

**INTERIM REPORT FOR THE
FOURTH QUARTER AND TWELVE MONTHS
ENDED 31 DECEMBER 2013
(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)

Construction of buildings (EMTAK 4100)

Civil engineering (EMTAK 4200)

Specialised construction activities (EMTAK 4300)

Financial year: 1 January 2013 – 31 December 2013

Reporting period: 1 January 2013 – 31 December 2013

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

CONTENTS

DIRECTORS' REPORT	4
GROUP CHIEF EXECUTIVE'S REVIEW	8
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	19
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	19
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	20
CONSOLIDATED STATEMENT OF CASH FLOWS	21
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	22
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	23
1. SIGNIFICANT ACCOUNTING POLICIES	23
2. SEGMENT INFORMATION	23
3. REVENUE.....	24
4. COST OF SALES.....	24
5. MARKETING AND DISTRIBUTION EXPENSES	25
6. ADMINISTRATIVE EXPENSES	25
7. OTHER INCOME AND EXPENSES	25
8. GAIN/LOSS ON TRANSACTIONS INVOLVING SUBSIDIARIES AND JOINT VENTURES	26
9. FINANCE INCOME AND COSTS	26
10. EARNINGS PER SHARE	26
11. RECEIVABLES AND PREPAYMENTS	27
12. INVENTORIES	27
13. INVESTMENT PROPERTY.....	27
14. LOANS AND BORROWINGS	28
15. PAYABLES AND DEFERRED INCOME.....	28
16. RELATED PARTY DISCLOSURES	29
17. SUBSEQUENT EVENTS	31
STATEMENT BY THE CHIEF EXECUTIVE/MEMBER OF THE MANAGEMENT BOARD	32

Directors' report

ARCO VARA GROUP

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

The core business of the Service division consists of real estate brokerage and valuation, real estate management and consulting, and short-term investment in residential real estate.

The core business of the Development division is development of complete living environments and commercial real estate. Fully developed housing solutions are sold to the end-consumer. In the development of commercial real estate, the purpose is to create an asset generating cash flow that can either be held for consolidating the group's own cash flows or sold. The group is currently holding some completed commercial properties that generate rental income.

The core business of the Construction division was provision of general construction and environmental engineering services as a general contractor or a subcontractor. We are planning to discontinue provision of construction services to external customers by the end of 2013 and do not intend to start any new projects funded by the public sector or the EU.

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

At the end of the IV quarter of 2013, the group comprised of 23 companies (31 December 2012: 23). In addition, at 31 December 2013 the group had one joint venture (31 December 2012: 2) and one associate (31 December 2012: 1).

The group's active markets are Estonia, Latvia and Bulgaria.

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

KEY PERFORMANCE INDICATORS

- Revenue for 12 months 2013 was 14.2 million euros, which was 31% lower compared to previous year. Most significant reduction in revenues is related to construction services, decreased by 6.3 million euros in 2013. Revenue of development division decreased by 0.6 million euros or 7% and revenue of service division increased by 0.3 million euros or 13%. Revenue decreased in Q4 2013 by 59% compared to the same period of last year.
- Operating profit for 2013 was 4.4 million euros, significant part of which was gain from reversals of provisions and revaluations of assets and liabilities by 3.1 million euros in total. In 2012, operating loss was 16.1 million euros, of which loss from recognition of provisions and revaluation of assets and liabilities totalled 15.8 million euros.
- The group ended up year 2013 with net profit of 3.4 million euros. Last year, net loss was 18 million euros.
- In 2013, equity to assets ratio showed significant improvement. As at 31 December 2013, it was 27%, compared to 11% at 31 December 2012.
- The group net loans have decreased to 14 million euros as at the end of 2013 (17.1 million euros as at 31 December 2012). Average annual interest rate of loans decreased to 6.0%, annual decrease by 0.5 percentage point.
- In 2013, was sold 73 apartments, plots and commercial areas developed in the group (81 in 2012), of which 14 in Q4 2013 (24 in Q4 2012).

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In millions of euros				
Revenue	14.2	20.7	1.9	4.7
Operating profit/loss	4.4	-16.1	1.6	-16.1
Net profit/loss	3.4	-18.0	1.4	-17.0
EPS (in euros)	0.72	-3.79	0.30	-3.58
Total assets at period-end	25.1	31.2		
Invested capital at period-end	21.7	21.4		
Net loans at period-end	14.0	17.1		
Equity at period-end	6.8	3.4		
Average loan term (in years)	0.3	2.0		
Average interest rate of loans (per year)	6.0%	6.5%		
ROIC (rolling, four quarters)	neg	neg		
ROE (rolling, four quarters)	neg	neg		
Number of staff at period-end	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)

Equity to assets ratio = equity at end of period / total assets at period end

Average equity = past four quarters' equity at end of period / four

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

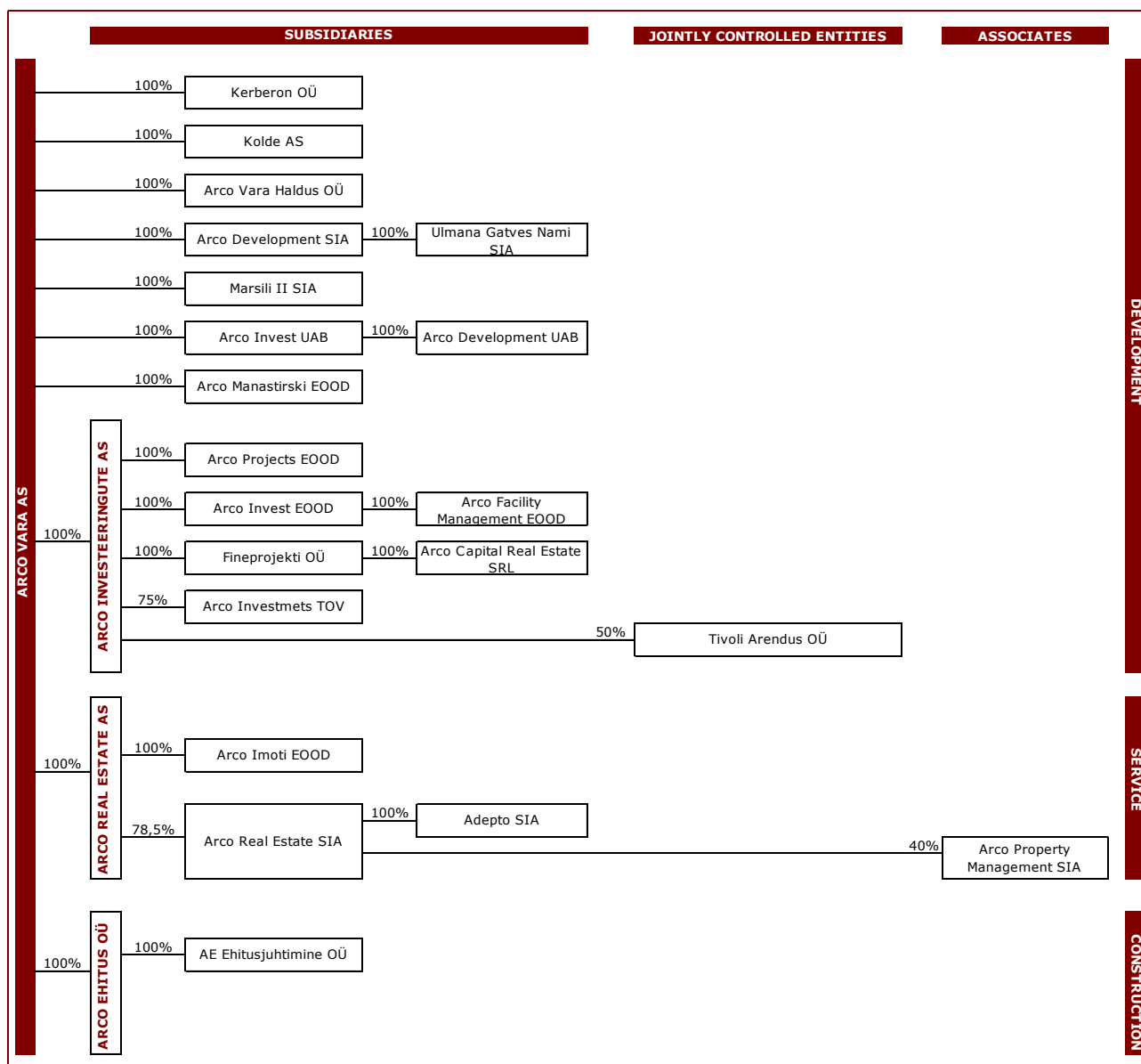
Average invested capital = past four quarters' current interest-bearing liabilities, non-current liabilities and equity / four

Return on invested capital (ROIC) = past four quarters' profit before tax and interest expense / average invested capital

Number of staff at period-end = number of people working under employment and service contracts

GROUP STRUCTURE

As at 31 December 2013



CHANGES IN GROUP STRUCTURE DURING 2013

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

On 30 May 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary T53 Maja OÜ to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and loan relations and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

On 31 May 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary Kolde AS to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

On 20 June 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary Kerberon OÜ to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and loan relations and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

On 1 July 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary Arco Development SIA to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and loan relations and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

On 8 July 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary Arco Invest UAB to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and loan relations and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

On 17 July 2013, Arco Investeeringute AS divested its 100% interest in the subsidiary Marsili II SIA to the group's parent Arco Vara AS. The purpose of the divestment was to streamline the group's structure and loan relations and achieve administrative cost efficiencies. The transaction had no impact on the group's financial position or financial performance.

On 9 August 2013, the group's Bulgarian subsidiary Arco Invest EOOD established subsidiary Arco Manastirski EOOD with 100% ownership and share capital amounted to 2,676 thousand euros. On 4 September 2013, Arco Invest EOOD divested its shares in Arco Manastirski EOOD to Arco Vara AS. The transaction had final registrations in October 2013. The aim of transaction was separate different assets into separate legal entities (Madrid Blvd development and Manastirski Livadi development). The transaction had no impact on the group's financial position or financial performance.

On 30 September 2013, the group's subsidiary T53 Maja OÜ was renamed to Arco Vara Haldus OÜ.

On 29 November 2013, Arco Investeeringute AS sold its 50% share in the joint venture Arco HCE OÜ to Ahtrimaa OÜ, the other 50% shareholder of the joint venture. In the framework of the transaction the credit relations related to Ahtri 3 were restructured and all court disputes between Danske bank on the one hand and Arco HCE OÜ, Arco Investeeringute AS and Ahtrimaa OÜ on the other hand became settled. The group has no more rights or obligations related to Arco HCE OÜ or Ahtri 3 land plot. As a result of the transaction the group reversed provision in amount of 1.9 million euros that was created in previous years to cover the possible obligations arising from the surety to Danske bank.

Group continues restructuring and simplification of group structure. The goal is to have two-tier group structure. Restructuring must meet two criterias:

- i) Direct control of all relevant business entities by parent company;
- ii) Separating all development projects into separate companies- i.e. one project, one entity.

As a result all risks, revenues and liabilities of separate projects are kept in individual companies. Due to changes parent company will have direct control of all development projects (as owner and creditor) and other relevant subsidiaries which offer products and services to clients.

Group Chief Executive's review

Q4 and the whole year ended successfully for the group. The management's objective in general terms was to restructure of the group's balance sheet to such extent that it would contain only actively productive assets and related liabilities. We had to remove from the balance sheet non-productive assets and liabilities related to them. All objectives that were set in the beginning of year became fulfilled, especially the re-launch of profitable development activities in Riga and in Sofia, as well as acquisition of landbank at Paldiski road in Tallinn that is suitable for future profitable development. The group cleaned its balance sheet: exited from Tivoli and Ahtri projects and was released from related liabilities. The group completed the sale and delivery of blocked apartments in Sofia and reduced its outstanding loan liability. Arco construction company performed duly its pending contracts and is, as at the date of the present report, sold out of the group. The operations volume of service division grew.

Development division: mass developments:

- a) We proceeded according to timetable with the project in Tallinn, Paldiski road 70c, which is currently in detail planning stage. Presumed volume is 300 apartment units, presumed gross sellable area (GSA) above grade 24 000 sq.m.
- b) On 15.11.2013 we started the construction of the project in Sofia, Manastirski Livadi Stage II with presumed volume of 132 apartment units and gross sellable area above grade of 12 500 sq.m. As of the date of the present report, construction is ahead of schedule by two weeks and more than 30% of gross sellable area is already booked by means of presale agreements.
- c) We will also proceed with Manastirski Livadi Stage III where the group is the owner of the immovable, construction rights and partly completed under grade construction. Presumed project volume is exceeding 70 apartments and GSA above ground is in excess of 6,000 sq.m. The project will be launched in accordance with fulfilment of the internal sales targets of Stage II, presumably by end of 2015;
- d) The group continues selling Bisumuiša-1 apartments in Riga. As at the end of Q4, 2 apartments from the finished 14 apartment block remained unsold and as at the date of the present report, the construction of the last 14-apartment block is pending. The pre-sale will commence in March 2014.
- e) In Estonia, the next consumer residence products will be ready for delivery in 2015 as planned.
- f) The biggest risk of upcoming quarters is related to consequences of nonperformance of the Piraeus Bank loan agreement by Arco Invest EOOD, fully owned subsidiary of the group. The loan was received for construction of the Madrid blvd building in Sofia. The liabilities relates to Madrid Blvd building are a little smaller, than the value of the said building in the balance sheet and neither the group's parent nor any of its significant subsidiaries is guaranteeing these liabilities. According to the loan agreement, Arco Invest EOOD is obliged to repay during 2014 1.8 million euros and by June 30, 2015 the rest of remaining principal in amount of 10.4 million euros. Although the lettable area in the building is 99% occupied and is producing positive cashflow, which among others is sufficient to cover all loan interest costs, the sales pace of existing apartments stock in the building is not sufficient to catch up the principal repayment schedule of 1.8 million euros during 2014. The deadline of full principal repayment by June 2015 presumes the sale of lettable area by that time. As of the date of present report, Arco Invest EOOD has failed to repay principal in amount of ca 250.000 euros in due time. The negotiations with Piraeus bank to terminate the construction loan agreement and refinance it with a long term investment loan that is served from the rent revenues of Arco Invest EOOD are pending. It is also possible that the group will complete the interior works of unsold apartments and puts them to the short-term rental market, a business concept that the group started already in 2013.

Comment on sale revenues

As a minimum it takes more than 4 years to complete one full production cycle of the group's main product – residential or office property, if one counts the time from the moment of acquisition of the land without building rights, followed by design, construction and selling or letting out.

The sale revenues of Q4 met the expectations.

The groups own projection for 2014 revenues is 9 million euros, of which 50% is made by sale of development products, 11% is made by rent of development products and 39% is made by service division.

The sale revenue of development products remains minimal until Q4 2014 and consists until Q4 mainly of the revenue from sale of Riga apartments. We will complete construction and start the delivery of Manastriski Livadi II apartments in Q4. The revenue from rents is stable throughout the year, as well as the revenue from service division.

Comment on profit

The groups target for 2013 was to achieve operating profit. After 12 months, we are making operating profit as well as net profit in service and development division, and the group makes net profit. Partly the profit was made because the group solved the problems underlying the provisions that were created previously. At foremost it is pleasing that the group made money for its shareholders and created added value for its customers with its development products and services.

The group expects to make in 2014 an operating profit of not less than 1.5 million and net profit of not less than 500 thousand euros.

Development division is the most profitable part of the group and remains so in the foreseeable future, depending on its sale volumes, of course. Sale volumes and especially their future increase depend, in case of Arco Vara, at foremost on success of creating its own landbank, professional design, optimal construction and group finance. We are engaged in all these directions simultaneously, as reported also previously.

As regards the service division, it should be continuously noted that we have increased expenditure and investments into main assets and work processes improvement (software, team trainings etc), which have been postponed in previous years. This reduces the profitability of service division in 2014. In the long run the expenditure and investments should result in further increase of service division's revenue and also increase of profit. It should also bring along the further improvements in the quantity and quality of the input data for development division.

Construction division completed the year and fulfillment of existing contracts with a minimal loss, that is an optimal result, all circumstances considered. We have no plans to continue construction activities in the same line.

REVENUE AND PROFIT

	12month 2013	12 month 2012	Q4 2013	Q4 2012
In millions of euros				
Revenue				
Development	8.1	8.6	1.2	2.9
Service	2.8	2.6	0.8	0.7
Construction	3.5	9.8	0.0	1.2
Eliminations	-0.2	-0.3	-0.1	-0.1
Total revenue	14.2	20.7	1.9	4.7
Operating profit				
Development	5.1	-14.9	2.4	-14.8
Service	0.2	0.3	0.0	-0.3
Construction	-0.1	-0.3	-0.6	-0.5
Elimination	-0.3	0.2	0.0	0.2
Unallocated income and expenses	-0.5	-1.4	-0.2	-0.8
Total operating profit	4.4	-16.1	1.6	-16.2
Finance income and expenses (net)	-1.0	-1.7	-0.2	-0.6
Income tax	0.0	-0.2	0.0	-0.2
Net profit	3.4	-18.0	1.4	-17.0

CASH FLOWS

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In millions of euros				
Cash flows from operating activities	0.3	2.3	0.5	2.2
Cash flows from/used in investing activities	1.7	0.8	0.3	-0.1
Cash flows used in financing activities	-2.9	-3.5	-0.5	-1.5
Net cash flows	-0.9	-0.4	0.3	0.6
Cash and cash equivalents at beginning of period	1.8	2.2	0.6	1.2
Cash and cash equivalents at end of period	0.9	1.8	0.9	1.8

During next 12 months the group must pay back 1.45 million euros of loans in Boulevard Residence Madrid in Sofia. During 12 months of 2013 the group has made loan repayments in Madrid and Manastirski projects in Sofia and completely paid back loans of Pärnu Turg, Kodukolde and Kastanimaja projects in Estonia.

Also sale-related debt reduction has been occurred in Marsili II SIA and loan payment schedule has been set for loan of Arco Real Estate AS.

SERVICE DIVISION

Service division Estonia

Arco Real Estate Ltd and Arco Vara Haldus Ltd make up the Estonian service division. The most important part of Arco Real Estate Ltd's turnover in 2013 IV quarter was made up by brokerage activities and valuations. There were 211

brokerage transactions and 640 valuation reports. The turnover of both activities together in IV quarter was 366,6 thousand euros which is 25,3% of the sales of the entire year. Compared to 2012 last quarter the turnover has decreased 4,8%. During the last quarter of 2013 were sold the last remaining apartments of the Lutheri Quarter (Vana-Lõuna 39) the sales of which had given largest part of revenue in 2012. During the year the brokerage fees and exclusive sale mandates in the brokerage activities have decreased which consequently have led to the decrease in brokerage sales revenue. In the appraisal activity the unit price has however increased and this has affected the revenue of the appraisal activity. The 12 month turnover of the company was 1 444.1 thousand euros which is 6% less than the 12 months results in 2012 (1 538.9 thousand euros).

The brokerage activities are in many ways affected by the real estate developers' desire to sell their own products and hire a sale manager instead of giving the exclusive sale mandate to real estate agencies. On the other hand the appraisal activity is with each year more and more being transferred to the certificated valuers.

In the VI quarter Arco Real Estate Ltd continued increasing the volume of activity and recruiting additional employees. At the end of the year 62 people worked at the company. The company has decided to put more emphasis to providing better service to Russian-speaking clients. In order to reach that goal a representative of Arco Real Estate Ltd has been hired to cover the region of St. Petersburg.

As a result of the reformation of T53 Maja Ltd Arco Vara Haldus Ltd was established and started providing property management services. The goal of the company is to develop a sufficient clientele primarily in managing the commercial real estate. Company started operating in IV Quarter of 2013 and there is no revenue from maintenance activities. Company had one employee by year-end.

Service division activities in Latvia

In Latvia the service division consists only of brokerage and appraisal activity. Arco Real Estate Ltd the minority shareholding, i.e 40%, in Arco Facility Management Ltd. Due to the fact that we have minority participation and Arco Vara group does not control the activity of the mentioned related company the results of it have not been disclosed in the quarterly report.

The turnover of the brokerage and appraisal activity increased in IV quarter abruptly. The growth in the brokerage activity compared to the same period last year was up to 101%, i.e 137 thousand euros (68,3 thousand euros in 2012 IV quarter) and in the appraisal activity the growth was 10%, i.e up to 135,1 thousand euros (122,9 thousand euros in 2012 IV quarter). The reason for the extremely large growth of the turnover was the fear that the Republic of Latvia will stop or limit the issuance of residence permits to those foreigners who acquire real estate in Latvia. Today it is known that the government will prolong the residence permit program until 2014 April. By that time the new criteria for issuing residence permits will be worked out. Undoubtedly such a growth in the turnover is temporary and the company does not expect that achieved turnover in brokerage activity will remain the same. The turnover of Arco Real Estate Ltd during 12 months in 2013 was 1005 thousand euros (770 thousand euros for 12 months in 2012) increasing 13%.

At the end of the year 78 people worked at Arco Real Estate Ltd

Service division activities in Bulgaria

Bulgarian service division includes/consist of the following activities:

- real estate brokerage and appraisals (Arco Imoti)
- property management services (Arco Facility Management);
- providing accommodation service (Arco Projects)
- real estate rental service (Arco Invest)

The turnover of the brokerage activity of Arco Imoti Ltd grew in 2013 IV quarter 18%, i.e up to 122 deals per month. Despite the very weak sale results in November and December the turnover of the brokerage activity grew 24%, i.e up to 98,9 thousand euros, compared to the IV quarter of last year. Compared to the IV quarter of last year the turnover of the appraisal activity decreased marginally – from 14,0 thousand euros to 13,5 thousand euros.

The demand for brokerage services in the IV quarter was lower compared to the previous months of the year which is different than the market development in 2012. At the moment the recovery of the demand is detectable and primarily the demand on the market for bigger, 3-bedroom, apartments is increasing. The lack of existing high-quality apartments and new developments has brought along an increase in the market prices of the apartments – approximately 2...3 per cent compared to the same period last year. Regarding the evaluation activities the market has stayed active and in that part the IV quarter of 2013 did not differ significantly from the last year. The main part of the evaluation services is connected to the appraisal of the private residences and apartments or the evaluation of the real estate of the companies (primarily in order to find out the value of the real estate investments).

In IV quarter of 2013 3 new brokers joined the team of Arco Imoti Ltd which makes the total number of people in the broker's team 14. All together 22 people worked at the company at the end of the year.

The turnover of Arco Facility Management Ltd in the IV quarter was 28,2 thousand euros which is 72% more than it was in last year during the same period (16,4 thousand euros). The services are mainly provided in the Madrid commercial building in Sofia. At the end of the IV quarter of 2013 2 peoples worked at the company.

Arco Projects Ltd rents the apartments in the Madrid commercial building. At the end of the IV quarter of 2013 4 apartments were being used by the company. The 2013 IV quarter turnover of the company was 9,9 thousand euros. The company starting providing the rental service only in 2013 and the turnover of the whole year was 23,7 thousand euros. At the end of year 2013 2 employees worked at the company.

Arco Invest Ltd rents out commercial premises in the Madrid complex. The rental turnover of the company at the end of the IV quarter of 2013 was 249,7 thousand euros which is somewhat more than in the last quarter of year 2012 when the rental revenue was 234,8 thousand euros. The revenue of property management and other sale revenue remained basically the same compared to the last quarter of year 2012.

The most important change was the 55% decrease in the real estate sales turnover compared to the IV quarter of 2012. A significant part of the sales, 125 thousand euros, was made up by the sales inside the group (3 apartments were sold to Arco Manastirski Ltd) in order to better manage the risks of the company. This turnover is excluded from consolidated turnover.

DEVELOPMENT DIVISION

Development division activities in Estonia

At the end of the IV quarter of 2013 the development division in Estonia consisted of the following companies:

- Arco Investeeringute Ltd;
- Kolde Ltd;
- Kerberon Ltd;
- T53 maja Ltd.

The turnover of the development division in Estonia in the IV quarter of 2013 was 139.6 thousand euros which was the sale of the last apartment of Tehnika 53. In the last quarter of 2012 the development division in Estonia did not have turnover as well. All together the turnover of the development division in year 2013 was 1 864.0 thousand euros which was made up by the sales of the Tehnika 53 apartments.

The development division in Estonia continued dealing with the proceedings of the detailed plans of Paldiski road 70 and Lehiku street. At the end of year 2013 in Estonia the development division did not have a store with completed products which could be sold.

2 people work in the development division in Estonia.

Development division activities in Latvia

At the end of the IV quarter of 2013 the development division in Latvia consisted of the following companies:

- Arco Development Ltd;
- Marsili II Ltd;
- Ulmana gatves nami Ltd.

The Latvian (including Riga) real estate market has greatly been influenced by the real estate companies of the credit institutions and therefore by the relatively low priced offers that puts pressure on the sales of the new apartments in Riga. On the other hand it is expected that active sales by the real estate companies of the banks will stop in 2014.

Arco Development Ltd continued selling the apartments of Kometas iel 2. In the IV quarter of 2013 5 apartments were sold and the turnover was 294.8 thousand euros (1059 thousand euros in the IV quarter of 2012). All together the sales revenue of 12 months in 2013 was 642.9 euros (the revenue of 12 months in year 2012 was 387.3 thousand euros). 2 apartments were left in the store of the company.

Marsili II Ltd did not have any sales in the last quarter of 2013. In the IV quarter of 2012 2 registered immovables were sold for 69.2 thousand euros. The turnover of the company in 2013 was 134.9 thousand euros (in 2012 212.9 thousand euros). 17 immovables were left in the store of the company.

Development division activities in Bulgaria

The development division in Bulgaria consists of the following two companies:

- Arco Invest Ltd;
- Arco Manastirski Ltd.

The first one develops the Madrid commercial-residential building in the centre of Sofia and sells the immovables of the building. The other one deals with the construction and the sales of the blocks A and B of Manastirski. In 2013 the construction of block A and B of Manastirski was started. The apartmenthouse consists of 132 apartments and 13 commercial areas. The whole development area is 12.5 thousand square metres. By the end of the IV quarter of 2013 the presale contracts for selling 22 apartments and 5 commercial areas were concluded. By the time of submitting the current quarterly report the presale contracts for selling 43 apartments and 8 commercial areas have been concluded. The construction will be finished in the IV quarter of 2014. The turnover of the whole year 2013 as in the IV quarter of 2013 was 85.0 thousand euros.

In the IV quarter of 2013 no immovables were sold in the Madrid building.

At the end of the year 110 apartments and 8 commercial areas were left in the store of the company.

CONSTRUCTION DIVISION

The Construction division included Arco Ehitus Ltd. During the 4th Quarter company did not had any turnover(in 4th quarter 2012 the turnover was 1 187 thousand euros. Arco Ehitus had Annal turnover 9 801 thousand euros) . There is one employee at the end of year.

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

Country	Passive m ²	In preparation m ²	Under Construction m ²	In stock m ²	Cash flow m ²	Total m ²
Estonia	446 555	79 498	0	70 446	0	596 499
<i>building</i>	0	40 331	0	0	0	40 331
<i>land</i>	446 555	39 167	0	70 446	0	556 168
Latvia	2 450	110 951	960	39 888	0	154 999
<i>building</i>	0	0	960	210	0	1170
<i>land</i>	2 450	110 951	0	39 678	0	153079
Bulgaria	6 651	15 842	0	5 674	7 349	35 516
<i>building</i>	6 651	0	15 842	3829	7349	33 671
<i>land</i>	0	0	0	0	0	0
Arco Vara Total	455 656	206 291	960	116 008	7 349	787 014

The results are in sq.meter s.

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 governments and the planning authorities. Expectations of the projects' realisation may also change over time in connection with changes in the market situation and the competitive environment. Management estimates the value of the projects portfolio on an ongoing basis and is prepared to sell any project or part of a project at any time, depending on the results of the cost-benefit analysis.

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

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

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

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

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

PEOPLE

At the end of 2013, the group employed 178 people.

The remuneration of the member of the management board/chief executive and the members of the supervisory board of the group's parent company including social security charges for 12 months of 2013 amounted to 174 thousand euros compared with 230 thousand euros for 12 month of 2012.

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

SHARE AND SHAREHOLDERS

Arco Vara AS has issued a total of 4,741,707 shares. At 31 December 2013, the company had 1,778 shareholders and the share price closed at 1.39 euros, a 11.39% decrease within twelve months.

The following charts reflect movements in the price and daily turnover of the Arco Vara share in the 12 month of 2013

In euros (EUR)



Changes in share price compared with the benchmark index OMX Tallinn in 12 month of 2013



Index/equity	01.01.2013	31.12.2013	+/-%
—OMX Tallinn	734,20	817,72	11,38
—ARC1T	1,58 EUR	1,40 EUR	-11,39

Major shareholders as of 31st of December 2013	Number of shares	Interest %
AS Baltplast	920 000	19%
Gamma Holding OÜ	470 080	10%
Alarmo Kapital OÜ	374 188	8%
Osaühing HM Investeeringud	324 495	7%
Lõhmus Holdings AS	312 378	7%
LHV Pensionifond L	310 000	7%
OÜ Rimonne Baltic	234 000	5%
Firebird Republics Fund LTd	205 064	4%
Central Securities Depository of Lithuania	140 171	3%
Other shareholders	1 574 886	33%
Total	4 741 707	100%

Holdings of members of the management and supervisory boards at 30 September 2013	Position	Number of shares held	Interest %
Toomas Tool (OÜ Baltplast)	Member of Supervisory Board	920 000	19%
Arvo Nõges (Gamma Holding OÜ)	Member of Supervisory Board	470 080	10%
Tarmo Sild ja Allar Niinepuu (Alarmo Kapital OÜ)	Member of Management Member of Supervisory Board	374 188	8%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, lähikondsed)	Member of Supervisory Board	334 002	7%
Rain Lõhmus (Lõhmus Holdings AS)	Member of Supervisory Board	312 378	7%
Stephan David Balkin	Member of Supervisory Board	-	0%
Aivar Pilv	Member of Supervisory Board	-	0%
Total		3,224,288	68%

DESCRIPTION OF THE MAIN RISKS

Credit risk

Credit risk exposure is the greatest at the Construction and Development division. Accordingly, counterparties' settlement behaviour is monitored on an on-going basis, quarantines and collaterals are also used.

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 31 December 2013, the weighted average duration of interest-bearing liabilities was only 0.3 years mainly due to stopping by the group scheduled loan principal repayments to Piraeus bank. As a result, the whole loan amount could become redeemable prematurely. At the end of 2013, the group's cash and cash equivalents totalled 0.9 million euros and term deposits with maturities from 3 months to 2 years totalled 0.3 million euros. Out of the above balance 0.7 million euros was under the group's own control and the rest was in accounts with restricted withdrawal opportunities (mostly accounts of designated purpose where withdrawals require the 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 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 2013, the group's interest-bearing liabilities decreased by 3.9 million euros to 14.9 million euros at 31 December 2013. In 2013, interest payments on interest-bearing liabilities totalled 1.0 million euros. Compared with 31 December 2012, the weighted average interest rate as at 31 December 2013 decreased from 6.5% to 6.0%, mainly thanks to a decrease in the interest rates negotiated on refinancing the bank loans of the group's Bulgarian development company.

Currency risk

Purchase and sales contracts are mostly signed in local currencies: euros (EUR), Latvian lats (LVL) and Bulgarian lev (BGN). Real estate sales are nominated in euros due to that company has low currency risk asset-liability structure. The group is not protected against currency devaluations. Most liquid funds are held in short-term deposits denominated in euros. Devaluation risk will decrease since 2014 because the Republic of Latvia transferred to euro on 1 January 2014.

The chief executive/member of the management board confirms that the directors' report of Arco Vara AS for the fourth quarter and twelve months ended 31 December 2013 provides a true and fair view of the development, financial performance and financial position of the group as well as a description of the main risks and uncertainties.

Tarmo Sild

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

28 February 2014

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In thousands of euros					
Revenue from rendering of services		7,288	13,700	984	2,136
Revenue from sale of own real estate		6,880	7,032	955	2,577
Total revenue	2.3	14,168	20,732	1,939	4,713
Cost of sales	4	-10,702	-23,560	-1,592	-9,773
Gross profit		3,466	-2,828	347	-5,060
Other income	7	543	1,092	313	208
Marketing and distribution expenses	5	-278	-267	-87	-64
Administrative expenses	6	-1,979	-3,409	-559	-1,399
Other expenses	7	-359	-5,445	-262	-4,691
Gain/loss on transactions involving subsidiaries and joint ventures	8	2,995	-5,272	1,897	-5,096
Operating profit/loss		4,388	-16,129	1,649	-16,102
Finance income	9	23	84	3	13
Finance costs	9	-994	-1,738	-236	-618
Profit/loss before tax		3,417	-17,783	1,416	-16,707
Income tax		0	-251	0	-251
Profit/loss for the period		3,417	-18,034	1,416	-16,958
<i>attributable to owners of the parent</i>		<i>3,400</i>	<i>-17,964</i>	<i>1,416</i>	<i>-16,956</i>
<i>attributable to non-controlling interests</i>		<i>17</i>	<i>-70</i>	<i>0</i>	<i>-2</i>
Total comprehensive income/expense for the period		3,417	-18,034	1,416	-16,958
<i>attributable to owners of the parent</i>		<i>3,400</i>	<i>-17,964</i>	<i>1,416</i>	<i>-16,956</i>
<i>attributable to non-controlling interests</i>		<i>17</i>	<i>-70</i>	<i>0</i>	<i>-2</i>
Earnings per share (in euros)	10				
- basic		0.72	-3.79	0.30	-3.58
- diluted		0.66	-3.79	0.28	-3.58

Consolidated statement of financial position

Note	31 December 2013	31 December 2012
EUR tuhandetes		
Cash and cash equivalents	898	1,775
Receivables and prepayments	11	3,094
Inventories	12	11,701
Total current assets	13,082	16,570
Investments in equity-accounted investees	1	1
Receivables and prepayments	11	0
Deferred income tax assets	4	0
Investment property	13	14,097
Property, plant and equipment	413	540
Intangible assets	19	21
Total non-current assets	12,054	14,659
TOTAL ASSETS	25,136	31,229
Loans and borrowings	14	16,838
Payables and deferred income	15	6,645
Provisions	172	3,084
Total current liabilities	15,984	26,567
Loans and borrowings	14	1,231
Payables and deferred income	15	64
Total non-current liabilities	2,308	1,295
TOTAL LIABILITIES	18,292	27,862
Share capital	10	3,319
Statutory capital reserve	2,011	2,011
Other reserves	10	0
Retained earnings	1,442	-1,958
Total equity attributable to owners of the parent	6,832	3,372
Equity attributable to non-controlling interests	12	-5
TOTAL EQUITY	6,844	3,367
TOTAL LIABILITIES AND EQUITY	25,136	31,229

Consolidated statement of cash flows

Note	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In thousands of euros				
Cash receipts from customers	14,393	25,757	2,539	5,327
Cash paid to suppliers	-10,514	-19,725	-1,351	-2,249
Taxes paid	-2,389	-2,732	-449	-913
Taxes recovered	235	471	52	53
Cash paid to employees	-1,158	-1,577	-248	-317
Other cash payments and receipts related to operating activities	-277	145	-87	250
NET CASH FROM OPERATING ACTIVITIES	290	2,339	456	2,151
Purchase of property, plant and equipment	-34	-28	-16	-1
Proceeds from sale of property, plant and equipment	152	14	117	7
Proceeds from sale of investment property	80	1,160	60	0
Proceeds from sale of a subsidiary	13	1,610	0	0
Acquisition of a subsidiary	0	-12	0	-12
Loans provided	-48	-400	-11	-92
Repayment of loans provided	0	77	0	75
Placement of security deposits	-353	0	-90	0
Release of security deposits	258	0	258	0
Interest received	7	17	2	3
Other payments related to investing activities	0	-90	0	-42
NET CASH FROM/USED IN INVESTING ACTIVITIES	1,672	738	320	-62
Proceeds from loans received	14	3,046	165	169
Settlement of loans and finance lease liabilities	14	-4,809	-325	-1,569
Interest paid	-964	-1,487	-222	-98
Other payments related to financing activities	-75	-31	-66	-15
NET CASH USED IN FINANCING ACTIVITIES	-2,802	-3,511	-448	-1,513
NET CASH FLOW	-840	-434	328	576
Cash and cash equivalents at beginning of period	1,775	2,209	570	1,199
Increase/decrease in cash and cash equivalents	-840	-434	328	576
Decrease in cash and cash equivalents through sale of a subsidiary	-37	0	0	0
Cash and cash equivalents at end of period	898	1,775	898	1,775

Consolidated statement of changes in equity

	Equity attributable to owners of the parent					Non-controlling interests	Total equity
	Share capital	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands of euros							
Balance as at 31 December 2011	3,319	2,011	0	16,306	21,636	-447	21,189
Acquisition of non-controlling interests	0	0	0	-300	-300	512	212
Total comprehensive expense for the period	0	0	0	-17,964	-17,964	-70	-18,034
Balance as at 31 December 2012	3,319	2,011	0	-1,958	3,372	-5	3,367
Total comprehensive income for the period	0	0	0	3,400	3,400	17	3,417
Formation of equity reserve	0	0	60	0	60	0	60
Balance as at 31 December 2013	3,319	2,011	60	1,442	6,832	12	6,844

Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

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

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

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

2. Segment information

The group has the following reportable operating segments:

Development – 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;

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

Revenue and operating profit by operating segment

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
In thousands of euros												
External revenue	8,034	8,604	2,632	2,326	3,497	9,801	5	1			14,168	20,732
Annual change	-7%	-62%	13%	12%	-64%	-46%					-32%	-52%
Inter-segment revenue	17	35	197	271	0	0			-214	-306	0	0
Total revenue	8,051	8,639	2,829	2,597	3,497	9,801	5	1	-214	-306	14,168	20,732
Operating profit	5,052	-14,917	162	337	-129	-272	-442	-1,451	-255	174	4,388	-16,129
Of which inventory write-downs and reversals of inventory write-downs, net	299	-5,844	0	0	-9	-25					290	-5,869
Fair value adjustments to investment property, net	-67	-3,824	0	-256	0	0					-67	-4,080
Profit/loss from joint ventures	2,995	-5,272	0	0	0	0					2,995	-5,272

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	Q4 2013	Q4 2012	Q4 2013	Q4 2012	Q4 2013	Q4 2012	Q4 2013	Q4 2012	Q4 2013	Q4 2012	Q4 2013	Q4 2012
In thousands of euros												
External revenue	1,238	2,918	684	609	14	1,186	3	0	0	0	1,939	4,713
Annual change	-58%	57%	12%	17%	-99%	110%					-59%	74%
Inter-segment revenue	4	11	68	61	0	0	0	0	-72	-72	0	0
Total revenue	1,242	2,929	752	670	14	1,186	3	0	-72	-72	1,939	4,713
Operating profit	2,426	-14,798	-25	-326	-564	-458	-211	-739	23	219	1,649	-16,102

Assets and liabilities by operating segment

Segment	Development		Service		Construction		Unallocated items		Consolidated	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
In thousands of euros										
Assets	23,435	27,605	557	486	1,105	2,310	39	828	25,136	31,229
Liabilities	15,313	23,382	557	623	1,599	2,746	823	1,111	18,292	27,862

3. Revenue

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In thousands of euros				
Sale of own real estate	6,880	7,032	955	2,577
Construction services	3,470	9,892	8	1,184
Brokerage services	2,560	2,205	666	591
Rental services	1,012	1,349	248	304
Property management services	111	160	29	30
Other revenue	135	94	33	27
Total revenue	14,168	20,732	1,939	4,713

4. Cost of sales

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In thousands of euros				
Cost of real estate sold	-5,620	-6,180	-795	-2,257
Construction services purchased	-2,920	-8,554	-474	-837
Personnel expenses	-1,872	-2,103	-449	-578
Property management costs	-371	-557	-116	-163
Vehicle expenses	-99	-164	-10	-38
Depreciation, amortisation and impairment losses	-16	-19	-3	-4
Inventory write-down expenses	290	-5,869	293	-5,869
Other costs	-94	-114	-38	-27
Total cost of sales	-10,702	-23,560	-1,592	-9,773

5. Marketing and distribution expenses

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In thousands of euros				
Advertising expenses	-159	-155	-46	-37
Personnel expenses	-54	-43	-23	-14
Brokerage fees	-7	-26	-1	-3
Market research	-13	-4	-7	0
Other marketing and distribution expenses	-45	-39	-10	-10
Total marketing and distribution expenses	-278	-267	-87	-64

6. Administrative expenses

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In thousands of euros				
Personnel expenses	-1,067	-1,405	-339	-269
Office expenses	-465	-558	-121	-146
Legal and consulting fees	-302	-328	-81	-74
Vehicle expenses	-45	-109	-10	-12
Depreciation, amortisation and impairment losses	-22	-379	14	-332
Impairment losses on receivables	0	-561	0	-560
Other expenses	-78	-69	-22	-6
Total administrative expenses	-1,979	-3,409	-559	-1,399

7. Other income and expenses

Other income

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In thousands of euros				
Gain on sale of property, plant and equipment	180	5	169	5
Income on reassessment of liabilities	178	604	53	11
Gain on sale of investment property	60	13	60	11
Gain on sale of other assets	0	192	0	0
Miscellaneous income	125	278	31	181
Total other income	543	1,092	313	208

Other expenses

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In thousands of euros				
Write-down of receivables and prepayments	-181	-587	-165	-571
Late payment interest and penalty charges	-78	-47	-18	-23
Loss on changes in the fair value of investment property (note 13)	-67	-4,080	-64	-4,080
Loss on sale and impairment of other non-current assets	-1	-9	0	-7
Loss on sale of investment property	0	-712	0	0
Miscellaneous expenses	-32	-10	-15	-10
Total other expenses	-359	-5,445	-262	-4,691

8. Gain/loss on transactions involving subsidiaries and joint ventures

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In thousands of euros				
Gain from sale of subsidiary (note 13)	98	0	0	0
Provision expenses related to sureties given to joint venture obligations	0	-1 959	0	-1 959
Gain on reversal of provisions related to sureties given to joint venture obligations (note 16)	2 917	0	1 917	0
Allowances made to receivables from joint Venturas (note 16)	-20	-3 313	-20	-3 137
Total	2 995	-5 272	1 897	-5 096

9. Finance income and costs

Finance income

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In thousands of euros				
Interest income	23	84	3	13
Total finance income	23	84	3	13

Finance costs

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
In thousands of euros				
Interest expense	-828	-1,440	-169	-435
Foreign exchange loss	-5	-8	0	-2
Other finance costs	-161	-290	-67	-181
Total finance costs	-994	-1,738	-236	-618

10. 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.

	12 month 2013	12 month 2012	Q4 2013	Q4 2012
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707	4,741,707	4,741,707
Number of ordinary shares potentially to be issued	390,000	0	390,000	0
Net profit/loss attributable to owners of the parent (in thousands of euros)	3,400	-17,964	1,416	-16,956
Earnings per share (in euros)	0.72	-3.79	0.30	-3.58
Diluted earnings per share (in euros)	0.66	-3.79	0.28	-3.58

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 390,000 ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2016. As at 31 December 2013, was created an equity reserve in amount of 60 thousand euros for the option associated with the bond.

11. Receivables and prepayments

Short-term receivables and prepayments

	31 December 2013	31 December 2012
In thousands of euros		
Trade receivables		
Receivables from customers	872	2,214
Allowance for doubtful trade receivables	-151	-463
Total trade receivables	721	1,751
Other receivables		
Loans provided	33	580
Term deposits (with maturities from 3 to 12 months)	23	19
Miscellaneous receivables	268	202
Total other receivables	324	801
Accrued income		
Interest receivable	3	230
Prepaid and recoverable taxes	157	112
Other accrued income	9	12
Total accrued income	169	354
Prepayments	146	188
Total short-term receivables and prepayments	1,360	3,094

Long-term receivables

	31 December 2013	31 December 2012
In thousands of euros		
Term deposits (with maturities more than 1 year)	240	0
Total long-term receivables	240	0

12. Inventories

	31 December 2013	31 December 2012
In thousands of euros		
Properties purchased and being developed for resale	10,762	11,090
Materials and finished goods	49	92
Prepayments for inventories	13	519
Total inventories	10,824	11,701

13. Investment property

In thousands of euros	
Balance at 31 December 2011	21,252
Net loss on changes in fair value	-4,080
Reclassification from inventories	992
Reclassification from property, plant and equipment	8
Sales	-4,075

Balance at 31 December 2012	14,097
Net loss on changes in fair value	-67
Reclassification to inventories	-630
Sales	-2,023
Balance at 31 December 2013	11,377

In March 2013, Arco Investeeringute AS sold its subsidiary Pärnu Turg OÜ. The assets of Pärnu Turg OÜ included an investment property at Suur-Sepa 18 in Pärnu, where the "old" Pärnu market operates. At the date of sale, the carrying amount of the investment property was 2,000 thousand euros. The group's gain on the sale of the subsidiary amounted to 98 thousand euros (see note 9). Proceeds for the group from sale of Pärnu Turg OÜ were 1 610 thousand euros.

14. Loans and borrowings

	31 December 2013			31 December 2012		
	Total	of which current portion	of which non-current portion	Total	of which current portion	of which non-current portion
In thousands of euros						
Bank loans	14,121	12,576	1,545	18,032	16,824	1,208
Bonds	751	0	751	0	0	0
Finance lease liabilities	25	13	12	37	14	23
Total	14,897	12,589	2,308	18,069	16,838	1,231

In the 12 months of 2013, the group settled loans and borrowings of 4,809 thousand euros (12 month 2012: 4,392 thousand euros) through cash transactions and raised new loans and borrowings of 3,046 thousand euros (12 month 2012: 2,399 thousand euros).

In 2013, the group's loans and borrowings also decreased through non-cash transactions:

- by 447 thousand euros through the sale of Pärnu Turg OÜ;
- by 963 thousand euros that customers who purchased real estate property paid directly to banks.

On 21 August 2013, Arco Vara AS issued bonds as targeted issue in total amount of 750 thousand euros. The bonds maturity date is 21 August 2016 and annual interest rate is 14%. See also note 16.

The group stopped scheduled loan principal repayments to Piraeus bank in Bulgaria. As a result, whole loan amount 12 155 thousand euros could become redeemable prematurely. The group started negotiations with the bank to refinance the loan.

15. Payables and deferred income

<i>Short-term payables and deferred income</i>		31 December 2013	31 December 2012
In thousands of euros			
Trade payables		1,900	2,050
Miscellaneous payables		15	739
Taxes payable			
Value added tax		161	291
Corporate income tax		11	220
Personal income tax		22	33
Social security tax		44	61
Other taxes		270	91
Total taxes payable		508	696

Accrued expenses		
Interest payable	10	91
Payables to employees	136	217
Other accrued expenses	38	29
Total accrued expenses	184	337
Deferred income		
Prepayments received on sale of real estate	575	2,080
Due to customers under long-term construction contracts	40	742
Other deferred income	1	1
Total deferred income	616	2,823
Total short-term payables and deferred income	3,223	6,645

Long-term payables

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

16. 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 month 2013	12 month 2012
In thousands of euros		
Joint ventures and associate		
Revenue	1	2
Provision of loans	48	314
Conversion of receivables	0	959
Companies that have a significant interest in the group's parent company		
Services purchased	28	0
Bonds issued	500	0
Paid interest	25	0
Other related parties		
Services sold	0	95
Services purchased	27	248
Settlement of other liabilities	0	309
Prepayments made	0	62
Repayment of loans provided	0	633
Receipt of loans	0	207
Repayment of loans received	0	52

Bonds issued	251	0
Paid interest	13	0

Balances with related parties

	31 December 2013	31 December 2012
In thousands of euros		
Joint ventures and associate		
Short-term loan receivables	33	5
Short-term interest receivables	1	0
Companies that have a significant interest in the group's parent company		
Trade receivables	0	4
Short-term loan receivables ¹	0	376
Short-term interest receivables ¹	0	136
Trade payables	3	0
Bonds issued	500	0
Other related parties		
Short-term loan receivables ¹	0	175
Short-term interest receivables ¹	0	93
Other short-term receivables ¹	0	7
Trade payables	7	3
Bonds issued	251	0

¹ In June 2013, the group's receivables from companies controlled by the members of the supervisory board of Arco Vara AS of 804 thousand euros in aggregate were offset against part of the cost of a property acquired by the group at Paldiski mnt 70c in Tallinn.

In June 2013, the group's partner in joint venture company Tivoli Arendus OÜ purchased the properties belonging to Tivoli Arendus OÜ at a public auction. Through the transaction, Arco Vara AS disposed of the surety guarantee it had provided to the loan commitments of Tivoli Arendus OÜ and, thus, the group could reverse a provision of 1,000 thousand euros that had been recognised in 2012.

In November 2013, the group sold its 50% share in joint venture company Arco HCE OÜ. As a result of transaction, the group disclaimed all its receivables to Arco HCE OÜ (loss from allowance of loan claims in amount of 20 thousand euros) and was released from bank loan surety obligation (gain from reversal of provision in amount of 1 917 thousand euros). See also note 9.

On 21 August 2013, Arco Vara AS issued bonds as targeted issue in total amount of 750 thousand euros. The bonds maturity date is 21 August 2016 and annual interest rate is 14%. Whole issue was subscribed by key management personnel and by the companies that have a significant interest in the group's parent company. The issued bonds are guaranteed with mortgage on property in Sofia that belongs to the subsidiary of Arco Vara AS. See also note 9.

In 2013, the remuneration provided to the group's key management personnel, i.e. the chief executive/member of the management board and the members of the supervisory board of the group's parent company, including social security charges, amounted to 174 thousand euros (in 2012: 230 thousand euros). The remuneration provided to the chief executive/member of the management board is based on his service contract. 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 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 10.

17. Subsequent events

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:

- 10 thousand euros paid on transfer of the share;
- 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 Loksajastus. Income tax is deducted from proceeds.

The group's gain on the transaction amounted to 760 thousand euros not considering the impact of sale price. As a result of the divestment, the group's liabilities decreased by 1,128 thousand euros and its assets declined by 368 thousand euros.

Arco Ehitus OÜ which represented Construction segment of the group has significant impact on the group's financial indicators in 2013, see note 2.

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 2013.

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

28 February 2014