



Arco Vara AS

Interim report IV quarter and 12 months 2012



ARCO REAL ESTATE

**INTERIM REPORT FOR THE
FOURTH QUARTER AND TWELVE MONTHS
ENDED 31 DECEMBER 2012
(UNAUDITED)**

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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 – 31 December 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 2012, the Group comprised of 23 companies (31 December 2011: 28). At 31 December 2012, the Group had two joint ventures (31 December 2011: 5) and one associate (31 December 2011: 1).

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 completed commercial properties that generate rental income, which have not yet been sold.

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

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

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

Mission, vision and shared values

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

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

Our core values include:

Partnership – our client is our partner

Reliability – we are reliable, open and honest

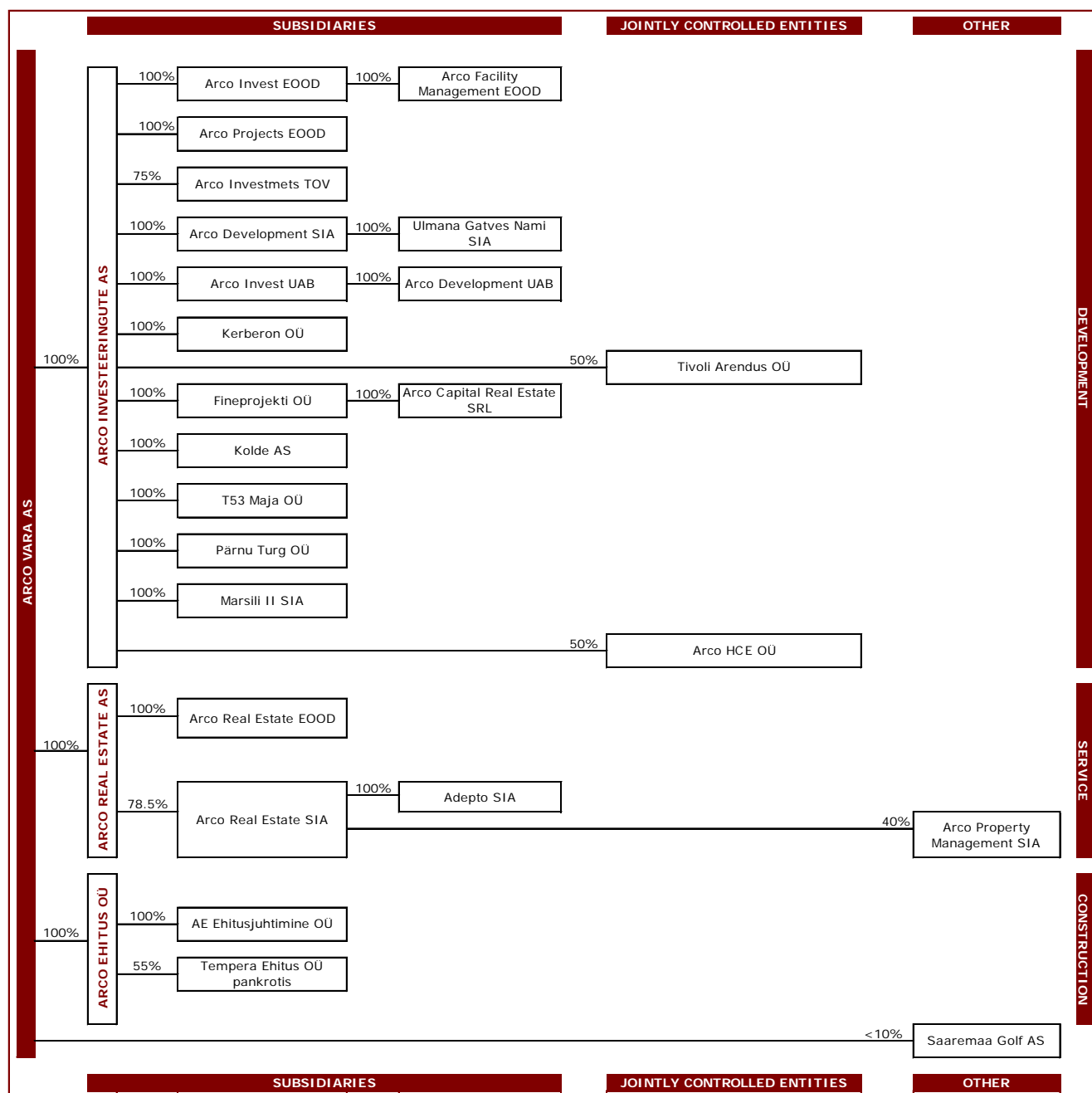
Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

GROUP STRUCTURE

As at 31 December 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 venture partner 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

- In 2012 the Group generated revenue of 20.7 million euros. Revenue for 2011 was 43.1 million euros (including 8.3 million euros earned on the sale of the Tivoli properties). Excluding the effect of the Tivoli transaction, revenue for 2012 was 41% smaller than a year ago.
- The Group ended the year 2012 with an operating loss of 16.1 million euros. In 2011, the Group incurred an operating loss of 2.4 million euros.
- Net loss for 2012 was 18 million euros compared with 3.4 million euros in 2011.
- Equity to assets ratio at the year-end was 10.8% (31 December 2011: 37.0%). Return on equity (12 months rolling) was negative.
- At the end of the fourth quarter of 2012, the Group's order backlog stood at 3.4 million euros compared with 11.7 million euros at the end of the fourth quarter of 2011.
- In 2012, the Group sold 81 apartments and plots (2011: 111 apartments and plots) in its self-developed projects.

	12M 2012	12M 2011	Q4 2012	Q4 2011
In millions of euros				
Revenue	20.7	43.1	4.7	11.8
Operating profit/loss	-16.1	-2.4	-16.1	0.3
Net profit/loss	-18.0	-3.4	-17.0	0.3
EPS (in euros)	-3.79	-0.71	-3.58	0.06
Total assets at period-end	31.2	57.2		
Invested capital at period-end	21.4	48.8		
Net loans at period-end	16.4	22.9		
Equity at period-end	3.4	21.2		
Average loan term (in years)	2.0	2.2		
Average interest rate of loans (per year)	6.5%	7.4%		
ROIC (rolling, four quarters)	neg	neg		
ROE (rolling, four quarters)	neg	neg		
Number of staff at period-end	86	146		

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

The fourth quarter of 2012 was eventful and we expect the first quarter of 2013 to be similarly intense.

Development operations in Estonia

- Ahtri 3

The bank loan of the Group's joint venture Arco HCE OÜ fell due on 30 November 2012. Despite active negotiations with Danske bank, aimed at extending the loan agreement and continuing development of the property, no positive solution was found by the year-end. However, the process has not ended. Arco Vara AS's subsidiary Arco Investeeringute AS has provided a surety guarantee to the joint venture's loan commitments, which extends to 1.9 million euros. The Group has covered the obligation by recognising a provision of the same amount. Before the date of release of this report, the bank initiated enforcement proceedings against Arco HCE OÜ. To date, the proceedings have been suspended by an injunction issued in response to a petition filed by Arco HCE OÜ. However, in light of the objective change in circumstances, our goal is to exit the project with minimal loss.

Exiting the Ahtri 3 project successfully is a key to ensuring the Group's sustainable operation.

- Tivoli

In the fourth quarter, the project was in the design phase. Our joint venture Tivoli Arendus OÜ had to seek solutions because the counterparty, general contractor Nordecon AS did not meet its obligations, which rendered the probability of completing the construction work on time remote. In the fourth quarter, we entered into negotiations with our venture partner International Invest Project OÜ (IIP) with a view to improving the financing conditions of Tivoli Arendus OÜ. The purpose was to increase the probability that the joint venture could meet its obligations to Arco Vara group and to lower the probability that the joint venture might be unable to settle its debt to IIP and IIP would seek realisation of the surety guarantee provided by Arco Vara AS. Sale of the Tivoli property to the joint venture Tivoli Arendus OÜ in 2011 has not generated actual positive cash flow for the Group because IIP paid part of the purchase price directly to SEB bank that granted a loan for acquisition of the Tivoli property by the joint venture and the other part was transformed into the joint venture's liability to Arco Vara AS. We are holding negotiations with IIP but the outcome is hard to predict.

Restructuring the Tivoli project or exiting from the project successfully is a key to ensuring the Group's sustainable operation.

- Tehnika 53

Construction and sale continued. We have sold 12 out of the 14 apartments under contracts under the law of obligations (presale contracts). Construction work is on schedule.

- Kodukolde

We continued selling completed apartments. At the year-end, there were six unsold apartments and at the date of release of this report there are three.

Development operations in Latvia

- Bišumuiža 1

In the third quarter, development of the Bišumuiža apartment buildings project in Latvia was suspended. Through the fourth quarter, we continued to sell completed apartments and by the year-end all completed apartments were sold. There are 28 apartments still to be completed. Construction of the apartments resumed in February 2013.

- Mazais Baltezers

We continued to sell the existing, fully developed residential plots in the Mazais Baltezers project and sustained efforts for acquiring 68 undeveloped plots from our former Latvian partner. At the end of the quarter, 22 fully developed plots were still on sale.

Development operations in Bulgaria

- Madrid Boulevard

On 31 December 2012, loan principal of 2.4 million euros fell due but our subsidiary Arco Invest EOOD was not capable of making the payment. Partly, this was because a block transaction that had been agreed with Cleves was cancelled, resulting in unearned revenue of over 2 million euros. In line with the agreement, Cleves paid a penalty of 235 thousand euros.

Transfer of presold apartments and sale of new apartments remained suspended because the amount receivable from the customers by the date of transfer of the apartments (date of conclusion of the real right contracts and their release from the mortgage) would have been smaller than the repayment to be made by Arco Invest EOOD to the bank under the loan agreement for release of the apartments from the mortgage.

Arco Vara group started intensive negotiations with Piraeus bank for amending the loan agreement at the beginning of November, when the Group's management had changed. The negotiations are still ongoing. Until an agreement has been reached on the restructuring of the loan, we cannot rule out the possibility of enforcement or other legal proceedings against Arco Invest EOOD.

- Manastirski

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The Group's Construction division

The Group's goal is to ensure that contracts that have been signed are performed and work is delivered to customers on time. In the fourth quarter, this goal was achieved and all construction contracts in progress are on schedule. At the end of the fourth quarter, the Construction division's order backlog amounted to 3.4 million euros.

In the reporting period, several bankruptcy petitions were filed against Arco Ehitus OÜ but the creditors withdrew the petitions because mutually satisfactory agreements were reached with the Group.

At the end of the fourth quarter, the Construction division was involved in more than ten pending lawsuits resulting from transactions that had been performed or circumstances that had emerged before the fourth quarter of 2012.

At the end of 2012, OÜ Merkton Ehitus (bankrupt) filed a statement of claim against Arco Ehitus OÜ, in which it claimed payment of 986 thousand euros based on the recovery provisions of the Bankruptcy Act and circumstances that had emerged before 2010. Arco Ehitus OÜ does not agree with the action but a detailed legal analysis of the claim and the estimation of possible outcomes is still in progress. Accordingly, we do not rule out the possibility that an additional provision will have to be made and recognised in the audited financial statements of Arco Vara group. In this interim report, the statement of claim is disclosed within contingent liabilities.

The Group's Service division

In 2012, Service division generated revenue of 2.6 million euros, 8% up on 2011. The division ended 2012 with an operating profit of 182 thousand euros (excluding the effect of mergers and value adjustments) compared with an operating profit of 140 thousand euros for 2011.

Other activities

In the fourth quarter, we (i) continued preparations for a restructuring of the Group, which should be carried out in the first half of 2013 with a view to simplifying the Group's structure; (ii) cut operating expenses including management and salary costs (iii) continued the work aimed at improving the Group's capitalisation and lowering its liquidity risk and (iv) began the process of reassessing the values of the Group's assets, which was completed by 10 January 2013.

REVENUE AND PROFIT

	12M 2012	12M 2011	Q4 2012	Q4 2011
In millions of euros				
Revenue				
Development	8.6	23.0	2.9	6.0
Service	2.6	2.4	0.7	0.6
Construction	9.8	18.1	1.2	5.3
Eliminations	-0.3	-0.4	-0.1	-0.1
Total revenue	20.7	43.1	4.7	11.8
Operating profit/loss				
Development	-13.9	1.3	-14.0	1.1
Service	0.3	0.1	-0.3	0.0
Construction	-0.3	-2.8	-0.5	-0.7
Eliminations	0.0	0.3	0.2	0.1
Unallocated income and expenses	-2.2	-1.3	-1.5	-0.3
Total operating profit/loss	-16.1	-2.4	-16.1	0.3
Interest income and expense	-1.4	-1.4	-0.4	-0.2
Other finance income and costs	-0.3	0.2	-0.2	0.0
Income tax expense/income	-0.2	0.2	-0.3	0.2
Net profit/loss	-18.0	-3.4	-17.0	0.3

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

CASH FLOWS

	12M 2012	12M 2011
In millions of euros		
Cash flows from operating activities	2.3	-0.7
Cash flows from investing activities	0.7	0.3
Cash flows from financing activities	-3.5	-1.6
Net cash flow	-0.4	-2.0
Cash and cash equivalents at beginning of period	2.2	4.2
Cash and cash equivalents at end of period	1.8	2.2

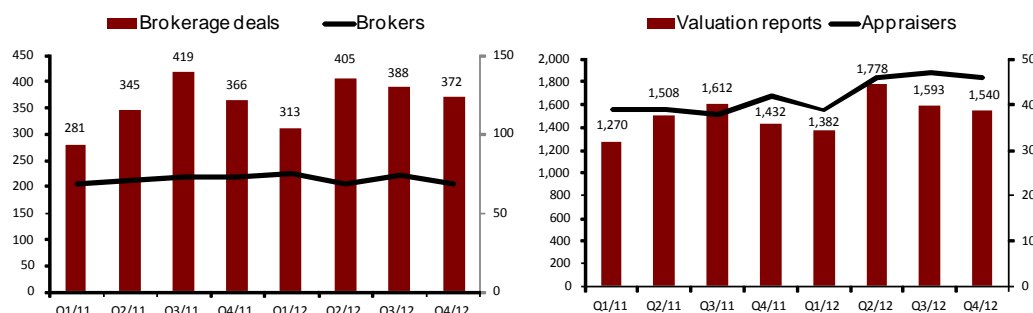
At 31 December 2012, the largest current liabilities to be settled in the next 12 months comprised:

- 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 2.3 million euros;
- repayments of the loan taken for the Hills project in Lithuania of 0.3 million euros.

In 2012, the Group 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, the Group made scheduled repayments of the loans taken for its 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 2012, the Service division performed better than in the year before, generating an operating profit of 337 thousand euros (includes non-recurring income of 553 thousand euros from reassessment of the carrying values of liabilities performed on the merger of companies and expenses of 398 thousand euros from re-measurement of assets) compared with an operating profit of 140 thousand euros for 2011. Revenue for 2012 was 2,597 thousand euros, 8% up on 2011. The number of brokerage transactions increased by 5% and the number of valuation reports issued grew by 8% year over year. At the same time, the number of brokers decreased by 5% and the number of appraisers increased by 10%.



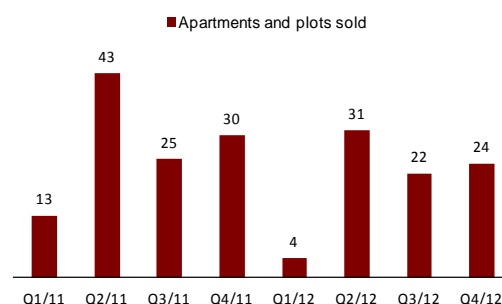
	12M 2012	12M 2011	Change, %
Number of completed brokerage transactions	1,478	1,411	5%
Number of projects on sale	196	139	41%
Number of valuation reports issued	6,293	5,822	8%
Number of appraisers*	46	42	10%
Number of brokers*	69	73	-5%
Number of staff at end of period	37	45	-18%

* Includes people working under service contracts

DEVELOPMENT DIVISION

In 2012, Arco Vara sold 75 apartments and six plots in its own projects: seven apartments in the Bišumuiža project and six plots in the Baltezers project in Latvia and 45 apartments in the Kodukolde project in Estonia. In addition, we sold 23 apartments in the Manastirski and Madrid projects in Bulgaria.

Phase VI of the Kodukolde development project at Helme 16 in Tallinn, which consists of two apartment buildings with a total of 48 apartments, was completed in June. Out of those apartments, 42 were sold (final sales under real right contracts) during the period June to December. At the end of 2012, the project's inventory comprised six unsold apartments and at the date of release of this report the figure was three.



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. On 1 February 2013, Tivoli Arendus OÜ terminated the contract with Nordecon AS because the counterparty had seriously breached its contractual obligations. At the moment, Tivoli Arendus OÜ is being restructured and its business plan revised.

In January 2012, we 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 fourth quarter 12 of the 14 apartments were covered with pre-sale contracts.

In Bulgaria, the construction of phase I of the Manastirski project was completed. By 31 December 2012, 85% of the 74 apartments were either reserved or sold. In the commercial and residential building Boulevard Residence Madrid in Sofia we continue to lease out commercial premises, to deliver reserved apartments under real right contracts, and to sell the remaining free apartments.

In the third quarter of 2012, development and construction of apartment buildings in the Bišumuiža 1 project in Latvia was suspended. However, in February 2013 the construction permit was extended and development of the project continued. A building with 14 apartments and a sellable area of 1,149 square metres, which is currently in the stage of interior finishing works, will be completed in May 2013. After that, the last building, also with 14 apartments, will be developed. The outer shell (external structure) has already been erected. All apartments in the project's previously completed seven buildings have been sold.

In April 2012 we divested our stake in the joint venture Bišumuižas Nami SIA to the venture partner 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. By 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 allow the non-controlling shareholder to exit from the investment in Arco Development SIA.

At the end of 2012, the Development division employed 10 people (31 December 2011: 24).

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

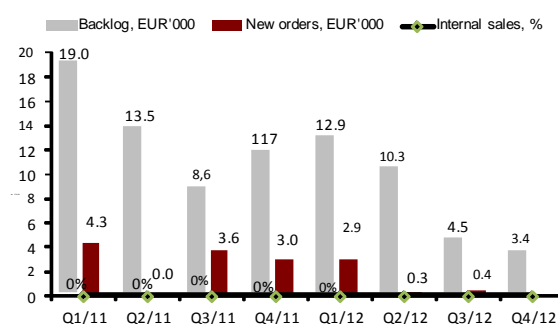
CONSTRUCTION DIVISION

The Construction division specialises in environmental and civil engineering.

At the end of 2012, the largest contracts in progress were the construction of the Paide wastewater treatment plant (remaining balance 1.8 million euros) and the construction of the Kuusalu public water and wastewater network (remaining balance 1.5 million euros).

In the fourth quarter of 2012, no new construction contracts were signed. At the reporting date, the order backlog stood at 3.4 million euros compared with 11.7 million euros at the end of 2011.

At the end of 2012, the Construction division employed 26 people (31 December 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	100%	Unsold: 28 apartments with a total area of 2,298 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 449.1 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 3,927 m ² .	The building is complete, sales continue.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Area of unsold/unreserved apartments and commercial premises 1,090 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	Application for initiating the detailed design plan has been filed.	Investment property
Apartments	Tehnika 53	Estonia, Tallinn	100%	Area of unsold/unreserved apartments 187.3 m ²	The apartment building will be completed in summer 2013.	Inventories
Apartments	Tivoli	Estonia, Tallinn	50%	58,470 m ²	The company is being restructured and its business plan revised.	Investments in joint ventures
Plots	Baltezers-3	Latvia, Riga	100%	68 residential plots with a total area of 120,220 m ²	The plots are being registered. Preparations for construction of phase I infrastructure are under way.	Inventories
Plots	Baltezers-5	Latvia, Riga	100%	Total area of unsold plots 42,254 m ²	Building rights have been obtained. On sale.	Inventories
Plots	Palusambla 1	Estonia, Nõmme	100%	19,773 m ²	The detailed design 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%	40 plots, average plot 1,600 m ²	No building rights. The detailed design plan process is under way. Is awaiting the right market situation.	Investment property
Plots	Tooma	Estonia, Saue	100%	47 plots, average plot 1,900 m ²	No building rights. The detailed design plan process is under way. Is awaiting the right market situation.	Investment property
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3,000 m ²	Building rights have been obtained. Construction design documentation has been prepared. Is awaiting the right market situation.	Investment property

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 2012, the Group employed 86 people compared with 146 at the end of 2011. Employee remuneration expenses for 2012 totalled 3.6 million euros. The figure for 2011 was 3.8 million euros.

In 2012, the remuneration of the member of the management board and the members of the supervisory board of the Group's parent company including social security charges amounted to 230 thousand euros. In 2011, the corresponding figure was 220 thousand euros.

As from 22 October 2012, the member of the management board of Arco Vara AS is Tarmo Sild. The service contract of the former member of the management board Lembit Tampere was terminated 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 31 December 2012, the company had 1,883 shareholders and the share price closed at 1.58 euros, a 23.30% decrease from the previous year-end.

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

In euros (EUR)



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



Index/equity	1 January 2012	31 December 2012	+/-%
OMX Tallinn	531.17	734.20	+38.22
ARC1T	EUR 2.06	EUR 1.58	-23.30

Major shareholders at 31 December 2012	Number of shares	Interest, %
OÜ HM INVESTEERINGUD	902,664	19.04%
OÜ TOLETUM	898,878	18.96%
OÜ BALTPLAST	764,000	16.11%
GAMMA HOLDING OÜ	405,105	8.54%
FIREBIRD REPUBLICS FUND LTD	205,064	4.32%
LHV PENSIONIFOND L	187,000	3.94%
Central Securities Depository of Lithuania	160,607	3.39%
FIREBIRD AVRORA FUND, LTD.	106,897	2.25%
FIREBIRD FUND L.P.	86,600	1.83%
Other	1,024,892	21.61%
Total	4,741,707	100.00%

Holdings of members of the management and supervisory boards at 31 December 2012	Position	Number of shares held	Interest, %
Tarmo Sild	Member of Management Board	0	0%
Richard Tomingas (Toletum OÜ)	Chairman of Supervisory Board	898,878	18.96%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	Member of Supervisory Board	912,171	19.24%
Toomas Tool (OÜ Baltplast)	Member of Supervisory Board	764,000	16.11%
Stephan David Balkin	Member of Supervisory Board	0	0%
Aivar Pilv	Member of Supervisory Board	0	0%
Rain Lõhmus (LHV pension funds M, L, XL)	Member of Supervisory Board	270,145	5.70%
Arvo Nõges (Gamma Holding OÜ)	Member of Supervisory Board	405,105	8.54%
Total		3,250,299	68.55%

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 31 December 2012, the weighted average duration of interest-bearing liabilities was 2 years, which means that on average all loans need to be refinanced every two years. Although at the end of 2012 the Group's cash and cash equivalents totalled 1.7 million euros, 1.1 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 2012, the Group's interest-bearing liabilities decreased by 6.4 million euros to 18.7 million euros at 31 December 2012. In 2012, interest payments on interest-bearing liabilities totalled 1.4 million euros. Compared with 2011, the weighted average interest rate decreased from 7.4% 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
and Member of the Management Board of Arco Vara AS

28 February 2013

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	12M 2012	12M 2011	Q4 2012	Q4 2011
In thousands of euros					
Revenue from rendering of services		13,700	23,214	2,136	6,934
Revenue from sale of goods		7,032	19,918	2,577	4,885
Total revenue	2, 3	20,732	43,132	4,713	11,819
Cost of sales	4	-23,560	-42,790	-9,773	-12,150
Gross profit/loss		-2,828	342	-5,060	-331
Other income	7	1,245	3,049	361	3,031
Marketing and distribution expenses	5	-267	-346	-64	-65
Administrative expenses	6	-3,409	-3,903	-1,399	-933
Other expenses	7	-5,598	-634	-4,844	-526
Losses from equity-accounted joint ventures	8	-5,272	-914	-5,096	-914
Operating profit/loss		-16,129	-2,406	-16,102	262
Finance income	9	84	586	13	84
Finance costs	9	-1,738	-1,811	-618	-342
Profit/loss before income tax		-17,783	-3,631	-16,707	4
Income tax expense/income		-251	250	-251	250
Profit/loss for the year		-18,034	-3,381	-16,958	254
<i>Profit/loss attributable to owners of the parent</i>	10	<i>-17,964</i>	<i>-3,371</i>	<i>-16,956</i>	<i>263</i>
<i>Profit/loss attributable to non-controlling interests</i>		<i>-70</i>	<i>-10</i>	<i>-2</i>	<i>-9</i>
Total comprehensive income/expense for the year		-18,034	-3,381	-16,958	254
Earnings per share (in euros)	10				
- Basic		-3.79	-0.71	-3.58	0.06
- Diluted		-3.79	-0.71	-3.58	0.06

Consolidated statement of financial position

	Note	31 December 2012	31 December 2011
In thousands of euros			
Cash and cash equivalents		1,775	2,209
Trade and other receivables	11	2,906	7,012
Prepayments		188	433
Inventories	12	11,701	21,564
Non-current assets held for sale		0	469
Total current assets		16,570	31,687
Investments in equity-accounted investees		1	4
Other investments		0	8
Trade and other receivables	12	0	3,058
Deferred income tax assets		0	250
Investment property	13	14,097	21,252
Property, plant and equipment		540	934
Intangible assets		21	26
Total non-current assets		14,659	25,532
TOTAL ASSETS		31,229	57,219
Loans and borrowings	14	16,838	9,662
Trade and other payables	15	4,564	7,735
Deferred income		2,081	2,012
Provisions		3,084	1,205
Total current liabilities		26,567	20,614
Loans and borrowings	14	1,231	14,675
Other payables	15	64	741
Total non-current liabilities		1,295	15,416
TOTAL LIABILITIES		27,862	36,030
Share capital		3,319	3,319
Statutory capital reserve		2,011	2,011
Retained earnings		-1,963	15,859
Total equity		3,367	21,189
Equity attributable to non-controlling interests		-5	-447
Equity attributable to equity holders of the parent		3,372	21,636
TOTAL LIABILITIES AND EQUITY		31,229	57,219

Consolidated statement of cash flows

	Note	12M 2012	12M 2011
In thousands of euros			
Loss for the year		-18,034	-3,381
<i>Adjustments for non-cash transactions:</i>			
Interest income and expense	9	1,356	1,381
Gain/loss on sale of subsidiaries and interests in joint ventures	9	0	-285
Losses from equity-accounted joint ventures	8	5,272	914
Losses on other long-term investments		285	88
Change in fair value of investment property	7	4,080	-2,998
Gain/loss on sale of investment property	7	699	92
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	4, 6	398	99
Gain/loss on sale of property, plant and equipment and intangible assets	7	-14	28
Loss on write-down of inventories	4	5,869	1,214
Gain/loss on value adjustments to other assets and liabilities		-17	131
Gain on sale of other assets	7	-192	0
Foreign exchange gains and losses	9	8	7
Income tax expense/income		251	-250
Operating cash flow before working capital changes		-39	-2,960
Changes in working capital		2,378	2,290
NET CASH FROM/USED IN OPERATING ACTIVITIES		2,339	-670
Acquisition of property, plant and equipment and intangible assets		-28	-94
Proceeds from sale of property, plant and equipment and intangible assets		14	5
Paid on development of investment property		0	-967
Proceeds from sale of investment property		1,160	774
Acquisition of investments in subsidiaries and joint ventures		-12	-4
Proceeds from sale of investments in subsidiaries and joint ventures		0	893
Loans granted		-400	-631
Repayment of loans granted		77	114
Other payments related to investing activities		-90	0
Interest received		17	197
NET CASH FROM INVESTING ACTIVITIES		738	287
Proceeds from loans received	14	2,399	6,646
Settlement of loans and finance lease liabilities	14	-4,181	-6,308
Interest paid		-1,698	-1,955
Other payments related to financing activities		-31	0
NET CASH USED IN FINANCING ACTIVITIES		-3,511	-1,617
NET CASH FLOW		-434	-2,000
Cash and cash equivalents at beginning of year		2,209	4,209
Decrease in cash and cash equivalents		-434	-2,000
Cash and cash equivalents at end of year		1,775	2,209

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						
Original balance at 31 December 010	3,030	2,011	22,857	27,898	-70	27,828
Adjustment	0	0	-2,794	-2,794	0	-2,794
Adjusted balance at 31 December 2010	3,030	2,011	20,063	25,104	-70	25,034
Change in non-controlling interests through change in the Group's interests in subsidiaries (adjusted)	0	0	339	339	-339	0
Effect of acquisition of a subsidiary	0	0	-464	-464	0	-464
Increase of share capital	289	0	-289	0	0	0
Total comprehensive expense for the year (adjusted)	0	0	-3,343	-3,343	-38	-3,381
Adjusted balance at 31 December 2011	3,319	2,011	16,306	21,636	-447	21,189
Acquisition of non-controlling interests	0	0	-300	-300	512	212
Total comprehensive expense for the year	0	0	-17,964	-17,964	-70	-18,034
Balance at 31 December 2012	3,319	2,011	-1,958	3,372	-5	3,367

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 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	
	12M 2012	12M 2011	12M 2012	12M 2011	12M 2012	12M 2011	12M 2012	12M 2011	12M 2012	12M 2011	12M 2012	12M 2011
In thousands of euros												
External revenue	8,604	22,941	2,326	2,086	9,801	18,102	1	3	0	0	20,732	43,132
Change	-62%	50%	12%	30%	-46%	110%					-52%	104%
Inter-segment revenues	35	73	271	318	0	0			-306	-391	0	0
Total revenue	8,639	23,014	2,597	2,404	9,801	18,102	1	3	-306	-391	20,732	43,132
Operating profit/loss	-13,917	1,348	337	140	-272	-2,859	-2,205	-1,348	-72	313	-16,129	-2,406
Of which inventory write-downs	-5,844	-1,214	0	0	-25	0					-5,869	-1,214
Of which net value adjustments to investment property	-3,824	2,998	-256	0	0	0					-4,080	2,998

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	Q4 2012	Q4 2011	Q4 2012	Q4 2011	Q4 2012	Q4 2011	Q4 2012	Q4 2011	Q4 2012	Q4 2011	Q4 2012	Q4 2011
In thousands of euros												
External revenue	2,918	5,963	609	532	1,186	5,324	0	0	0	0	4,713	11,819
Change	-51%	57%	14%	17%	-78%	110%					-60%	74%
Inter-segment revenues	11	27	61	110	0	0	0	0	-72	-137	0	0
Total revenue	2,929	5,990	670	642	1,186	5,324	0	0	-72	-137	4,713	11,819
Operating profit/loss	-13,974	1,145	-326	49	-458	-651	-1,493	-360	149	79	-16,102	262

Assets and liabilities by operating segment

Segment	Development		Service		Construction		Unallocated assets and liabilities		Consolidated	
As at 31 December	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
In thousands of euros										
Assets	27,605	49,794	486	405	2,310	5,460	828	1,560	31,164	57,219
Liabilities	23,382	29,716	623	281	2,746	5,932	1,111	101	27,862	36,030

3. Revenue

	12M 2012	12M 2011	Q4 2012	Q4 2011
In thousands of euros				
Revenue from construction services	9,892	19,330	1,184	5,915
Revenue from sale of properties ¹	7,032	19,918	2,577	4,885
Revenue from brokerage services	2,205	1,692	591	453
Rental income	1,349	1,668	304	432
Revenue from property management services	160	417	30	78
Other revenue	94	107	27	56
Total revenue	20,732	43,132	4,713	11,819

¹ The figure for 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

	12M 2012	12M 2011	Q4 2012	Q4 2011
In thousands of euros				
Cost of construction services purchased	-8,554	-20,330	-837	-5,937
Cost of properties sold ¹	-6,180	-18,095	-2,257	-4,135
Personnel expenses	-2,103	-2,042	-578	-585
Inventory write-downs (note 12)	-5,869	-1,214	-5,869	-1,214
Management and administration costs	-557	-773	-163	-188
Vehicle expenses	-164	-203	-38	-57
Depreciation, amortisation and impairment losses	-19	-13	-4	-3
Other costs	-114	-120	-27	-31
Total cost of sales	-23,560	-42,790	-9,773	-12,150

¹ The figure for 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

	12M 2012	12M 2011	Q4 2012	Q4 2011
In thousands of euros				
Advertising expenses	-155	-199	-37	-37
Personnel expenses	-43	-48	-14	-6
Brokerage fees	-26	-3	-3	-1
Market research expenses	-4	-22	0	-3
Other marketing and distribution expenses	-39	-74	-10	-18
Total marketing and distribution expenses	-267	-346	-64	-65

6. Administrative expenses

	12M 2012	12M 2011	Q4 2012	Q4 2011
In thousands of euros				
Personnel expenses	-1,405	-1,697	-269	-443
Office expenses	-558	-507	-146	-136
Legal and consulting fees	-328	-1,088	-74	-136
Vehicle expenses	-109	-168	-12	-37
Depreciation, amortisation and impairment losses	-379	-86	-332	-24
Impairment losses on receivables	-561	-131	-560	-128
Other expenses	-69	-226	-6	-29
Total administrative expenses	-3,409	-3,903	-1,399	-933

7. Other income and expenses

Other income

	12M 2012	12M 2011	Q4 2012	Q4 2011
In thousands of euros				
Gain on changes in the fair value of investment property (note 13)	153	2,998	153	2,998
Gain on sale of investment property	13	0	11	0
Gain on sale of property, plant and equipment	5	3	5	2
Gain on sale of other assets ¹	192	0	0	0
Income on reassessment of liabilities	604	0	11	0
Miscellaneous income	278	48	181	31
Total other income	1,245	3,049	361	3,031

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.

Other expenses

	12M 2012	12M 2011	Q4 2012	Q4 2011
In thousands of euros				
Loss on changes in the fair value of investment property (note 13)	-4,233	0	-4,233	0
Loss on sale of investment property ¹	-712	-92	0	-92
Loss on sale and impairment of other non-current assets	-9	-28	-7	0
Write-down of receivables	-587	0	-571	0
Late payment interest and penalty charges	-47	-457	-23	-406
Miscellaneous expenses	-10	-57	-10	-28
Total other expenses	-5,598	-634	-4,844	-526

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

8. Loss from equity-accounted joint ventures

In 2012, losses on the write-down of loan and other receivables from joint ventures totalled 3,313 thousand euros (2011: 914 thousand euros). In addition, in 2012 the Group made provisions of 1,959 thousand euros in connection with surety guarantees provided to the loan commitments of its joint ventures (note 16).

9. Finance income and costs

<i>Finance income</i>					
		12M 2012	12M 2011	Q4 2012	Q4 2011
In thousands of euros					
Gain on sale of subsidiaries		0	285	0	0
Interest income		84	298	13	84
Foreign exchange gain		0	2	0	0
Other finance income		0	1	0	0
Total finance income		84	586	13	84

<i>Finance costs</i>					
		12M 2012	12M 2011	Q4 2012	Q4 2011
In thousands of euros					
Interest expense		-1,440	-1,679	-435	-315
Foreign exchange loss		-8	-9	-2	-3
Other finance costs		-290	-123	-181	-24
Total finance costs		-1,738	-1,811	-618	-342

10. 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.

	12M 2012	12M 2011	Q4 2012	Q4 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 of euros)	-17,964	-3,371	-16,956	263
Earnings per share (in euros)	-3.79	-0.71	-3.58	0.06

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.

11. Trade and other receivables

<i>Short-term trade and other receivables</i>			
		31 December 2012	31 December 2011
In thousands of euros			
Trade receivables			
Trade receivables		2,214	4,874
Impairment allowance		-463	-130
Total trade receivables		1,751	4,744
Other receivables			
Loans granted		580	634
Miscellaneous receivables		221	517
Total other receivables		801	1,151

Accrued income		
Accrued interest	230	200
Due from customers under long-term construction contracts	0	425
Prepaid and recoverable taxes	112	491
Other accrued income	12	1
Total accrued income	354	1,117
Total short-term trade and other receivables	2,906	7,012

Long-term trade and other receivables

	31 December 2012	31 December 2011
In thousands of euros		
Loans granted	0	2,981
Long-term interest receivables	0	17
Other long-term receivables	0	60
Total long-term trade and other receivables	0	3,058

12. Inventories

	31 December 2012	31 December 2011
In thousands of euros		
Properties purchased and developed for resale	11,090	20,604
Materials and finished goods	92	155
Prepayments to inventory suppliers	519	805
Total inventories	11,701	21,564

In connection with a decrease of the net realisable value below the carrying amount, in 2012 inventories were written down by 5,869 thousand euros (2011: 1,412 thousand euros). In 2011, the Group reversed prior period inventory write-downs of 198 thousand euros. See also note 4.

13. Investment property

In thousands of euros	
Balance at 31 December 2010	20,093
Acquisitions	640
Acquired on acquisition of subsidiaries	55
Capitalised development costs	1,047
Gain on change in fair value (note 7)	2,998
Transfer from inventories	501
Sales	-1,739
Disposals on disposal of subsidiaries	-1,650
Transfer to non-current assets held for sale	-309
Transfer to property, plant and equipment	-384
Balance at 31 December 2011	21,252
Loss on change in fair value (note 7)	-4,080
Transfer from inventories	1,000
Sales	-4,075
Balance at 31 December 2012	14,097

14. Loans and borrowings

	31 December 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	18,032	16,824	1,208	22,019	7,381	14,638
Finance lease liabilities	37	14	23	49	12	37
Other loans	0	0	0	2,269	2,269	0
Total	18,069	16,838	1,231	24,337	9,662	14,675

In 2012, the Group settled loans and borrowings of 4,181 thousand euros (2011: 6,308 thousand euros) through cash transactions and raised new loans and borrowings of 2,399 thousand euros (2011: 6,646 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 2,951 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.

15. Trade and other payables

Short-term trade and other payables

	31 December 2012	31 December 2011
In thousands of euros		
Trade payables	2,050	6,040
Miscellaneous payables	739	103
Taxes payable		
Value added tax	291	143
Corporate income tax	220	210
Personal income tax	33	68
Social security tax	61	106
Other taxes	91	13
Total taxes payable	696	540
Accrued expenses		
Accrued interest payables	91	3
Payables to employees	217	256
Accrued expenses from service contracts	742	649
Other accruals	29	144
Total accrued expenses	1,079	1,052
Total short-term trade and other payables	4,564	7,735

Long-term trade and other payables

	31 December 2012	31 December 2011
In thousands of euros		
Retentions payable	64	65
Interest payable	0	35
Other long-term payables	0	641
Total long-term trade and other payables	64	741

16. 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 that had significant influence over the Group's Latvian operations and companies controlled by him were regarded as related parties of the Group until 30 September 2012.

Transactions with related parties

	12M 2012	12M 2011
In thousands of euros		
Joint ventures and associates		
Revenue	2	0
Sale of properties	0	8,309
Provision of loans ¹	314	3,311
Conversion of receivables ¹	959	0
Other related parties		
Sale of goods and services	95	13
Purchase of services	248	304
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

	31 December 2012	31 December 2011
In thousands of euros		
Joint ventures and associates		
Trade receivables	0	36
Trade payables	0	1
Short-term loan receivables	0	0
Long-term loan receivables ²	0	2,981
Short-term interest receivables	0	85
Long-term interest receivables	0	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	136	114
Other related parties		
Trade receivables	0	0
Short-term loan receivables ³	175	226
Short-term interest receivables ³	93	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 31 December 2012, receivables from Arco HCE OÜ that had been written down (not included within *Balances with related parties* above) totalled 195 thousand euros. In addition, the Group has made a provision of 1,917 thousand euros for the surety guarantee provided to the loan commitments of Arco HCE OÜ.

² In the fourth quarter of 2012, the Group wrote down all its receivables from joint venture Tivoli Arendus OÜ of 2,967 thousand euros in aggregate. In addition, the Group made a provision of 1,000 thousand euros for the surety guarantee provided to the loan commitments of Tivoli Arendus OÜ.

³ At 31 December 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 229 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.

In 2012, 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, including social security charges, amounted to 230 thousand euros (2011: 220 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.

17. Contingent assets and liabilities

Claims filed against Arco Ehitus OÜ

A bankruptcy petition has been filed against Arco Ehitus OÜ. The claim indicated in the petition amounts to 275 thousand euros. In addition, Arco Ehitus OÜ is a respondent to ten statements of claim of 1,644 thousand euros in aggregate.

Surety guarantee provided to joint venture Arco HCE OÜ

The Group's subsidiary Arco Investeeringute AS has agreed to stand surety for a bank loan taken by the Group's joint venture Arco HCE OÜ to the extent of 1,917 thousand euros. The Group's management board has estimated the probability of the realisation of the obligation and has made a provision extending to 100% of the surety obligation, i.e. 1,917 thousand euros.

Surety guarantee provided to joint venture Tivoli Arendus OÜ

Arco Vara AS has agreed to stand surety for a bank loan taken by the Group's joint venture Tivoli Arendus OÜ to the extent of 5,650 thousand euros. The Group's management board has estimated the probability of the realisation of the obligation and has made a provision extending to 17.7% of the surety obligation, i.e. 1,000 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 mortgages. The guarantees expire within up to three years. The Group considers the probability of the realisation of the guarantees and surety bonds remote. Therefore, respective provisions have not been recognised in the statement of financial position.

At the end of 2012, bank guarantees provided to customers to secure Group entities' commitments under construction contracts totalled 1,434 thousand euros (31 December 2011: 620 thousand euros).

18. Events after the reporting date

On 11 January 2013, Arco Vara AS announced via the stock exchange that as a result of a reassessment of the Group's assets and liabilities conducted during the period November 2012 to 10 January 2013, the Group's assets and liabilities as at 31 December 2012 were restated as follows: receivables were written down by 3.46 million euros, inventories and investment properties were written down by 14.25 million euros and provisions were increased by 1.96 million euros.

On 31 January 2013, the Group organised an investor webinar where Arco Vara's chief executive Tarmo Sild explained the adjustments made to the carrying values of the Group's inventories, investment properties and receivables and introduced the Group's further action plan.

On 1 February 2013, Tivoli Arendus OÜ terminated its design and build contract with Nordecon AS because the contractor had seriously breached its contractual obligations.

On 4 February 2013, Arco Vara announced that in order to recover a loan Danske Bank A/S had initiated enforcement proceedings against Arco HCE OÜ, which is a 50% joint venture of Arco Investeeringute AS that is a wholly-held subsidiary of Arco Vara AS. On 20 February 2013, the court satisfied ARCO HCE OÜ's application for securing the action and suspended the enforcement proceedings against the company.

In February 2013, authorities extended the construction permit issued to Arco Development SIA, a wholly-held Latvian subsidiary of Arco Investeeringute AS that is a wholly-held subsidiary of Arco Vara AS, for development of apartment buildings in the Bišumuiža 1 project.

19. Group structure

Company	Domicile	Group's ownership interest	
		31 December 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
Arco Real Estate SIA ¹	Latvia	78.5	78.5
Adepto SIA ¹	Latvia	78.5	78.5
Associates			
Arco Property Management SIA ¹	Latvia	40	40
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 Rīga 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 fourth quarter and twelve months of 2012 as set out on pages 2-32.

The interim report has been prepared in accordance with IAS 34 *Interim Financial Reporting* and it gives a true and fair view of the financial position, financial performance and cash flows of Arco Vara AS. Arco Vara AS is a going concern.

Tarmo Sild

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

28 February 2013