

**INTERIM REPORT FOR THE FOURTH QUARTER
AND TWELVE MONTHS 2014**

Arco Vara AS

**INTERIM REPORT FOR THE
FOURTH QUARTER AND TWELVE MONTHS
ENDED 31 DECEMBER 2014
(UNAUDITED)**

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Core activities: Renting and operating of real estate (EMTAK 6820)

Activities of real estate agencies (EMTAK 6831)

Real estate management (EMTAK 6832)

Financial year: 1 January 2014 – 31 December 2014

Reporting period: 1 January 2014 – 31 December 2014

Supervisory board: Hillar-Peeter Luitsalu, Toomas Tool, Aivar Pilv,

Stephan David Balkin, Arvo Nõges, Rain Lõhmus,

Allar Niinepuu

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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Directors' report

General information

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

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

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

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

At 31 December 2014, the group comprises of 24 companies (31 December 2013: 23). At 31 December 2013, the group had interests also in one joint venture and one associate. In Q3 2014, was sold 40% ownership in associate Arco Property Management SIA and was acquired all shares of joint venture Tivoli Arendus OÜ, after which Tivoli Arendus OÜ became a subsidiary of the group. In Q4 2014, was established two new SPV's: Kodulahe OÜ in Estonia and Arco BB EOOD in Bulgaria.

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

The goal and core values

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

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

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

Partnership – our client is our partner

Reliability – we are reliable, open and honest

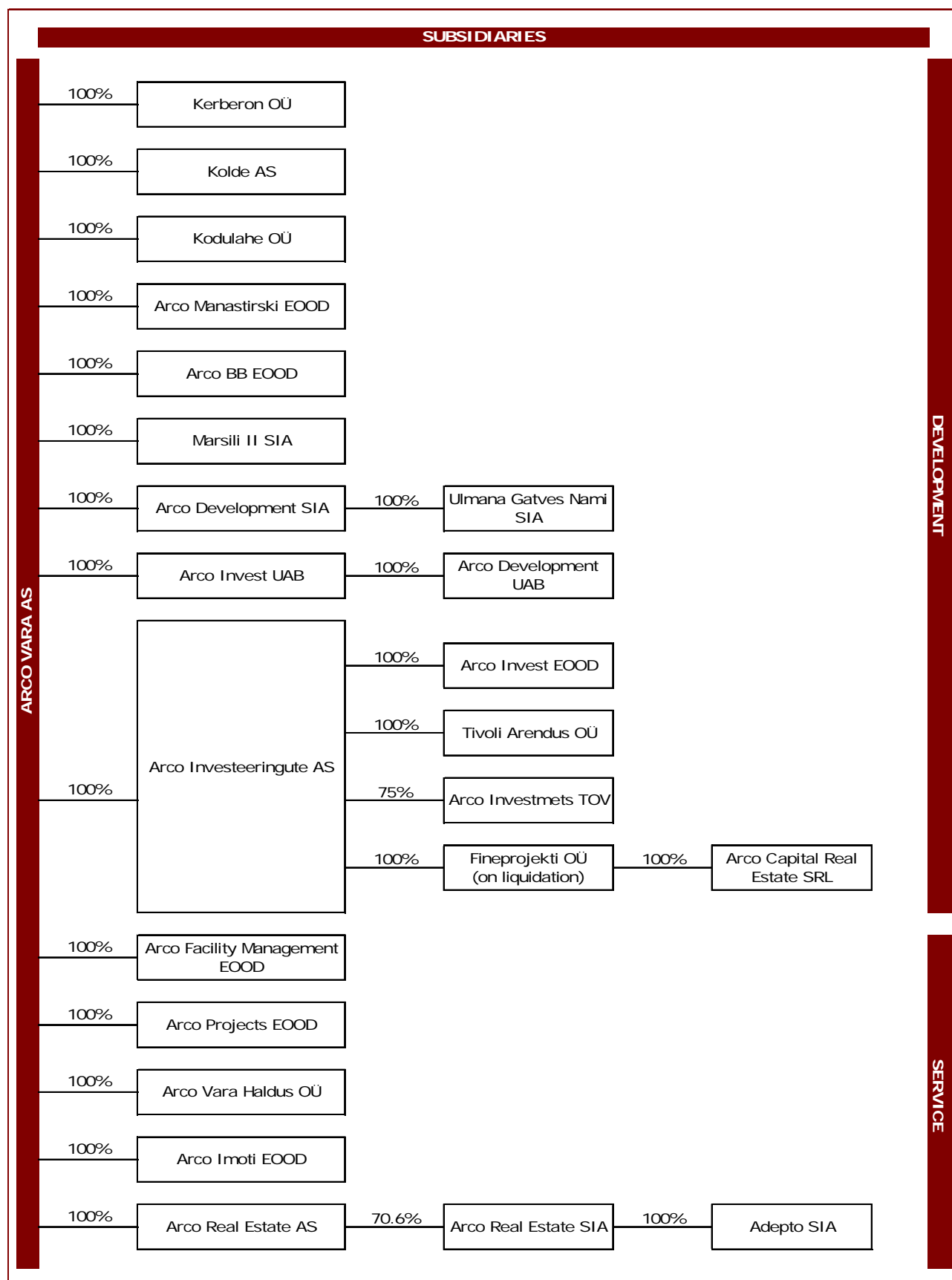
Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

GROUP STRUCTURE

As at 31 December 2014



CHANGES IN GROUP STRUCTURE DURING IN YEAR 2014

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

- 1) 10 thousand euros paid on transfer of the share;
- 2) 30% out of the amount, that Arco Ehitus OÜ will gain from actions brought by Arco Ehitus OÜ through Ministry of Education and Research and OÜ Loksa Haljastus. Income tax is deducted from proceeds.

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

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

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

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

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

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

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

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

On 3 November 2014, was registered in Estonian Business Register Arco Vara AS 100% subsidiary Kodulahe OÜ with paid in share capital of 2,500 euros.

On 23 December 2014, was registered in Bulgarian Trade Register Arco Vara AS 100% subsidiary Arco BB EOOD with paid in share capital of 511 euros (1,000 Bulgarian lev).

The two new companies were established in fourth quarter taking in mind interests of the group's new development projects.

Key Performance Indicators

- In 12 months 2014, the group's revenue from continuing operations was 9.2 million euros, which was 1.5 million euros less compared to 12 months 2013. Revenue of Service division has increased by 6.3% up to 3.1 million euros. Revenue of Development division amounted to 6.5 million euros in 2014 (in 2013: 8.1 million euros), decreased by 19.4%. The main reason for decrease of revenue in Development division is because the group's development projects are in such stage, where revenue is not accrued yet. Most of Development division revenue in 2014 accrued in fourth quarter then sale of apartments to clients amounted to 4.9 million euros. In Q4 2014, the group's revenue amounted to 5.8 million euros, which is almost three times more than in Q4 2013.
- In 12 months 2014, operating profit (=EBIT) from continuing operations was 2.3 million euros and net profit from continuing operations was 1.1 million euros, in previous year the same figures were 4.5 million euros and 3.5 million euros respectively. The better profit figures in 2013 were due to reversal of provisions and revaluation of assets and liabilities in total amount of 3.3 million euros (in 2014: 1.1 million euros). In Q4 2014, the group's operating profit from continuing operations amounted to 1.1 million euros (in Q4 2013: 2.2 million euros). In 9 months 2014, the group's operating profit amounted to 1.1 million euros and net profit amounted to 0.4 million euros. The group's net profit for 2014 was 0.8 million euros, in 2013 it was 3.4 million euros.
- Equity to assets ratio has increased compared to the year end 2013. At 31 December 2014, it was 33.5% (at 31 December 2013: 27.2%). In addition to the profitable operating activities the main reason is share issue conducted in Q3 2014, 1.3 million euros was raised in equity.
- The balance of the group's total assets is increased by 1.8 million euros in 2014. Main reason is increase of inventory through construction of Manastirski Livadi II stage apartment building in Sofia.
- The group's net loans have decreased by 0.5 million euros in 12 months 2014. As at 31 December 2014, the weighted average annual interest rate of loans is 5.8%. This is a decrease by 0.2 percentage point since the end of year 2013 mainly due to very low Euribor rates in second half of 2014.
- In 12 months 2014, were sold 77 apartments or commercial areas and 4 residential plots in projects developed in the group (in 12 months 2013 were sold 78 apartments or commercial areas and 4 plots), that includes 73 apartments in Q4 2014 (23 apartments or commercial areas and 1 plot in Q4 2013).

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In millions of euros				
Revenue from continuing operations	9.2	10.7	5.8	2.0
Operating profit from continuing operations	2.3	4.5	1.1	2.2
Net profit from continuing operations	1.1	3.5	0.6	2.0
Net profit from discontinued operations	-0.3	-0.1	-0.2	-0.6
Net profit for the period	0.8	3.4	0.4	1.4
EPS (in euros)	0.15	0.72	0.07	0.30
ROIC (rolling, four quarters)	3.4%	20.7%		
ROE (rolling, four quarters)	10.7%	66.7%		
ROA (rolling, four quarters)	3.1%	12.6%		

	31 December 2014	31 December 2013
In millions of euros		
Total assets at period-end	27.0	25.2
Invested capital at period-end	24.1	21.7
Net loans at period-end	13.6	14.1
Equity at period-end	9.1	6.9
Average loan term (in years, at period-end)	2.3	0.3
Weighted average annual interest rate of loans	5.8%	6.0%
Number of staff at period-end	189	178

FORMULAS USED

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

Invested capital = current interest-bearing liabilities + non-current liabilities + equity (at end of period)

Net loans = current interest-bearing liabilities + non-current liabilities – cash and cash equivalents – short-term investments in securities (at end of period)

Return on invested capital (ROIC) = past four quarters' net profit / average invested capital

Return on equity (ROE) = past four quarters' net profit / average equity

Return on assets (ROA) = past four quarters' net profit / average total assets

Number of staff at period-end = number of people working for the group under employment or authorization (service) contracts

CONTINUING OPERATIONS**Statement of comprehensive income**

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In millions of euros				
Revenue				
Development	6.5	8.1	5.2	1.3
Service	3.1	2.9	0.7	0.8
Eliminations	-0.4	-0.3	-0.1	-0.1
Total revenue	9.2	10.7	5.8	2.0
Operating profit				
Development	1.9	5.1	1.2	2.4
Service	0.3	0.2	0.1	0.1
Eliminations	0.0	-0.5	-0.3	-0.2
Unallocated items	0.1	-0.3	0.1	-0.1
Total operating profit	2.3	4.5	1.1	2.2
Finance income and expenses, net	-1.1	-1.0	-0.4	-0.2
Income tax expense	-0.1	0.0	-0.1	0.0
Net profit	1.1	3.5	0.6	2.0

Cash flows

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In millions of euros				
Cash flows from/used in operating activities	0.2	0.3	3.7	0.4
Cash flows from/used in investing activities	0.4	1.6	0.0	0.3
Cash flows from/used in financing activities	0.3	-2.8	-3.4	-0.4
Net cash flows	0.9	-0.9	0.3	0.3
Cash and cash equivalents at beginning of period	0.8	1.7	1.4	0.5
Cash and cash equivalents at end of period	1.7	0.8	1.7	0.8

Revenue and net profit/loss from continuing operations 2012-2014

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Total 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Total 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Total 2014
In millions of euros															
Revenue	1.3	3.7	2.4	3.5	10.9	1.7	3.5	3.5	2.0	10.7	1.1	1.1	1.2	5.8	9.2
Net profit/loss	-1.2	-0.3	0.3	-16.5	-17.7	0.0	1.4	0.1	2.0	3.5	0.4	-0.3	0.4	0.6	1.1

In Q4 2012, financial results were negatively affected by recognition of provisions and revaluation of assets and liabilities in total amount of 15.6 million euros.

Group Chief Executive's review

When we compare the quarterly results of 2014, we can see that the roller-coaster ride of Arco Vara continues. Quarterly operation and sales volumes and profits vary a lot. The modest start of the year was followed by a fourth quarter which was powerful considering the size of Arco Vara, where the group sold apartments for nearly 5 million euros. At the same time, Arco Vara began last year with a practically empty stock and this will hopefully be the last such start of the year.

Despite the rollercoaster analogy, I'd like to note that Arco Vara is riding in the right direction and is increasingly stabilising. When I say the right direction, I mean that the business operations of the group continue to be profitable and also growth-oriented. The profit of 2013 was predominantly caused by the successful removal of obligations and risks taken by the group which it couldn't manage and the settling of the balance sheet, whereas the profit of 2014 also contains a large share of the main activities of the group: selling developed products and providing real estate services.

In a regularly functioning business process, projects release increasingly more money which can be used to start new projects or decrease the obligations and interest costs of the group. This process also began in the fourth quarter and will pick up speed in the 1st quarter of 2015 due to the continued delivery of developed products to clients.

Stabilising means that smaller fluctuations between operating and sales volumes of the quarters and the financial results are expected in the future and the quarters will become more comparable. When the only stabilising factor in 2014 was the service division, i.e. the group earned a stable cash flow by providing mediation and valuation services, then the development division has also become more stable as at the end of the year. Our projects are divided between different stages of development, where something is always being purchased, planned, built or on sale as completed stock. Considering the small size of the group and the operating on three markets simultaneously, we can't ensure complete stability in 2015 and the timing and funding of all processes continues to be under tension. Efficiency losses are also incurred in the fluctuation: for example, the balancing between expenses of foreign funding which are incurred during the phase of development, especially construction, and the excess cash – which does not earn revenue in temporary standstill – incurred during the phase of realising the development. The most optimal solution would be ongoing funding of the development phase of one project with the realisation revenue of another development and the ongoing account balance of the group would be minimal all year round. In 2014 as a whole, the projects of Arco Vara were generally in the phase of development, the final quarter of 2014 and the first quarter of 2015 are predominantly in the realisation phase. In the final quarter of 2015, we will enter a development phase again and will probably be bearing the construction costs of the development project at Paldiski road in Tallinn.

The group met all the objectives set for the year: revenue exceeded 9 million euros (planned 9 million), net profit from main activities 0.8 million euros (planned was 0.5 million) and the rate of return of sold development projects exceeds 20% per year. The group's rate of return on equity as a whole did not exceed 20% per year just yet in 2014, because our balance sheet still contains approx. 25% of assets which are not in the active development cycle. This primarily covers the land bank in Latvia and Estonia, obtained in recent years. The management is continually working on bringing this land bank into active development, realise it or exchange it for land which suits our objectives better.

Forecast and objectives for 2015

The management is predicting for the group at least 11 million euros as revenue and at least 1 million euros as net profit in 2015. In addition to changes of the general economic environment, the achievement of the forecast in 2015 and the results of the group in 2015 – 2017 also depend on the following critical intermediate results.

(i) Final stabilisation of the loan for Madrid Blvd from Piraeus Bank and extending important rent contracts. The principal amount of loan to the sum of 950 thousand euros needs to be repaid for the final extension of the loan until December 2017, which requires a careful balancing act between all needs and risks of the group;

(ii) Successful sale of the apartments at Madrid Blvd to the sum of approx. 1 million euros per year; as at the date of the quarterly report, three apartments out of 34 have been sold or pre-sold after restarting the sale;

(iii) Final sale of the apartments of Manastirski AB block, releasing an additional more than 2 million euros;

(iv) Starting and finishing the construction of Manastirski D-block (final stage of the development project), which will release about 80 apartments for pre-sale in 2015 and the delivery and sale of which will take place in 2016;

(v) Buying a new plot suitable for development in Sofia, with gross sellable area (GSA) of at least 7,000 m², on which to build in 2016 and sell to final consumers in 2017;

(vi) The completion of the construction project for Paldiski road 70c first stage and beginning construction in the fourth quarter 2015. The sold volume of first stage is predicted to exceed 120 apartments and the gross sellable area (GSA) of apartments is 8,000 m².

The sale of existing completed products in Latvia also influences the results to an extent, but the management board is not particularly optimistic about the outlook of new developments in Latvia. The reasons for the pessimism have remained the same, heightened requirements for self-financing for residential loans by Latvian banks, heightened requirements for real estate investment for obtaining a residence permit and also the decreased revenue from oil and its consequences, which will carry along the economic food chain to all local or CIS consumers who used to make real estate purchases in Latvia.

The management board is most optimistic about the real estate market in Sofia, which is indicating the strongest absolute demand, the increase of demand and the margins of the developer. In Tallinn, the key issue is entering the market with a product which would exceed the consumers' expectations by its properties, the developed and added quality for apartment supply, and bring the cost of using apartments lower. Arco Vara does not need to bring more trees into the forest.

DEVELOPMENTS IN ARCO VARA HOME MARKETS

Sofia

In Q4 2014, were made 6,975 sale-purchase transactions with real-estate in Sofia, which is 37.8% more than in third quarter. The transaction activity is practically doubled if compared to previous year. The average price of apartments was 710, 800 and 803 euros for one-, two- and three-bedroom apartments respectively apartment (it must be taken into consideration that in Bulgaria, a legal share of the public premises of the building is also considered part of the area of the apartment and that apartments sold on the secondary market predominantly include interior finishing, whereas new apartments have no interior finishing). An increased transaction activity has probably been hindered also by the appointment of new Bulgarian government which stabilized political and economical situation in the country. It should be also mentioned the bankruptcy of the fourth largest bank in Bulgaria in summer followed by payments to bank clients from guaranteed deposits starting from December – part of that money found it's way to the real estate market, for sure.

Riga

The transaction activity in Riga market showed clear decreasing trend in Q4 2014. In fourth quarter, were concluded 2,615 real estate sales transactions, which is 19.5% less than 3,116 transactions in third quarter and 3.9% less than in Q4 2013. Fourth quarter was the first after the changes have been made to the living permit laws in September and the negative impact is clearly seen if judged by transaction statistics. In fourth quarter, the new projects share was 15% out of all sales transactions with apartments (total of 1,957 in Riga). The rate has been fluctuating between 15-20% during the year. The total number of apartment sales dropped by 16.9% compared to third quarter and by 6.8% compared to Q4 2013. The further activity of the Riga real estate market will be influenced by a law amendment which will enter into force on 1 March 2015, providing that in the case of bankruptcy proceedings of a private person, the mortgage loan granted to him or her is paid also when the realizable value of the mortgage is less than the outstanding loan (so-called non-recourse loans). We can predict that the self-financing requirements of banks will increase up to approx. 40% and it will hinder transaction activity, especially for newer real estate. As an alternative to increased self-financing requirements banks will probably offer to the borrowers somewhat higher interest rate. At the same time, Latvia and Riga, out of three Arco Vara home markets, is most vulnerable to the adverse developments in Russia and surrounding countries bounded economically and politically to Russia.

Tallinn

In Tallinn, 3,029 transactions of purchase and sale of real estate have been completed in fourth quarter, increased by 13.3% compared to previous quarter. The number of transactions remained practically the same (0.6% increase) if compared to Q4 2013 (3,011 transactions made then). 2,102 transactions for purchase and sale of apartment ownerships were carried out in Q4 in Tallinn, which is 14% more than in previous quarter and 1.5% less than in Q4 2013. The average sales price for apartment ownerships was 1,480 euros per m² in Q4, which is 12.1% higher compared to Q4 2013. Despite the slight decline of transaction activity in the middle of the 2014, there are no dramatic changes predicted for the Tallinn real estate market. Terms and conditions of banks for granting loans have not changed over the year. If anything, buyers have more choices thanks to increased supply. More research is done before finalizing a purchase than in the past few years when there was a deficit of new developments in particular on the market and the buyer had less time to make a choice.

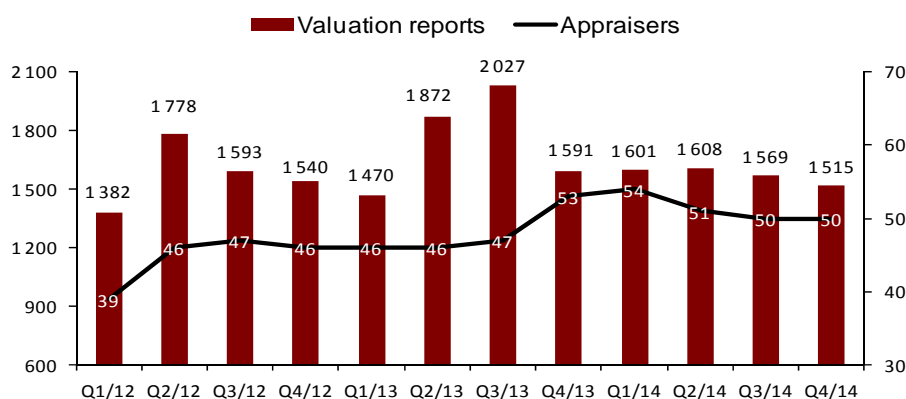
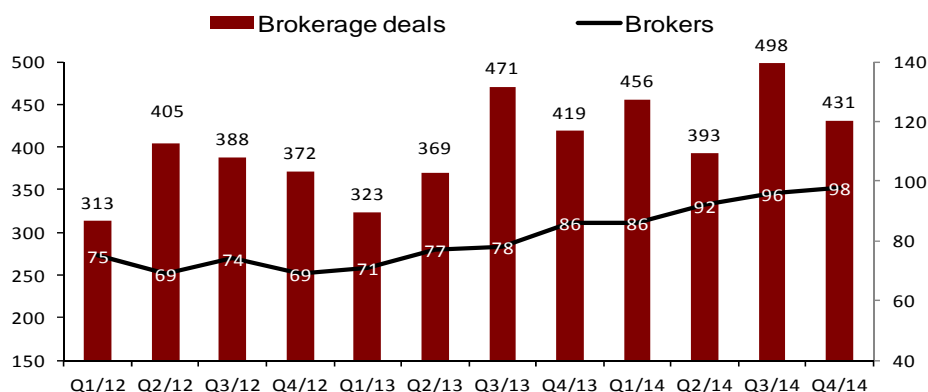
SERVICE DIVISION

In Q4 2014, revenue of service division was 738 thousand euros, that included intra-group revenue of 130 thousand euros (Q4 2013: 790 thousand and 90 thousand euros, respectively). In 2014, revenue of service division increased by 6% compared to previous year and amounted to 3,139 thousand euros (includes intra-group revenue of 451 thousand euros). Sales growth came from Latvia and Bulgaria, where 12 months revenue from main activities of real estate agencies, brokerage and valuation of real estate, increased by 17% and 61%, respectively. Annual revenue of Estonian real estate agency decreased by 17% compared to previous year. If we compare fourth quarters of 2013 and 2014, then the decline is even 33%. Revenue drop of Estonian agency is mostly connected to the decrease in sales of valuation services (by 25% in 2014).

Revenue of real estate agencies from brokerage activities

	12 months 2014	12 months 2013	Change %	Q4 2014	Q4 2013	Change %
In thousands of euros						
Estonia	1,166	1,409	-17%	239	359	-33%
Latvia	1,170	1,004	17%	291	272	7%
Bulgaria	536	332	61%	154	100	54%
Total	2,872	2,745	5%	684	731	-6%

The revenue growth of Latvian and Bulgarian agencies was caused both by general increased activity on the market and strongly seizing the market by increasing the number of employees. But growth in Latvian remains mainly to the first half of 2014 and is slowed down in second half of the year. There would not be a big surprise to see further slow down in 2015 due to adverse effect of recent changes in laws that directly influencing real estate sales. In 2014, brokerage of the group's own assets has 44% of Bulgarian agency's revenue.



All three real estate agencies ended up with a net profit in 2014: Estonian agency's net profit was 48 thousand euros (in 2013: 156 thousand euros), Latvian agency's net profit was 65 thousand euros (in 2013: 81 thousand euros) and Bulgarian agency's net profit was 90 thousand euros (in 2013: 25 thousand euros).

In addition to brokerage and valuation services, the service division also provides real estate management services as well as accommodation service in Bulgaria. The revenue from real estate management was 148 thousand euros in 12 months 2014, 105 thousand euros of which was intra-group revenue (12 months 2013: 135 thousand and 103 thousand euros, respectively). Revenue from accommodation services amounted to 74 thousand euros in 12 months 2014 (12 months 2013: 24 thousand euros). The accommodation services have been provided since July 2013.

The number of staff in service division has been increased to 176 employees as at 31 December 2014, growing by 15 people within a year.

DEVELOPMENT DIVISION

In 2014, revenue of development division totalled 6,466 thousand euros, dropped by 20% compared to previous year (in 2013: 8,049 thousand euros). Most of 2014 revenue accrued in fourth quarter amounted to 5,203 thousand euros (in Q4 2013: 1,279 thousand euros). The big leap in revenues in fourth quarter comes from getting permit of use for two apartment buildings: for Manastirski Livadi second stage building (with 135 apartments and smaller commercial spaces in total) and for last stage building (with 14 apartments) in Bisumuiza-1 project in Riga. In Q4 2014, was sold 61 apartments and commercial spaces in Manastirski project II stage and one Madrid Blvd building apartment in Sofia, also 11 apartments in Bisumuiza-1 project last stage in Riga. Information on sold real estate properties in the group's own development projects is presented in following table.

Number of sold real estate properties	2014	2013
Estonia, Tallinn	0	20
<i>Tehnika 53</i>	0	14
<i>Helme 16, Kodukolde</i>	0	6
Latvia, Riia	18	16
<i>Kometas street, Bišumuiza-1</i>	14	11
<i>Baltezers-5 plots in Marsili</i>	4	5
Bulgaria, Sofia	63	47
<i>Madrid Blvd</i>	1	8
<i>Manastirski Livadi</i>	62	39
Total	81	83

Most of other revenue of development division consisted of rental income from commercial and office space in Madrid Blvd building in Sofia, amounted to 953 thousand euros in 12 months 2014 (in 12 months 2013: 956 thousand euros).

In 2014, operating profit of development division was 1,942 thousand euros (in 2013: 5,100 thousand euros). In 2013, the impact of extraordinary items to the profit amounted to 3,332 thousand euros and 521 thousand euros in 2014.

As at 31.12.2014, the group had in stock 113 apartments and smaller commercial spaces ready for sale, of which 109 in Bulgaria and 4 in Riga. Pre-sale agreements were concluded to 48 apartments and commercial spaces in stock, revenue from final sales will be accrued in first quarter of 2015.

After a year break, was restarted in fourth quarter the sale of apartments in Madrid Blvd building. In December, was concluded first sale transaction and as at the interim report date two more apartments have been presold. 15 apartments and all parking places, out of all Madrid Blvd unsold assets, are rented out. In Q4 2014, four more apartments were prepared for letting out.

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

In the most important Estonian development project for the group, Paldiski road 70C, has been reached to the final stage of concluding first stage design contract. The construction works of the apartment building (at least 120 apartments) should start in fourth quarter of 2015.

In February 2014, the group acquired as an addition to the land bank, two land plots with building right for 2 apartment buildings (32 apartments with GSA of 2,035 m²) near Tallinn, at Instituudi tee 7 and 9 in Harku. In Q3 2014, the development of the project was suspended due to the need to use the group's finances for carrying out best yielded projects (Paldiski road 70C for example). The sale of the development project could also be an option.

As at 31 December 2014, 5 people were employed in development division, one employee hired during a year.

SUMMARY TABLE OF ARCO VARA'S PROJECTS AS AT 31 DECEMBER 2014

Project name	Address	Product main type	Stage	Area of plot(s) (m ²)	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Manastirski A/B	Manastirski, Sofia	Apartments	S5	4,445	6,906	74
Manastirski C	Manastirski, Sofia	Apartments	S5	-	160	2
Manastirski D	Manastirski, Sofia	Apartments	S3	2,223	6,869	87
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S5/S6	-	7,350	16
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5/S6	-	3,726	33
Bisumuiza-1	Kometas 2, Riga	Apartments	S5	-	105	1
Bisumuiza-1	Kometas 4, Riga	Apartments	S5	2,118	278	3
Marsili residential plots	Marsili, near Riga	Residential plots	S5	-	27,545	15
Marsili residential plots	Marsili, near Riga	Residential plots	S2	120,220	<120,220>	<68>
Instituudi 7, 9	Instituudi tee 7,9 Harku	Apartments	S3/S5	5,003	2,035	32
PM 70C	Paldiski road 70C, Tallinn	Apartments	S3	28,498	21,420	334
Lehiku carpet building	Lehiku 21,23 Tallinn	Apartments	S2	5,915	<1,100>	<5>
Liimi	Liimi 1b, Tallinn	Lease: Office	S2	2,463	<6,500>	<1>
Viimsiranna	Haabneeme, Viimsi vald	Office/Mix	S3/S5	14,174	500	1

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

Description of stages

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

PEOPLE

As at 31 December 2014, 189 people worked for the group (178 at the end of 2013). Employee remuneration expenses in 2014 amounted to 2.5 million euros (in 2013: 2.5 million euros).

The remuneration of the member of the management board/chief executive and the members of the supervisory board of the group's parent company including social security charges in 2014 amounted to 102 thousand euros compared with 174 thousand euros in 2013.

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

The supervisory board of Arco Vara AS has 7 members.

More information on members of management and supervisory board you can find on Arco Vara corporate web page:

<http://www.arcorealestate.com/en/company-investor/key-persons/supervisory-board>

DESCRIPTION OF THE MAIN RISKS

Liquidity risk

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

Interest rate risk

The base currency of most of the group's loan agreements is the euro and the base interest rate is 3 or 6 months EURIBOR. As a result, the group is exposed to developments in international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In 9 months 2014, the group's interest-bearing liabilities has increased by 2.9 million euros and amounted to 17.8 million euros at 31 December 2014. In first 9 months 2014, interest payments on interest-bearing liabilities totalled 0.5 million euros. The group's weighted average loan interest rate is 5.8%. This is a decrease by 0.2 percentage point in 9 months 2014 mainly due to decreased Euribor rates.

Currency risk

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

Share and shareholders

Arco Vara AS has issued a total of 6,117,012 shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ OMX Tallinn stock exchange. In September 2014, share capital was raised by issuing 1,375,305 new shares. As at 31 December 2014, the company had 1,668 shareholders and the share price closed at 0,828 euros, a decrease by 40.86% within 2014. During the year, the highest price per share was 1.55 euros and lowest price 0.821 euros. As at 31 December 2014, market capitalization of shares amounted to 5,065 thousand euros (as at 31 December 2013: 6,638 thousand euros) and P/E ratio of the share was 5.3 (as at 31 December 2013: 1.9).

The following charts reflect movements in the price and daily turnover of Arco Vara share in 2012 - 2014.

In 2014

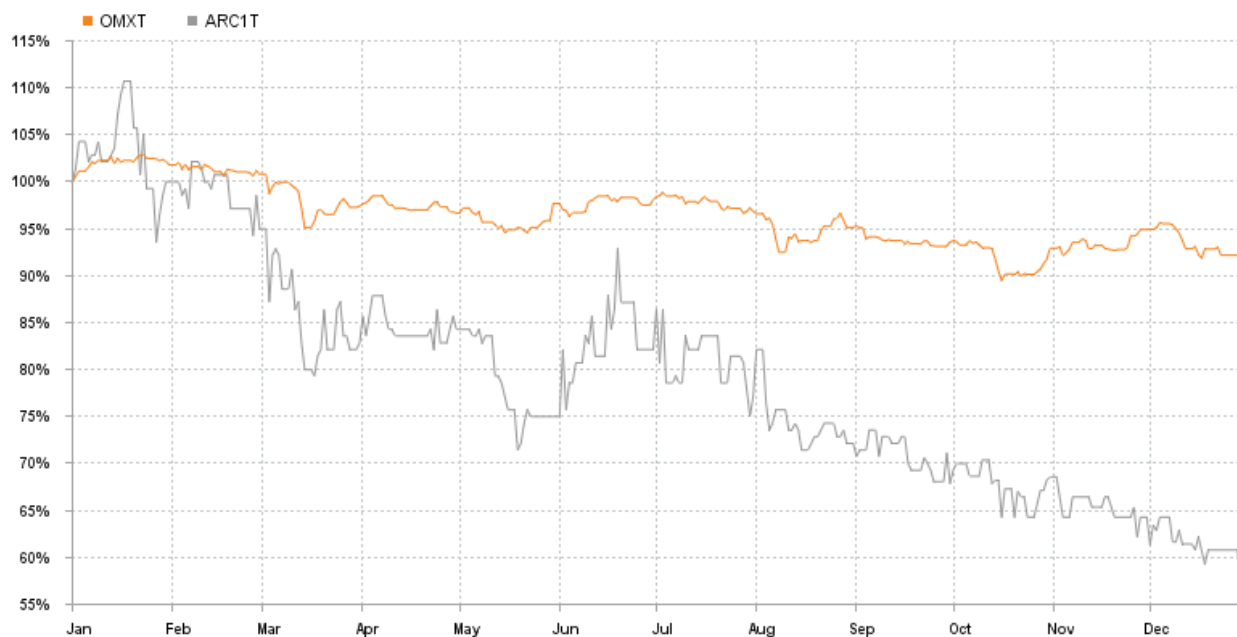


In 2012 - 2014



Changes in share price compared with the benchmark index OMX Tallinn in 2014.

Index/equity	1 Jan 2014	31 Dec 2014	+/-%
OMX Tallinn	817.72	755.05	-7.66
ARC1T	1.40 EUR	0.828 EUR	-40.86



Major shareholders at 31 December 2014	No of shares	Interest %
AS Baltplast	862 820	14,1%
AS Lõhmus Holdings	587 378	9,6%
Gamma Holding Investment OÜ	554 759	9,1%
Alarmo Kapital OÜ	489 188	8,0%
HM Investeeringud OÜ	485 000	7,9%
LHV PENSIONIFOND L	378 765	6,2%
FIREBIRD REPUBLICS FUND LTD	356 428	5,8%
FIREBIRD AVRORA FUND, LTD.	185 800	3,0%
LHV PENSIONIFOND XL	169 583	2,8%
FIREBIRD FUND L.P.	150 522	2,5%
Other shareholders	1 896 769	31,0%
Total	6 117 012	100,0%

Holdings of members of the management and supervisory boards at 31 December 2014	Position	No of shares	Interest %
Toomas Tool (AS Baltplast)	member of supervisory board	862 820	14,1%
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	587 378	9,6%
Arvo Nõges (Gamma Holding Investment OÜ)	member of supervisory board	554 759	9,1%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	chairman of supervisory board	513 884	8,4%
Tarmo Sild ja Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	489 188	8,0%
Stephan David Balkin	member of supervisory board	-	-
Aivar Pilv	member of supervisory board	-	-
Total		3 008 029	49,2%

Chief executive's confirmation on director's report

The chief executive/member of the management board confirms that the director's report of Arco Vara AS for the fourth quarter and twelve months ended 31 December 2014 provides a true and fair view of the development, financial performance and financial position of the group as well as a description of the main risks and uncertainties.

Tarmo Sild

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

On 6 February 2015

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In thousands of euros					
Continuing operations					
Revenue from rendering of services		3,744	3,791	883	970
Revenue from sale of own real estate		5,414	6,937	4,929	1,012
Total revenue	2, 3	9,158	10,728	5,812	1,982
Cost of sales	4	-5,902	-7,749	-4,004	-1,440
Gross profit		3,256	2,979	1,808	542
Other income	7	609	703	16	505
Marketing and distribution expenses	5	-324	-278	-84	-86
Administrative expenses	6	-1,811	-1,676	-602	-501
Other expenses	7	-82	-196	-48	-134
Gain on transactions involving joint ventures		-27	2,897	-27	1,897
Gain on sale of subsidiaries	16	662	98	0	0
Operating profit		2,283	4,527	1,063	2,223
Finance income and costs	8	-1,062	-972	-368	-234
Profit before tax		1,221	3,555	695	1,989
Income tax		-75	0	-75	0
Net profit from continuing operations		1,146	3,555	620	1,989
Discontinued operations					
Loss from discontinued operations	14	-324	-128	-196	-563
Net profit for the period		822	3,427	424	1,426
<i>attributable to owners of the parent</i>		803	3,410	423	1,426
<i>attributable to non-controlling interests</i>		19	17	1	0
Total comprehensive income for the period		822	3,427	424	1,426
<i>attributable to owners of the parent</i>		803	3,410	423	1,426
<i>attributable to non-controlling interests</i>		19	17	1	0
Earnings per share (in euros)	9				
- basic		0.15	0.72	0.07	0.30
- diluted		0.14	0.66	0.07	0.28

Consolidated statement of financial position

	Note	31 December 2014	31 December 2013
In thousands of euros			
Cash and cash equivalents		1,691	818
Receivables and prepayments	10	1,205	656
Inventories	11	11,970	10,780
Assets belonging to sales group	16	0	847
Total current assets		14,866	13,101
Investments in equity-accounted investees		0	1
Receivables and prepayments	10	5	252
Investment property	12	11,585	11,331
Property, plant and equipment		434	459
Intangible assets		113	13
Total non-current assets		12,137	12,056
TOTAL ASSETS		27,003	25,157
Loans and borrowings	13	3,194	12,589
Payables and deferred income	14	2,659	1,746
Provisions		202	172
Liabilities belonging to sales group	16	72	1,488
Total current liabilities		6,127	15,995
Loans and borrowings	13	11,826	2,308
Total non-current liabilities		11,826	2,308
TOTAL LIABILITIES		17,953	18,303
Share capital	15	4,282	3,319
Share premium	15	292	0
Statutory capital reserve		2,011	2,011
Other reserves	9	179	60
Retained earnings		2,250	1,452
Total equity attributable to owners of the parent		9,014	6,842
Equity attributable to non-controlling interests		36	12
TOTAL EQUITY		9,050	6,854
TOTAL LIABILITIES AND EQUITY		27,003	25,157

Consolidated statement of cash flows

	Note	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In thousands of euros					
Cash receipts from customers		10,812	10,516	5,745	2,242
Cash paid to suppliers		-8,945	-7,058	-1,775	-1,112
Taxes paid		-1,150	-1,976	-306	-448
Taxes recovered		805	189	274	6
Cash paid to employees		-866	-846	-249	-209
Other cash payments and receipts related to operating activities		-210	-218	-7	-77
Net cash flow of discontinued operations		-250	-317	-2	37
NET CASH FROM OPERATING ACTIVITIES		196	290	3,680	439
Purchase of property, plant and equipment		-71	-34	-39	-16
Proceeds from sale of property, plant and equipment		0	118	0	100
Proceeds from sale of investment property		0	80	0	60
Proceeds from sale of a subsidiary	16	10	1,610	0	0
Proceeds from sale of an associate		1	0	0	0
Loans provided		-3	-48	0	-11
Placement of security deposits		-247	-263	0	0
Release of security deposits		679	258	0	258
Interest received		5	7	2	2
Net cash flow of discontinued operations		0	-56	0	-56
NET CASH FROM/USED IN INVESTING ACTIVITIES		374	1,672	-37	337
Proceeds from loans received	13	4,885	3,046	832	165
Settlement of loans and finance lease liabilities	13	-4,800	-4,809	-3,608	-325
Interest paid		-1,091	-964	-576	-222
Proceeds from share capital issue	15	1,375	0	0	-66
Other payments related to financing activities		-76	-75	-25	0
NET CASH FROM/USED IN FINANCING ACTIVITIES		293	-2,802	-3,377	-448
NET CASH FLOW		863	-840	266	328
Cash and cash equivalents at beginning of period		818	1,775	1,415	570
Decrease in cash and cash equivalents		863	-840	266	328
Change in cash through purchase/sale of subsidiaries		10	-37	10	0
Cash and cash equivalents reclassified to sales group assets		0	-80	0	-80
Cash and cash equivalents at end of period		1,691	818	1,691	818

Consolidated statement of changes in equity

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands of euros								
Balance as at 31 December 2012	3,319	0	2,011	0	-1,958	3,372	-5	3,367
Formation of equity reserve (note 9)	0	0	0	60	0	60	0	60
Total comprehensive income for the period	0	0	0	0	3,410	3,410	17	3,427
Balance as at 31 December 2013	3,319	0	2,011	60	1,452	6,842	12	6,854
Balance as at 31 December 2013	3,319	0	2,011	60	1,452	6,842	12	6,854
Total comprehensive income for the period	0	0	0	0	803	803	19	822
Increase of share capital	963	292	0	0	0	1,255	0	1,255
Formation of equity reserve (note 9)	0	0	0	119	0	119	0	119
Change in non-controlling interests	0	0	0	0	-5	-5	5	0
Balance as at 31 December 2014	4,282	292	2,011	179	2,250	9,014	36	9,050

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

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

2. Segment information

The group has the following reportable operating segments:

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

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

Revenue and operating profit by operating segment

Segment	Development		Service		Unallocated items		Eliminations		Consolidated	
	12m 2014	12m 2013	12m 2014	12m 2013	12m 2014	12m 2013	12m 2014	12m 2013	12m 2014	12m 2013
In thousands of euros										
External revenue	6,466	8,049	2,688	2,674	4	5			9,158	10,728
Annual change	-20%	-6%	1%	13%					-15%	-2%
Inter-segment revenues	37	16	451	285			-488	-301	0	0
Total revenue	6,503	8,065	3,139	2,959	4	5	-488	-301	9,158	10,728
Operating profit	1,942	5,100	246	213	-25	-442	120	-344	2,283	4,527
Of which reversal of inventory write-down	572	299	0	0	0	0			572	299
Fair value adjustments to investment property, net	0	-113	0	0	0	0			0	-113
Depreciation, amortisation and impairment losses	-22	53	-22	-15	-2	-2			-46	36
Gain/loss on reassessment of other assets and liabilities	-2	98	0	0	0	43			-2	141
Gain on sale of subsidiaries	0	98	0	0	662	0			662	98
Profit/loss from joint ventures	-27	2,897	0	0	0	0			-27	2,897

Segment	Development		Service		Unallocated items		Eliminations		Consolidated	
	Q4 2014	Q4 2013	Q4 2014	Q4 2013	Q4 2014	Q4 2013	Q4 2014	Q4 2013	Q4 2014	Q4 2013
In thousands of euros										
External revenue	5,203	1,279	608	700	1	3			5,812	1,982
Annual change	307%	-58%	-13%	12%					193%	-44%
Inter-segment revenues	11	3	130	90			-141	-93	0	0
Total revenue	5,214	1,282	738	790	1	3	-141	-93	5,812	1,982
Operating profit	1,246	2,445	58	55	-330	-211	89	-66	1,063	2,223

Assets and liabilities by operating segment

Segment	Development		Service		sales group assets and liabilities		Unallocated items		Consolidated	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
In thousands of euros										
Assets	25,602	23,456	668	557	0	847	733	297	27,003	25,157
Liabilities	16,265	15,324	499	557	72	1,488	1,117	934	17,953	18,303

3. Revenue

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In thousands of euros				
Sale of own real estate	5,414	6,937	4,929	1,012
Real estate brokerage and valuation	2,520	2,560	588	665
Rental of real estate	955	1,001	236	245
Property management services	128	110	30	30
Other revenue	141	120	29	30
Total revenue	9,158	10,728	5,812	1,982

4. Cost of sales

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In thousands of euros				
Cost of real estate sold	-3,941	-5,620	-3,498	-793
Personnel expenses	-1,528	-1,596	-357	-436
Property management costs	-311	-407	-122	-163
Vehicle expenses	-18	-21	-5	-5
Depreciation, amortisation and impairment losses	-11	-11	-2	-3
Other costs	-93	-94	-20	-40
Total cost of sales	-5,902	-7,749	-4,004	-1,440

5. Marketing and distribution expenses

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In thousands of euros				
Advertising expenses	-179	-159	-50	-46
Personnel expenses	-61	-54	-16	-23
Market research	-7	-13	-1	-6
Brokerage fees	-2	-7	-1	-1
Other marketing and distribution expenses	-75	-45	-16	-10
Total marketing and distribution expenses	-324	-278	-84	-86

6. Administrative expenses

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In thousands of euros				
Personnel expenses	-929	-870	-371	-287
Office expenses	-362	-352	-101	-90
Services purchased	-217	-158	-54	-37
IT expenses	-140	-98	-31	-28
Legal service fees	-62	-88	-15	-26
Vehicle expenses	-38	-36	-9	-9
Depreciation, amortisation and impairment losses	-34	-27	-7	-9
Other expenses	-29	-47	-14	-15
Total administrative expenses	-1,811	-1,676	-602	-501

7. Other income and expenses

Other income

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In thousands of euros				
Gain on reversal of inventory write-down	572	299	0	299
Income on reassessment of liabilities	0	160	0	53
Gain on reversal of property, plant and equipment devaluation	0	72	0	72
Gain on sale of investment property	0	60	0	60
Gain on sale of property, plant and equipment	0	3	0	0
Miscellaneous income	37	109	16	21
Total other income	609	703	16	505

Other expenses

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In thousands of euros				
Late payment interest and penalty charges	-35	-43	-29	-8
Loss on sale and impairment of other non-current assets	-1	-1	-1	0
Loss on changes in the fair value of investment property	0	-113	0	-110
Inventory write-down	0	0	0	0
Write-down of receivables	-2	-19	0	-9
Miscellaneous expenses	-44	-20	-18	-7
Total other expenses	-82	-196	-48	-134

8. Finance income and costs

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In thousands of euros				
Interest expense	-975	-828	-331	-169
Interest income	5	22	2	2
Other finance income and costs	-92	-166	-39	-67
Total finance income and costs	-1,062	-972	-368	-234

9. Earnings per share

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

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
Weighted average number of ordinary shares outstanding during the period	5,186,326	4,741,707	6,117,012	4,741,707
Number of ordinary shares potentially to be issued	390,000	390,000	390,000	390,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	803	3,410	423	1,426
Earnings per share (in euros)	0.15	0.72	0.07	0.30
Diluted earnings per share (in euros)	0.14	0.66	0.07	0.28

According to the decision of the annual general shareholders' meeting of Arco Vara AS, held on 1 July 2013, one convertible bond was issued with the nominal value of 1,000 euros. The convertible bond will give to the chief executive of the group's parent company the right to subscribe up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2016. As at 31 December 2014, an equity reserve is formed in amount of 179 thousand euros (as at 31 December 2013: 60 thousand euros) for the option associated with the bond. See also note 17.

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

10. Receivables and prepayments

Short-term receivables and prepayments

	31 December 2014	31 December 2013
In thousands of euros		
Trade receivables		
Receivables from customers	989	164
Allowance for doubtful trade receivables	-22	-22
Total trade receivables	967	142
Other receivables		
Loans provided	6	33
Term deposits (with maturities from 3 to 12 months)	0	23
Miscellaneous receivables	154	163
Total other receivables	160	219
Accrued income		
Prepaid and recoverable taxes	22	127
Other accrued income	4	9
Total accrued income	26	136
Prepayments	52	159
Total short-term receivables and prepayments	1,205	656

Long-term receivables

	31 December 2014	31 December 2013
In thousands of euros		
Term deposits (with maturities more than 1 year)	0	240
Prepayments	5	12
Total long-term receivables and prepayments	5	252

11. Inventories

	31 December 2014	31 December 2013
In thousands of euros		
Properties purchased and being developed for resale	11,942	10,762
Materials and finished goods	12	5
Prepayments for inventories	16	13
Total inventories	11,970	10,780

Properties purchased and being developed for resale

In thousands of euros	
Balance at 31 December 2013	10,762
Properties purchased for development	120
Construction costs of apartment buildings	4,236
Capitalized borrowing costs	233
Reversal of inventory write-down (note 7)	572
Other capitalized costs	345
Reclassification to investment property (note 12)	-408
Cost of sold properties	-3,918
Balance at 31 December 2014	11,942

12. Investment property

In thousands of euros	
Balance at 31 December 2013	11,331
Loss on changes in fair value (note 16)	-160
Capitalised development costs	6
Reclassification from inventories (note 11)	408
Balance at 31 December 2014	11,585

13. Loans and borrowings

	As at 31 December 2014			As at 31 December 2013		
	Total	of which current portion	of which non-current portion	Total	of which current portion	of which non-current portion
In thousands of euros						
Bank loans	14,081	3,010	11,071	14,121	12,576	1,545
Bonds	911	160	751	751	0	751
Finance lease liabilities	28	24	4	25	13	12
Total	15,020	3,194	11,826	14,897	12,589	2,308

In 12 months 2014, the group settled loans and borrowings of 4,800 thousand euros (in 12 months 2013: 4,809 thousand euros) through cash transactions and raised new loans of 4,885 thousand euros (in 12 months 2013: 3,046 thousand euros).

Changes in the balance of loans and borrowings in 2014 were mainly due to loan used for financing the construction of Manastirski Livadi project II stage in Bulgaria. The open limit of the loan was used in amount of 3,836 thousand euros. There was also made repayments of the same loan in total amount of 3,526 thousand euros.

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

In October 2014, the group agreed with Piraeus bank the changes in terms of the bank loan raised by the group's Bulgarian subsidiary. As a result, 950 thousand euros will be payable in January 2015 and the repayment term of the

remaining loan amount of 10,884 thousand euros was prolonged up to December 2017. In Q4 2014, the same loan was partially repaid in amount of 320 thousand euros.

14. Payables and deferred income

	31 December 2014	31 December 2013
In thousands of euros		
Trade payables	208	464
Miscellaneous payables	91	15
Taxes payable		
Value added tax	820	172
Corporate income tax	125	11
Personal income tax	19	20
Social security tax	33	41
Other taxes	343	270
Total taxes payable	1,340	514
Accrued expenses		
Interest payable	100	8
Payables to employees	144	132
Other accrued expenses	19	38
Total accrued expenses	263	178
Deferred income		
Prepayments received on sale of real estate	757	575
Total deferred income	757	575
Total short-term payables and deferred income	2,659	1,746

15. Share capital

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

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

16. Sale of a subsidiary

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

- 1) 10 thousand euros paid on transfer of the share;
- 2) 30% out of the amount, that Arco Ehitus OÜ will gain from actions brought by Arco Ehitus OÜ through Ministry of Education and Research and OÜ Loksa Haljastus. Income tax is deducted from proceeds.

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

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

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

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

Components of net loss from discontinued operations

	12 months 2014	12 months 2013	Q4 2014	Q4 2013
In thousands of euros				
Revenue	0	3,497	0	8
Cost of sales	0	-3,299	0	-495
Administrative expenses	-13	-329	0	-83
Loss on change in the fair value of investment property (note 12)	-160	0	-160	0
Other income and expenses	-151	3	-36	7
Net loss from discontinued operations	-324	-128	-196	-563

17. Related party disclosures

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

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

Transactions with related parties

	12 months 2014	12 months 2013
In thousands of euros		
Joint ventures and associate		
Services sold	0	1
Services purchased	26	0
Provision of loans	3	48
Companies that have a significant interest in the group's parent company		
Inventories purchased	0	1,102
Services purchased	239	24
Bonds issued	150	500
Paid interest	81	25
Other related parties		
Services sold	4	0
Inventories purchased	0	1,102
Services purchased	4	27
Bonds issued	0	251
Paid interest	35	13

Balances with related parties

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

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

In 12 months 2014, the remuneration provided to the group's key management personnel, i.e. the chief executive/member of the management board and the members of the supervisory board of the group's parent company, including social security charges, amounted to 102 thousand euros (in 12 months 2013: 174 thousand euros). The remuneration provided to the chief executive/member of the management board is based on his service contract. The termination benefits agreed with Tarmo Sild, who was appointed chief executive officer/member of the management board of Arco Vara AS in October 2012, amount to up to five months' basic board member remuneration. The basis for the remuneration provided to the members of the supervisory board was changed since July 2013. According to the resolution of the general meeting of Arco Vara AS, the members of the supervisory board will get paid 500 euros (net amount) for every participated meeting but not more than 1,000 euros (net amount) per month. The payment of the remuneration is made dependent on the signing of the minutes of the meetings of the supervisory board. The group's key management personnel was not provided or paid any other remuneration or benefits (bonuses, termination benefits, etc) in 2014 and also in 2013.

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

Statement by the chief executive/member of the management board

The chief executive/member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the fourth quarter and twelve months ended 31 December 2014.

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

Tarmo Sild

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

On 6 February 2015