating profit/loss		149	-2,668	738	-1,244
Finance income	8	71	502	26	85
Finance costs	8	-1,296	-1,469	-552	-556
Profit/loss before income tax		-1,076	-3,635	212	-1,715
Profit/loss for the period		-1,076	-3,635	212	-1,715
<i>Profit/loss attributable to owners of the parent</i>	9	-1,082	-3,634	212	-1,701
<i>Profit/loss attributable to non-controlling interests</i>		6	-1	0	-14
Total comprehensive income/expense for the period		-1,076	-3,635	212	-1,715
Earnings per share (in euros)	9				
- Basic		-0.23	-0.77	0.04	-0.36
- Diluted		-0.23	-0.77	0.04	-0.36

Consolidated statement of financial position

	Note	30 September 2012	31 December 2011
In thousands of euros			
Cash and cash equivalents		1,199	2,209
Trade and other receivables	10	5,419	7,012
Prepayments		408	433
Inventories	11	20,250	21,564
Non-current assets held for sale		0	469
Total current assets		27,276	31,687
Investments in equity-accounted investees		2	4
Other investments		8	8
Trade and other receivables	10	2,987	3,058
Deferred income tax assets		283	250
Investment property	12	20,459	24,046
Property, plant and equipment		890	934
Intangible assets		22	26
Total non-current assets		24,651	28,326
TOTAL ASSETS		51,927	60,013
Loans and borrowings	13	7,544	9,662
Trade and other payables	14	4,211	7,735
Deferred income		3,338	2,012
Provisions		1,127	1,205
Total current liabilities		16,220	20,614
Loans and borrowings	13	12,038	14,675
Other payables	14	762	741
Total non-current liabilities		12,800	15,416
TOTAL LIABILITIES		29,020	36,030
Share capital		3,319	3,319
Statutory capital reserve		2,011	2,011
Retained earnings		17,577	18,653
Total equity		22,907	23,983
Equity attributable to non-controlling interests		-3	155
Equity attributable to equity holders of the parent		22,910	23,828
TOTAL LIABILITIES AND EQUITY		51,927	60,013

Consolidated statement of cash flows

	Note	9M 2012	9M 2011
In thousands of euros			
Loss for the period		-1,076	-3,635
<i>Adjustments for non-cash transactions:</i>			
Interest income and expense	8	934	1,150
Gain/loss on sale of subsidiaries and interests in joint ventures	8	0	-285
Share of profits and losses of equity-accounted joint ventures	8	176	0
Losses on other long-term investments	8	109	99
Gain/loss on sale of investment property	7	710	0
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	4, 6	64	72
Gain/loss on value adjustments to assets and liabilities		-669	0
Foreign exchange gains and losses	8	6	4
Operating cash flow before working capital changes		254	-2,595
Change in receivables and prepayments		-231	1,003
Change in inventories		749	3,319
Change in payables and deferred income		-584	-3,628
NET CASH FROM/USED IN OPERATING ACTIVITIES		188	-1,901
Acquisition of property, plant and equipment and intangible assets		-27	-37
Proceeds from sale of property, plant and equipment and intangible assets		7	4
Paid on development of investment property		0	-729
Proceeds from sale of investment property		1,160	177
Acquisition of investments in subsidiaries and joint ventures		0	-3
Proceeds from sale of investments in subsidiaries and joint ventures		0	893
Loans granted		-308	-492
Repayment of loans granted		2	75
Other payments related to investing activities		-48	0
Interest received		14	157
NET CASH FROM INVESTING ACTIVITIES		800	45
Proceeds from loans received	13	2,230	4,591
Settlement of loans and finance lease liabilities	13	-2,823	-4,185
Interest paid		-1,389	-846
Other payments related to financing activities		-16	0
NET CASH USED IN FINANCING ACTIVITIES		-1,998	-440
NET CASH FLOW		-1,010	-2,296
Cash and cash equivalents at beginning of period		2,209	4,209
Decrease in cash and cash equivalents		-1,010	-2,296
Cash and cash equivalents at end of period		1,199	1,913

Consolidated statement of changes in equity

	Equity attributable to equity holders of the parent				Non-controlling interests	Total equity
	Share capital	Statutory capital reserve	Retained earnings	Total		
In thousands of euros						
Balance at 31 December 2010	3,030	2,011	22,857	27,898	-70	27,828
Change in non-controlling interests (through change in the Group's interests in subsidiaries)	0	0	-232	-232	232	0
Effect of acquisition of a subsidiary	0	0	-528	-528	0	-528
Increase of share capital	289	0	-289	0	0	0
Total comprehensive expense for the period	0	0	-3,634	-3,634	-1	-3,635
Balance at 30 September 2011	3,319	2,011	18,174	23,504	161	23,665
Balance at 31 December 2011	3,319	2,011	18,498	23,828	155	23,983
Change in non-controlling interests in the Group's equity	0	0	164	164	-164	0
Total comprehensive income/expense for the period	0	0	-1,082	-1,082	6	-1,076
Balance at 30 September 2012	3,319	2,011	17,580	22,910	-3	22,907

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 first nine months of 2012 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 2011, 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 reporting by business segments

The Group is organised into the following business segments:

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

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

Construction - general and sub-contracting and construction supervision in the field of buildings construction and civil and environmental engineering.

Revenue and operating profit by business segment

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	9M 2012	9M 2011	9M 2012	9M 2011	9M 2012	9M 2011	9M 2012	9M 2011	9M 2012	9M 2011	9M 2012	9M 2011
In thousands of euros												
External revenue	5,686	16,978	1,717	1,554	8,615	12,778	1	3	0	0	16,019	31,313
Change	-67%	145%	10%	40%	-33%	103%					-49%	118%
Inter-segment revenues	24	46	210	208	0	0		0	-234	-254	0	0
Total revenue	5,710	17,024	1,927	1,762	8,615	12,778	1	3	-234	-254	16,019	31,313
Operating profit/loss	57	203	663	91	186	-2,208	-712	-988	-45	234	149	-2,668

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	3Q 2012	3Q 2011	3Q 2012	3Q 2011	3Q 2012	3Q 2011	3Q 2012	3Q 2011	3Q 2012	3Q 2011	3Q 2012	3Q 2011
In thousands of euros												
External revenue	1,864	2,997	581	548	2,497	4,263	0	0	0	0	4,942	7,808
Change	-38%	33%	6%	37%	-41%	43%					-37%	39%
Inter-segment revenues	11	43	55	70	0	0	0	0	-66	-113	0	0
Total revenue	1,875	3,040	636	618	2,497	4,263	0	0	-66	-113	4,942	7,808
Operating profit/loss	431	429	604	47	-53	-1,441	-49	-287	-195	8	738	-1,244

Assets and liabilities by operating segment

Segment	Development		Service		Construction		Unallocated assets and liabilities		Consolidated	
	30 September 2012	31 December 2011	30 September 2012	31 December 2011	30 September 2012	31 December 2011	30 September 2012	31 December 2011	30 September 2012	31 December 2011
In thousands of euros										
Assets	46,086	52,588	894	405	3,595	5,460	1,352	1,560	51,927	60,013
Liabilities	24,525	29,716	572	281	3,802	5,932	121	101	29,020	36,030

3. Revenue

	9M 2012	9M 2011	Q3 2012	Q3 2011
In thousands of euros				
Revenue from construction services	8,708	13,415	2,493	4,923
Revenue from sale of properties ¹	4,455	15,033	1,494	1,866
Revenue from brokerage services	1,614	1,239	566	479
Rental income	1,045	1,236	336	431
Revenue from property management services	130	339	32	79
Other revenue	67	51	21	30
Total revenue	16,019	31,313	4,942	7,808

¹ The figure for 9M 2011 includes income of 8,309 thousand euros earned on the sale of a property to the Group's joint venture Tivoli Arendus OÜ.

4. Cost of sales

	9M 2012	9M 2011	Q3 2012	Q3 2011
In thousands of euros				
Cost of construction services purchased	-7,717	-14,393	-2,252	-5,800
Cost of properties sold ¹	-3,923	-13,960	-1,266	-1,650
Personnel expenses	-1,525	-1,457	-503	-545
Management and administration costs	-394	-585	-91	-108
Vehicle expenses	-126	-146	-37	-52
Depreciation, amortisation and impairment losses	-15	-10	-5	-3
Other costs	-87	-89	-21	-40
Total cost of sales	-13,787	-30,640	-4,175	-8,198

¹ The figure for 9M 2011 includes the acquisition cost of inventory of 8,300 thousand euros sold to the Group's joint venture Tivoli Arendus OÜ.

5. Marketing and distribution expenses

	9M 2012	9M 2011	Q3 2012	Q3 2011
In thousands of euros				
Advertising expenses	-118	-162	-42	-45
Brokerage fees	-23	-2	-4	-1
Personnel expenses	-29	-42	-10	-6
Market research expenses	-4	-19	-1	-1
Other marketing and distribution expenses	-29	-56	-3	-14
Total marketing and distribution expenses	-203	-281	-60	-67

6. Administrative expenses

	9M 2012	9M 2011	Q3 2012	Q3 2011
In thousands of euros				
Personnel expenses	-1,136	-1,254	-333	-392
Office expenses	-412	-371	-134	-132
Legal and consulting fees	-254	-952	-97	-100
Vehicle expenses	-97	-131	-20	-40
Depreciation, amortisation and impairment losses	-47	-62	-14	-20
Impairment losses on receivables	-1	-3	-1	0
Other expenses	-63	-197	-27	-60
Total administrative expenses	-2,010	-2,970	-626	-744

7. Other income and expenses

Other income

	9M 2012	9M 2011	Q3 2012	Q3 2011
In thousands of euros				
Gain on sale of investment property	2	0	0	0
Gain on sale of other assets ¹	192	1	1	1
Miscellaneous income ²	690	17	674	5
Total other income	884	18	675	6

¹ Comprises gain on sale of non-current assets held for sale, earned in January 2012 when the Group's subsidiary Arco Ehitus OÜ sold a property at Odra 16 in Tallinn.

² In the third quarter, reassessment of the carrying values of liabilities gave rise to non-recurring income of 669 thousand euros.

Other expenses

	9M 2012	9M 2011	Q3 2012	Q3 2011
In thousands of euros				
Loss on sale of investment property ¹	-712	0	0	0
Loss on sale and impairment of other non-current assets	-2	-27	-2	-27
Late payment interest and penalty charges	-24	-52	-14	-14
Miscellaneous expenses	-16	-29	-2	-8
Total other expenses	-754	-108	-18	-49

¹ The loss on sale of investment property arose in February 2012 when the Group's subsidiary Kerberon OÜ sold a right of superficies.

8. Finance income and costs

Finance income

	9M 2012	9M 2011	Q3 2012	Q3 2011
In thousands of euros				
Gain on sale of subsidiaries	0	285	0	0
Interest income	71	214	26	83
Foreign exchange gain	0	2	0	1
Other finance income	0	1	0	1
Total finance income	71	502	26	85

Finance costs

	9M 2012	9M 2011	Q3 2012	Q3 2011
In thousands of euros				
Interest expense	-1,005	-1,364	-334	-512
Share of loss of equity-accounted joint ventures	-176	0	-176	0
Foreign exchange loss	-6	-6	-1	-1
Other finance costs	-109	-99	-41	-43
Total finance costs	-1,296	-1,469	-552	-556

9. Basic and diluted 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.

	9M 2012	9M 2011	Q3 2012	Q3 2011
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707	4,741,707	4,741,707
Net profit/loss attributable to equity holders of the parent (in thousands)	-1,082	-3,634	212	-1,701
Earnings per share (in euros)	-0.23	-0.77	0.04	-0.36

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.

10. Trade and other receivables**Short-term trade and other receivables**

	30 September 2012	31 December 2011
In thousands of euros		
Trade receivables		
Trade receivables	3,686	4,874
Impairment allowance	-73	-130
Total trade receivables	3,613	4,744
Other receivables		
Loans granted	740	634
Miscellaneous receivables	533	517
Total other receivables	1,273	1,151
Accrued income		
Accrued interest	224	200
Due from customers under long-term construction contracts	0	425
Prepaid and recoverable taxes	291	491
Other accrued income	18	1
Total accrued income	533	1,117
Total short-term trade and other receivables	5,419	7,012

Long-term trade and other receivables

	30 September 2012	31 December 2011
In thousands of euros		
Loans granted	2,876	2,981
Long-term interest receivables	65	17
Other long-term receivables	46	60
Total long-term trade and other receivables	2,987	3,058

11. Inventories

	30 September 2012	31 December 2011
In thousands of euros		
Properties purchased and developed for resale	19,252	20,604
Materials and finished goods	131	155
Prepayments to inventory suppliers	867	805
Total inventories	20,250	21,564

12. Investment property

In thousands of euros	
Balance at 31 December 2010	22,887
Capitalised development costs	810
Acquisitions	695
Transfer from inventories	501
Sales	-1,589
Balance at 30 September 2011	23,304
Balance at 31 December 2011	24,046
Transfer from inventories	485
Sales	-4,072
Balance at 30 September 2012	20,459

13. Loans and borrowings

	30 September 2012			31 December 2011		
	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	19,527	7,526	12,001	22,019	7,381	14,638
Finance lease liabilities	40	3	37	49	12	37
Other loans	15	15	0	2,269	2,269	0
Total	19,582	7,544	12,038	24,337	9,662	14,675

In the first nine months of 2012, the Group settled loans and borrowings of 2,823 thousand euros (9M 2011: 4,185 thousand euros) through cash transactions and raised new loans and borrowings of 2,230 thousand euros (9M 2011: 4,591 thousand euros). As regards non-cash transactions, the Group's loans and borrowings were affected the most by the repayment of a bank loan of 2,200 thousand euros, effected in connection with the sale of a right of

superficies by the Group's subsidiary Kerberon OÜ and payments of 2,631 thousand euros that customers who purchased apartments in the Kodukolde project made directly to the creditor. Growth in loans and borrowings resulted mainly from the financing of construction costs of 2,025 thousand euros provided by the builder of the Kodukolde project.

14. Trade and other payables

<i>Short-term trade and other payables</i>			
		30 September 2012	31 December 2011
In thousands of euros			
Trade payables		2,942	6,040
Miscellaneous payables		155	103
Taxes payable			
Value added tax		345	143
Corporate income tax		218	210
Personal income tax		55	68
Social security tax		86	106
Other taxes		10	13
Total taxes payable		714	540
Accrued expenses			
Accrued interest payables		107	3
Payables to employees		157	256
Accrued expenses from service contracts		0	649
Other accruals		136	144
Total accrued expenses		400	1,052
Total short-term trade and other payables		4,211	7,735

<i>Long-term trade and other payables</i>			
		30 September 2012	31 December 2011
In thousands of euros			
Retentions payable		64	65
Interest payable		59	35
Other long-term payables		639	641
Total long-term trade and other payables		762	741

15. Transactions and balances with related parties

During the period the Group conducted transactions or at period-end had 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 management board member and the supervisory board members of Arco Vara AS (excluding companies that have a significant interest in the Group's parent company). Viktors Savins and companies controlled by him were regarded as related parties of the Group until 30 September 2012.

Transactions with related parties

	9M 2012	9M 2011
In thousands of euros		
Joint ventures and associates		
Revenue	2	0
Sale of properties ²	0	8,309
Provision of loans ¹	308	3,311
Conversion of receivables ¹	959	0
Other related parties		
Sale of goods and services	95	0
Purchase of services	240	250
Settlement of other payables	309	24
Prepayments made	62	0
Repayment of loans granted	633	0
Receipt of loans	207	102
Repayment of loans received	52	32

Balances with related parties

	30 September 2012	31 December 2011
In thousands of euros		
Joint ventures and associates		
Trade receivables	26	36
Trade payables	0	1
Short-term loan receivables ¹	73	0
Long-term loan receivables ²	2,876	2,981
Short-term interest receivables	0	85
Long-term interest receivables ²	65	102
Companies that have a significant interest in the Group's parent company		
Trade receivables	4	4
Short-term loan receivables ³	376	376
Short-term interest receivables ³	130	114
Other related parties		
Trade receivables	0	0
Short-term loan receivables ³	175	226
Short-term interest receivables ³	91	84
Other short-term receivables	7	7
Prepayments for assets	0	445
Trade payables	3	12
Other short-term payables	0	309
Short-term loans and borrowings	0	411
Short-term interest payables	0	3

¹ The largest portion of loans granted to joint ventures is made up of an unsecured loan given to Arco HCE OÜ that bears 5% interest. In September 2012, a non-monetary contribution of 959 thousand euros was made in the equity of Arco HCE OÜ. The contribution consisted of loan and other receivables from Arco HCE OÜ. At 30 September 2012, receivables from Arco HCE OÜ that had been written down (not included within *Balances with related parties* above) totalled 120 thousand euros.

² The long-term receivable from joint venture Tivoli Arendus OÜ of 2,876 thousand euros arose in March 2011 from sale of a property. Interest due on the principal receivable amounts to 65 thousand euros. However, accrual of interest has been suspended since December 2011.

³ At 30 September 2012, the Group's interest bearing receivables from companies controlled by members of the supervisory board of Arco Vara AS totalled 551 thousand euros. Associated interest receivables totalled 221 thousand euros. Underlying interest rates range from 4% to 6%. The maturity date for the receivables is September 2013.

Transactions with related parties have been conducted in the ordinary course of the Group's business and on an arm's length basis.

The remuneration provided to the Group's key management personnel, i.e. the member of the management board and the members of the supervisory board of the Group's parent company, for the first nine months of 2012, including social security charges, amounted to 176 thousand euros (9M 2011: 154 thousand euros) in aggregate. The remuneration provided to the member of the management board is based on his service contract. The remuneration provided to members of the supervisory board is based on the resolution of the general meeting of Arco Vara AS adopted in 2009.

16. Contingent assets and liabilities

Claims filed against Arco Ehitus OÜ

Three bankruptcy petitions have been filed against Arco Ehitus OÜ. The claims indicated in the petitions total 123 thousand euros.

In addition, Arco Ehitus OÜ is a respondent to two statements of claim of 155 thousand euros in aggregate and two applications for expedited processing of a payment order on the basis of which the court has made two settlement proposals of 10 thousand euros in aggregate. Arco Ehitus OÜ has raised objections to both settlement proposals.

Surety granted to joint venture Arco HCE OÜ

The Group's subsidiary Arco Investeeringute AS has agreed to stand surety for a bank loan of 1,917 thousand euros taken by the Group's joint venture Arco HCE OÜ. The Group's management board has estimated the probability of the realisation of the obligation and has made a provision extending to 50% of the surety obligation, i.e. 959 thousand euros.

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 commercial pledges. The guarantees expire within up to three years. The Group considers the probability of the realisation of the guarantees and surety bonds remote. Therefore, respective provisions have not been recognised in the statement of financial position.

At the end of the third quarter of 2012, bank guarantees provided to customers to secure Group entities' commitments under construction contracts totalled 1,697 thousand euros and the unused portion was 89 thousand euros (at 31 December 2011 the respective figures were 620 thousand euros and 362 thousand euros).

17. Events after the reporting date

Since 22 October 2012, the member of the management board of Arco Vara AS has been Tarmo Sild. The service contract of the previous member of the management board Lembit Tampere was terminated from the same date.

18. Group structure

Company	Domicile	Group's ownership interest	
		30 September 2012	31 December 2011
%			
Service segment			
Subsidiaries			
Arco Real Estate EOOD ¹	Bulgaria	100	100
Arco Real Estate AS	Estonia	100	100
Arco Vara Kinnisvarabüroo (merged)	Estonia	0	100
Adepto SIA ¹	Latvia	78.5	78.5
Arco Real Estate SIA ¹	Latvia	78.5	78.5

Company	Domicile	Group's ownership interest	
		30 September 2012	31 December 2011
%			
Development segment			
Subsidiaries			
Arco Invest EOOD ¹	Bulgaria	100	100
Arco Facility Management EOOD ¹	Bulgaria	100	100
Arco Project EOOD ¹	Bulgaria	100	100
Arco Investeeringute AS	Estonia	100	100
AIP Projekti OÜ (merged)	Estonia	-	100
Arco Vara Ärikinnistute OÜ (merged)	Estonia	-	100
Fineprojekti OÜ ¹	Estonia	100	100
Kerberon OÜ ¹	Estonia	100	100
Koduküla OÜ (merged)	Estonia	-	100
Kolde AS ¹	Estonia	100	100
Pärnu Turg OÜ ¹	Estonia	100	100
T53 Maja OÜ ¹	Estonia	100	100
Waldrop Investments OÜ (merged)	Estonia	-	100
Marsili II SIA ¹	Latvia	100	100
Arco Development SIA ¹	Latvia	100	70
Ulmana Gatves Nami SIA ¹	Latvia	100	70
Arco Invest UAB ¹	Lithuania	100	100
Arco Development UAB ¹	Lithuania	100	100
Arco Capital Real Estate SRL ¹	Romania	100	100
Arco Investments TOV ¹	Ukraine	75	75
Joint ventures			
Arco HCE OÜ ¹	Estonia	50	50
Tivoli Arendus OÜ ¹	Estonia	50	50
AD Saulkrasti SIA ¹	Latvia	-	35
Bišumuižas Nami SIA ¹	Latvia	-	49.38
Sportings Riga SIA ¹	Latvia	-	49.38
Construction segment			
Subsidiaries			
Arco Ehitus OÜ	Estonia	100	100
AE Ehitusjuhtimine OÜ ¹	Estonia	100	100
Tempera Ehitus OÜ ¹	Estonia	bankrupt	bankrupt

¹ Interest through a subsidiary

Statement by the member of the management board

The member of the management board of Arco Vara AS has prepared the interim report for the third quarter and first nine months of 2012 as set out on pages 2-30.

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 Officer and Member of the Management Board

16 November 2012