Annual report 2010

Arco Vara AS

ARCO VARA

Annual report

(Translation from the Estonian original)

ARCO VARA AS

Beginning of financial year:	1 January 2010
End of financial year:	31 December 2010

Registry number:	10261718
Address:	Jõe 2b 10151, Tallinn Republic of Estonia
Telephone:	+372 6 144 630
Fax:	+372 6 144 631
E-mail:	info@arcovara.ee
Corporate website:	www.arcorealestate.com
Regional websites:	www.arcovara.ee www.arcoreal.lv www.arcoreal.bg

Core activities:	Construction of buildings (EMTAK 41000) Civil engineering (EMTAK 42000) Specialised construction activities (EMTAK 43000) Real estate activities (EMTAK 6800)
Supervisory board:	Richard Tomingas, Hillar-Peeter Luitsalu, Ragnar Meitern, Kalev Tanner, Aare Tark
Management board:	Lembit Tampere
Auditor:	KPMG Baltics OÜ

Contents

Message from chairman of the supervisory board

Dear investors and partners

The year 2010 was one of momentous change for the Estonian economy. We saw the end of the steepest crisis since Estonia regained its independence and the revival of economic growth. The end of the year was marked by preparations for the introduction of the euro, which was adopted in Estonia in January 2011.

The most distinctive feature of the real estate sector was recovery – a recovery in prices, turnover and future expectations. Although the annual turnover of the Estonian real estate sector has been smaller than in 2010 only once, in 2009, it is obvious that an environment where the number of transactions and turnover are growing is significantly less risky than an environment where turnover is declining.

The year brought recovery to all our markets. First the downturn was replaced by a rise in Estonia and Latvia and later also in Lithuania and Bulgaria. The scope, duration and consequences of the crisis are different in each country but the emergence of a downtrend in unemployment and stabilisation of the financial markets have a similar effect regardless of geography.

Positive developments in our operating environment allowed us to complete Arco's largest-ever independently developed 24,000 square metre commercial and residential project Madrid in Sofia and to launch new buildings construction projects in Tallinn and the surrounding area (apartment buildings in the Kodukolde community in Tallinn and Alasniidu nursery school in the Harku rural municipality) as well as in Riga (apartment buildings in stage II of the Bisumuiza project). To date, we have also signed a contract for starting the development of the Tivoli project in Kadriorg, Tallinn, which was under preparation throughout 2010.

I am pleased to report that we have also upheld our commitment to community involvement and contribution to charities. We continue to support football club Nõmme Kalju, the Estonian Academy of Arts and the Pühajärve triathlon event.

In March 2011 when I am writing this letter, it is unmistakeably clear that the volume operations started this year will be incomparably larger than that of the past two years. For this, we have to thank our investors for their faith in us and our business partners for their continuing confidence that Arco Vara is a strong partner for any project both in- and outside Estonia.

Richard Tomingas
Arco Vara AS
Chairman of the Supervisory Board

Directors' report

Arco Vara group

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

At the end of 2010, the Group comprised 28 subsidiaries (2009: 26) and 5 joint ventures (2009: 8).

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

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

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

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

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

Members of the management and supervisory boards of Arco Vara AS

Lembit Tampere, CEO and member of the management board
Lembit Tampere graduated from the Concordia International University, department of international business administration, in 1997 and has later studied at the Lakeland College in Wisconsin, the USA.
Between 1997 and 2004 he was a project manager in the corporate finance division of Union Bank of Estonia. From 2003 he was a member of the management board of ECE Capital OÜ and director of corporate banking at SBM Pank AS. Lembit Tampere was appointed member of the management board of Arco Vara AS in 2008.

Richard Tomingas, chairman of the supervisory board
Richard Tomingas studied civil engineering at Tallinn Polytechnic Institute from 1987 to 1990 and graduated from the Estonian Business School, department of business administration, in 2005.
Richard Tomingas is a major shareholder of Arco Vara AS and has worked for the company since 1992. From 1992 to 1993 he was manager of the Kuressaare office of Arco Vara AS. Richard Tomingas has been on the supervisory board of Arco Vara AS since 1992 and chairman of the supervisory board since 2008.

Member of the supervisory board Hillar-Peeter Luitsalu
Hillar-Peeter Luitsalu studied sports sciences at the Tallinn Pedagogical Institute in the 1978/79 academic year and graduated from the University of Tartu, faculty of law, in 1995.
Hillar-Peeter Luitsalu is a major shareholder of Arco Vara AS. Between 1996 and 2005, he was on the supervisory board of AS Arco Vara Kinnisvarabüroo and from 1999 to 2004 a member of the management board of Arco Vara AS. Hillar-Peeter Luitsalu was elected to the supervisory board of Arco Vara AS in 2004.

Member of the supervisory board Aare Tark
Aare Tark graduated from the University of Tartu, faculty of law, in 1983.
Since 1991 Aare Tark has been the senior partner in law office Tark&Co. In 1994, 1995 and from 1998 to 2001 he was chairman of the Estonian Bar Association. Since 2003 Aare Tark has been a member of the Legal Ethics and Practices Committee of the Estonian Bar Association. Aare Tark has been on the supervisory board of Arco Vara AS since 2007.

Member of the supervisory board Kalev Tanner
Kalev Tanner graduated from the University of Vermont in 1990, and the J. L. Kellogg Graduate School of Management with an MBA in 1994.
From 1994 to 1998 he worked as an investment banker in Goldman Sachs' branches in New York and London, from 1998 to 2000 as managing director at AS Cresco and from 1998 to 2001 as a member of the supervisory board of the Tallinn Stock Exchange. From 2000 to 2005 Kalev Tanner was the CEO of Intergate Venture Capital. Since 2000 he has been chairman of the supervisory board of IIZI Group AS and since 2003 the founder and chairman of the management board of OÜ Sparkling Group, a company operating in the field of luxury hotels and restaurants, and OÜ IG Partners, a venture capital and advisory services company. Kalev Tanner has been on the supervisory board of Arco Vara AS since 2007.

Member of the supervisory board Ragnar Meitern
Ragnar Meitern graduated from Rutgers University, the USA, in 1996.
Having started his investment banking career with Salomon Brothers in New York in 1996, he joined Stanton Capital Corporation as investment manager in 1998 and stayed there until 2000. After that he worked for the investment banking unit of Citigroup in London and Dubai. Since 2010 Ragnar Meitern has been working as the chief executive of the Standard Chartered bank in Dubai, which is one of the leading financial institutions in Asia, Africa and the Middle East. Ragnar Meitern has been on the supervisory board Arco Vara AS since 2008.

GROUP STRUCTURE

Company	Domicile	Group's ownership interest 31 December 2010	31 December 2009
%			
Service segment			
Subsidiaries			
Arco Real Estate EOOD[1]	Bulgaria	100	100
Arco Real Estate AS	Estonia	100	100
Arco Vara Kinnisvarabüroo[1]	Estonia	100	100
Adepto SIA[1]	Latvia	80	80
Arco Real Estate SIA[1]	Latvia	80	80

Company	Domicile	Group's ownership interest 31 December 2010	31 December 2009
%			
Development segment			
Subsidiaries			
Arco Invest EOOD[1]	Bulgaria	100	100
Arco Facility Management EOOD[1]	Bulgaria	100	80
Arco Project EOOD[1]	Bulgaria	100	100
Alasniidu LA OÜ[1]	Estonia	100	-
Lilletee LA OÜ[1]	Estonia	100	100
Arco Investeeringute AS	Estonia	100	100
Arco Vara Riia Valduste OÜ[1]	Estonia	100	100
Arco Vara Ärikinnistute OÜ	Estonia	100	100
Kerberon OÜ[1]	Estonia	100	100
Kolde AS[1]	Estonia	100	100
Pärnu Turg OÜ[1]	Estonia	100	100
Tivoli Arendus OÜ[1]	Estonia	100	-
T53 Maja OÜ[1]	Estonia	100	50
Waldrop Investments OÜ[1]	Estonia	100	100
Wilson Kinnisvara OÜ[1]	Estonia	sold	100
Arco Development SIA[1]	Latvia	99.9	99.9
Ulmana Gatves Nami SIA[1]	Latvia	99.9	99.9
Arco Invest UAB[1]	Lithuania	100	100
Arco Development UAB[1]	Lithuania	100	100
Arco Capital SRL[1]	Romania	100	100
Arco Investments TOV[1]	Ukraine	75	75
Jointly ventures			
Arco HCE OÜ[1]	Estonia	50	50
Arco Vara Arenduse OÜ[1]	Estonia	sold	50
Arco Vara Saare Kinnistud OÜ[1]	Estonia	sold	50
Koduküla OÜ[1]	Estonia	50	50
Varamaad Kinnisvara OÜ[1]	Estonia	sold	33.4
AD Saulkrasti SIA[1]	Latvia	50	62.9
Bisumuizas Nami SIA[1]	Latvia	49.38	49.38
Sporting Riga SIA[1]	Latvia	49.38	49.38
Construction segment			
Subsidiaries			
Arco Ehitus OÜ	Estonia	100	100
AE Ehitusjuhtimine OÜ[1]	Estonia	100	-
Tempera Ehitus OÜ[1]	Estonia	bankrupt	bankrupt

[1]Interest through a subsidiary

CHANGES IN GROUP STRUCTURE

On 11 March 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, divested its interest in Arco Vara Saare Kinnistute OÜ (a 50% joint venture of Arco Investeeringute AS) whose share capital was 0.2 million kroons (0.01 million euros). The transaction was in keeping with the corporate strategy that foresees exiting all operations not fully controlled by the Group. At the date of the transaction, the sales price of the investment was 6.0 million kroons (0.4 million euros) and the transaction gave rise to a loss of 2.2 million kroons (0.1 million euros). The final price may prove 3.0 million kroons (0.2 million euros) smaller, depending on the realisation of a contingent tax liability of the divested entity.

On 11 March 2010 Arco Development SIA, a 99.9% subsidiary of Arco Investeeringute AS, reduced its interest in AD Saulkrasti SIA from 63% to 50%. The transaction was conducted at the nominal value of the shares.

On 16 April 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, established Tivoli Arendus OÜ - a wholly-owned subsidiary with a share capital of 0.04 million kroons (0.003 million euros).

On 19 April 2010 Arco Ehitus OÜ, a wholly-owned subsidiary of Arco Vara AS, established AE Ehitusjuhtimise OÜ - a wholly-owned subsidiary with a share capital of 0.04 million kroons (0.003 million euros).

On 4 May 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, divested its interest in Arco Vara Arenduse OÜ (a 50% joint venture of Arco Investeeringute AS) whose share capital was 0.04 million kroons (0.003 million euros). The sales price of the investment was 0.1 million kroons (0.01 million euros) and the transaction gave rise to a loss of 0.03 million kroons (0.002 million euros).

On 31 May 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, established Alasniidu LA OÜ – a wholly-owned subsidiary with a share capital of 0.04 million kroons (0.003 million euros).

On 5 July 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, raised its interest in Pärnu Elumaja OÜ from 50% to 100%. The purchase price of the investment was 2.2 million kroons (0.1 million euros).

On 17 September 2010 Pärnu Elumaja OÜ registered a change in business name. The new name is T53 Maja OÜ.

On 10 December 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, disposed of its interest in Wilson Kinnisvara OÜ whose share capital was 0.045 million kroons (0.003 million euros). The sales price of the stake was 3.3 million kroons (0.2 million euros) and sales gain amounted to 2.7 million kroons (0.2 million euros).

On 17 December 2010 Arco Invest EOOD, a wholly-owned subsidiary of Arco Investeeringute AS, raised its stake in Arco Facility Management EOOD from 80% to100%. The transaction was conducted at the nominal value of the shares.

On 28 December 2010 Arco Bulgaaria OÜ registered a change in business name. The new name is Lilletee LA OÜ.

Changes in Group structure after the reporting period

On 18 March 2011 Arco Investeeringute AS sold 50% of its wholly-owned subsidiary Tivoli Arendus OÜ to International Invest Project OÜ. The transaction was conducted at the nominal value of the shares.

Key performance indicators of Arco Vara Group

- In 2010 the Group generated revenue of 330.7 million kroons (21.1 million euros), a 14% decrease year-over-year.
- Operating loss for 2010 amounted to 2.0 million kroons (0.1 million euros), a 98% improvement on 2009.
- Net loss was 4.6 million kroons (0.3 million euros), a 99% improvement on 2009.
- Equity to assets ratio at period-end was 39.4% (end of 2009: 36.7%). Return on equity was negative (2009: negative). Return on invested capital was 1.8% (2009: negative).
- At the end of 2010, the Group's order backlog (in the construction business) stood at 262.2 million kroons (16.8 million euros), compared with 79.6 million kroons (5.1 million euros) at the end of 2009.
- In 2010 the Group sold a total of 129 apartments and plots (2009: 82).

	EEK					EUR				
	2010	**2009**	**2008**	**2007***	**2006***	**2010**	**2009**	**2008**	**2007***	**2006***
Revenue (in millions)	331	386	633	727	484	21	25	40	46	31
Gross profit/loss (in millions)	77	-29	-346	185	135	5	-2	-22	12	9
Operating profit/loss (in millions)	-2	-92	-637	103	260	0	-6	-41	7	17
Profit/loss before tax (in millions)	-4	-374	-1,003	250	227	0	-24	-64	16	15
Net profit/loss (in millions)	-5	-373	-1,011	236	217	0	-24	-65	15	14
Net loans (in millions)	430	501	486	517	1,143	27	32	31	33	73
Remaining maturity of loans, in years	0.8	1.2	2.0	2.2	2.7	0.8	1.2	2.0	2.2	2.7
Gross margin	23%	-7%	-55%	25%	28%	23%	-7%	-55%	25%	28%
Operating margin	-1%	-24%	-100%	14%	54%	-1%	-24%	-100%	14%	54%
Net margin	-1%	-97%	-160%	32%	45%	-1%	-97%	-160%	32%	45%
ROE	neg	neg	neg	14%	32%	neg	neg	neg	14%	32%
ROA	neg	neg	neg	8%	12%	neg	neg	neg	8%	12%
ROIC	1.8%	neg	neg	10%	16%	1.8%	neg	neg	10%	16%
Quick Ratio	0.3	0.4	1.1	1.1	0.2	0.3	0.4	1.1	1.1	0.2
Current Ratio	1.2	1.7	2.9	2.2	0.6	1.2	1.7	2.9	2.2	0.6
EPS	-0.9	-78.4	-0.2	2.8	3.1	-0.1	-5.0	0.0	0.2	0.2
Lowest share price**	50.3	18.9	47.2	20.5	n/a	3.2	1.2	3.0	1.3	n/a
Highest share price**	93.9	119.6	465.4	38.8	n/a	6.0	7.6	29.7	2.5	n/a
Number of staff	153	171	384	664	478	153	171	384	664	478

* Joint ventures were consolidated using proportionate consolidation.

** For comparability, share prices have been adjusted for the decrease in the number of shares in the first quarter of 2010.

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 total assets = past four quarters' total assets at end of period / four
Return on assets (ROA) = past four quarters' net profit / average total assets
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)
Current ratio = current assets at end of period / current liabilities at end of period
Quick Ratio = (total current assets – inventories and biological assets) / total current liabilities (at end of period)
Gross margin = gross profit / revenue
Operating margin = operating profit / revenue
Net margin = net profit / revenue

Group chief executive's review

In 2010 Arco Vara earned 40% of its development revenue outside Estonia. The figure for this year may be even higher because we are planning the sell the apartments in a building completed in Bulgaria last year (under real right contracts that transfer the title) and the Latvian apartment market has started reviving.

In the reporting period, a total of 129 apartments and plots were sold in the projects of Arco Vara. In Latvia, we sold 26 apartments in the Bisumuiza project and 19 plots in a project near Lake Mazais Baltezers and in Estonia 41 apartments in the Kodukolde project and 32 plots in the Merivälja project. In Bulgaria we received a use permit for our largest-ever completely self-developed project, the 24,000 square-metre Boulevard Residence Madrid in Sofia and sold 11 of its apartments. In addition, we signed a long-term lease with Fresh Coffee, a cafe that is going to rent 107 square metres of commercial premises on the ground floor, and delivered to customers more than 4,700 square metres of office premises and 1,670 square metres of commercial premises.

The situation in the capital markets has stabilised but we continuously need to raise additional capital with the involvement of business partners and builders. The current trend indicates that joint development projects progress more quickly than those financed by banks. Good examples are the construction and financing agreement for the construction of 100 apartments in the Kodukolde project, signed with Merko Ehitus in spring 2010, and the general contracting and financing agreement for the construction of the Alasniidu nursery school, signed with YIT Ehitus in early summer 2010. If the latter is currently financed by DnB Nord bank, then in the Kodukolde project we continue our partnership with Merko. After the reporting date, we have also signed a contract for developing the Tivoli project in partnership with a private investor, a transaction that has allowed us to refinance a land loan of 5.4 million euros taken from SEB and to obtain for the project a financing limit of up to 6.0 million euros. We are proud that we have been able to move on with the projects at a significant pace despite the banks' reluctance to extend development loans.

In the Service division, a lot of work was done to reinforce the team. Fixed costs were lowered even further and the division's operating loss decreased by 71% compared with 2009. The revival of the real estate market and the sale of a short-term investment allowed the division to be self-sufficient. The process of strengthening the team by involving new people with the assistance of regional office managers will continue. In Estonia, the number of properties managed grew notably at the end of 2010, creating a foundation for further development of our property management services. In order to further increase the portfolio of managed properties, a sales manager was hired for the business line. In 2011 the Service division will focus on implementing the Estonian work arrangement, which has justified itself in the current market situation, also in other markets.

In 2010 the Construction division comprised of Arco Ehitus and AE Ehitusjuhtimine, which was established in the first half of the year. The division generated revenue of 135.5 million kroons (8.7 million euros), a 51% decrease compared with 2009. The downswing is attributable to the slump in the construction market and the sale of the Latvian construction subsidiary at the end of 2009 but also to litigations that delayed the commencement of public procurement tenders won at the beginning of 2010. At 31 December 2010, the division's order backlog was 262 million kroons (16.7 million euros).

In conclusion we can say that the year 2010 was a turning point – although we started the year in a loss, the last quarter ended with a profit. Moreover, we started completely new projects. The best example is our first PPP project – the Alasniidu nursery school built in partnership with Harku local government. Although a nursery school is not a major development or construction project, it is a milestone. The expertise acquired in working with the Harku local government and the positive feedback received have inspired us to undertake a number of similar projects.

By 2010 we had addressed the stabilisation and sustainability issues – thanks to the elimination of the question of survival we were able to sell more and at a better price – both finished goods (we raised the sales prices of finished goods in Riga twice in a year) as well as investment properties (the gain on the sale of the plot held for development at Paldiski maantee 80 at the end of the year proved larger than forecast at the beginning of the year). Liquidity management and maintenance will remain a priority also this year. On starting a new project we shall have to consider carefully all our options and alternatives. Commercial banks are not yet eager to offer their assistance.

If in 2009 our focus was on cost-cutting and retaining the minimum scope of our core operations, then in 2010 cost-cutting was no longer a solution and the focus shifted on attracting new people and preparing for new projects.

In 2011 we will direct our efforts at developing both new and active projects and increasing operating volumes in all our business lines and markets.

REVENUE AND PROFIT

	EEK		EUR	
	2010	2009	**2010**	2009
In millions				
Revenue				
Service	29.7	37.2	1.9	2.4
Development	172.4	112.3	11.0	7.2
Construction	135.5	278.7	8.7	17.8
Eliminations	-6.9	-42.6	-0.4	-2.7
Total revenue	**330.7**	**385.6**	**21.1**	**24.6**
Operating profit/loss				
Service	-5.6	-19.5	-0.4	-1.2
Development	23.4	-37.2	1.5	-2.5
Construction	-8.1	-8.2	-0.5	-0.5
Unallocated revenues and expenses	-11.7	-26.7	-0.7	-1.7
Total operating loss	**-2.0**	**-91.7**	**-0.1**	**-5.9**
Interest income and expense	-18.2	-22.6	-1.2	-1.4
Net other financial items	16.0	-259.7	1.0	-16.6
Income tax expense/income	-0.4	0.9	0.0	0.1
Loss for the year	**-4.6**	**-373.1**	**-0.3**	**-23.8**

In 2010, the Group's revenue decreased by 14% compared with 2009. The revenue of the Development division grew by 54% and that of the Construction division dropped by 51%. Despite a decline in revenue, the Group's operating loss decreased by 98% thanks to effective cost cutting. To date, the main cuts have been made and cost management has become a routine at all units. For the time being, our main focus is on increasing sales, completing active projects and initiating new ones, and improving liquidity through project and inventory sales.

Finance income and expenses were influenced the most by the sale of a receivable from Celia Crowd AS (formerly Ühendatud Kapital AS) that gave rise to a gain of 18.2 million kroons (1.2 million euros).

CASH FLOWS

	EEK		EUR	
	2010	2009	**2010**	2009
In millions				
Cash flows from operating activities	27.4	-51.1	1.8	-3.3
Cash flows from investing activities	95.1	104.9	6.1	6.7
Cash flows from financing activities	-121.3	-145.2	-7.8	-9.3
Net cash flow	**1.2**	**-91.4**	**0.1**	**-5.9**
Cash and cash equivalents at beginning of period	64.7	156.1	4.1	10.0
Effect of movements in exchange rates	0.0	0.0	0.0	0.0
Cash and cash equivalents at end of period	**65.9**	**64.7**	**4.2**	**4.1**

In May 2010 Arco Vara AS redeemed commercial paper of 18.9 million kroons (1.2 million euros) before maturity and in December 2010 Arco Vara AS repaid early 4.5 million kroons (0.3 million euros) of the loan received from LHV bank.

There were no other exceptional loan settlements in 2010. Interest payments accounted for 35.1 million kroons (2.2 million euros) of net financing cash flows. Scheduled settlements of loan principal and those related to inventory sales totalled 109.3 million kroons (7.0 million euros). The largest proportion of credit limits utilised during the period was related to the completion of the Madrid project and the construction of the last but one phase in the Kodukolde project that accounted for 67.4 million kroons (4.3 million euros) of the total.

The largest current liabilities to be settled in the next 12 months comprise the following items:

- The total amount of the loan taken for the Boulevard Residence Madrid project in Sofia of 238.1 million kroons (15.2 million euros) has been classified as a current liability in accordance with the requirements of IAS 1.74 because as at 31 December 2010 the bank had the contractual right to demand repayment of the full outstanding amount in 2011. After the reporting date it has been established that the bank will not demand repayment of the full amount in 2011 but that the loan will be serviced in accordance with the previously agreed settlement schedule. The maturity date of the loan is in 2015 and according to the sales forecast and settlement schedule as at 31 December 2010 the portion to be repaid in the next 12 months is 72.1 million kroons (4.6 million euros).
- Loans of 102.5 million kroons (6.6 million euros) related to the Tivoli and Laeva2 projects.
- A loan of 25.5 million kroons (1.6 million euros) related to the Bisumuiza project.
- The scheduled current portion of a loan related to the Manastirski project of 31.7 million kroons (2.0 million euros).

In 2010 the Group made regular repayments of the loans taken for the Kodukolde and Merivälja2 projects in Tallinn, the Bisumuiza-1 project in Riga, and the Madrid project in Sofia and also settlements under some cash flow generating projects (including the entire loan of the Enerpoint project). Most of the Group's liabilities are denominated in euros.

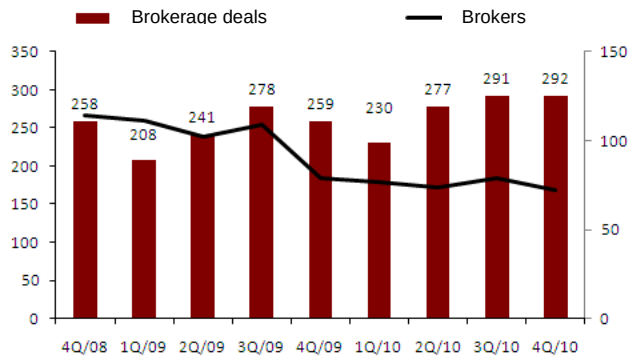
SERVICE DIVISION

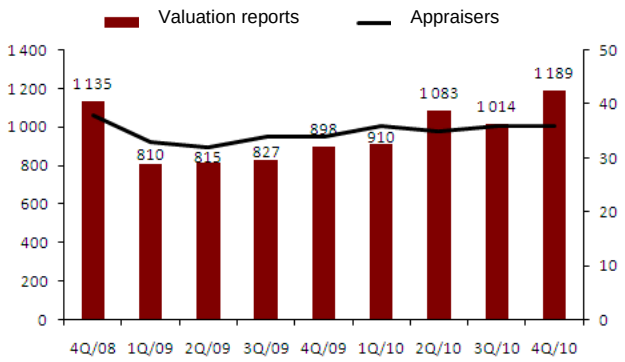
The Estonian real estate market began recovering in spring 2010. The number of brokerage transactions conducted by the Service division grew, partly on account of certainty about the adoption of the euro. Sales of the Estonian valuation department also followed a rising trend. For the property management department, the year was stable but the recruitment of a new sales manager should have a positive impact on the results of the current year. In 2011 the Service division will invest in enhancing service quality by providing employee training and carrying out active marketing campaigns aimed at improving the visibility of the brand. The goal is to increase sales of property management services to corporate customers and the Group's share of the brokerage and valuation markets in Estonia.

In 2010 the performance of the Service division improved also in Latvia. The number of valuation reports issued grew by 14% and the number of brokerage transactions increased by 4% compared with 2009. In 2010 the main focus was on reinforcing the sales team, particularly in the department of commercial real estate. In addition, the division started cooperating with banks in selling off the real estate acquired by them.

In Bulgaria, the downturn of the past years has been tough for service providers but 2010 brought the first signs of recovery. In Sofia the team moved to new stylish premises in the Boulevard Residence Madrid. The division intends to recruit new brokers for both the residential and commercial real estate departments and other real estate specialists in order to be ready for a new rise in the real estate market. The division intends to launch valuation and real estate-related analysis and advisory services. Successful sale of the Group's own development projects continues to be a priority.

The Service division ended 2010 with an operating loss of 5.6 million kroons (0.36 million euros) compared with an operating loss of 19.5 million kroons (1.2 million euros) for 2009. The most successful quarter was the third one where the division earned an operating profit of 1.3 million kroons (0.08 million euros). Before that the division last earned an operating profit in the third quarter of 2006. In 2010 the number of the Group's brokerage transactions grew by 11%, and the number of valuation reports issued increased by 25%.





	2010	2009	Change, %
Number of brokerage transactions	1,090	986	11%
Number of projects on sale	130	171	-24%
Number of valuation reports issued	4,196	3,350	25%
Number of appraisers*	36	34	6%
Number of brokers*	72	79	-9%
Number of staff at end of period	55	66	-17%

* Includes people working under service contracts

CONSTRUCTION DIVISION

The Construction division was typically active in environmental, infrastructure and civil engineering projects (the latter mainly in the field of education). The division ended 2010 with revenue of 135.5 million kroons (8.7 million euros), a 51% decrease compared with 2009. The decline is attributable to the slump in the construction market as well as the sale of the Latvian subsidiary at the end of 2009. In 2009 the Latvian subsidiary generated 24% of the Construction division revenue.

The results of the year were significantly influenced by two projects, the renovation of Block 4 of the Estonian University of Life Sciences located at Fr. R. Kreutzwaldi 56 in Tartu (customer the Estonian University of Life Sciences) and the design and build of the Academic Building of the Estonian Aviation Academy (customer Estonian Aviation Academy), because liquidation and bankruptcy proceedings were instituted against the consortium partners (OÜ Kristiine Ehitus and OÜ Wolmreks Ehitus) and in order to continue the construction work it was more practicable for Arco Ehitus OÜ to take over most of the subcontracts and settle all the consortium partners' unsettled liabilities to subcontractors. As a result, Arco Ehitus OÜ acquired receivables from OÜ Kristiine Ehitus and OÜ Wolmreks Ehitus (bankrupt). In connection with the institution of bankruptcy proceedings against the above companies, the receivables were written down by 1.41 million kroons (0.09 million euros). In addition, the division wrote down other trade receivables by 3.06 million kroons (0.19 million euros). Despite this, the operating loss of the division remained steady at 8.1 million kroons (0.5 million euros), compared with 8.2 million kroons (0.5 million euros) in 2009.

In spring 2010 Arco Ehitus OÜ established a subsidiary, AE Ehitusjuhtimine, for provision of project management services.

In 2010 the Construction division secured new contracts of 347 million kroons (22.2 million euros). At the end of 2010 the order backlog stood at 262 million kroons (16.8 million euros) compared with 80.0 million kroons (5.1 million euros) at the end of 2009.

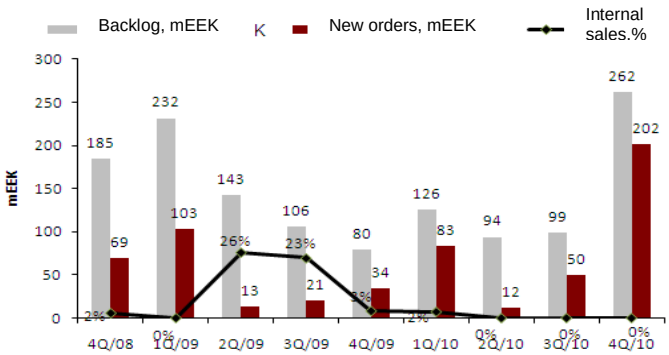
Major projects of 2010 in Estonia

Civil engineering

1. Design and build of a new section for the building of Aravete Secondary School
2. Renovation of the students' home of Tartu Hiie School
3. Renovation and extension of Rõuge Nursery School
4. Construction of six family homes and an activity building for Pärnu Children's Home
5. Renovation of Tallinn University of Technology Study Block IV
6. Construction of Block 4 of the Estonian University of Land Sciences
7. Construction of the Academic Building of the Estonian Aviation Academy

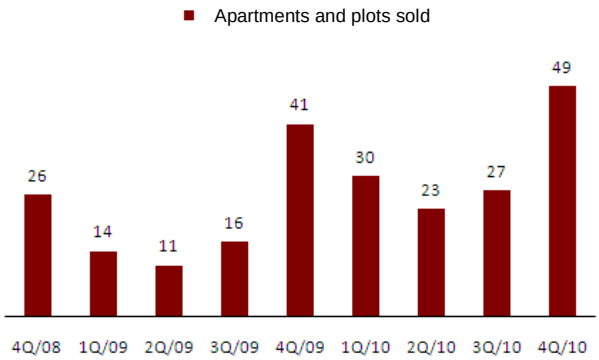
Environmental engineering

1. Water management project for the catchment area of the Emajõe and Võhandu rivers, Emajõe subproject. Design and build of drinking water facilities
2. Water management project for the catchment area of the Emajõe and Võhandu rivers, Emajõe subproject. Design and build of wastewater treatment facilities. Part 2
3. Design and build of water and wastewater facilities for Kuressaare town and Kaarma rural municipality
4. Construction and renovation of water and wastewater networks in Iru village
5. Water management project for the catchment area of the Emajõe and Võhandu rivers, Emajõe subproject. Design and build of wastewater treatment facilities. Stage III
6. Renovation and extension of the water supply and wastewater systems of Jõgeva town and Jõgeva township
7. Renovation and extension of water supply and wastewater systems of Jõgeva rural municipality
8. Design and build of water and wastewater facilities in the framework of the CF water management project for the wastewater collection area of Kadrina township (the project commenced at the end of 2010)
9. Construction of water and wastewater networks and facilities of the Kallavere residential area within the water management project of Maardu town (the project commenced at the end of 2010)
10. Construction of connecting networks and facilities for the Tallinn-Muuga water and wastewater systems within the water management project of Maardu town (the project commenced at the end of 2010)
11. Water management project for the wastewater collection area of Tamsalu. Construction works. Part 1 (the project commenced at the end of 2010)



DEVELOPMENT DIVISION

In 2010, a total of 129 apartments and plots were sold in Arco Vara projects. In Latvia, 26 apartments were sold in the Bisumuiza project and 19 residential plots in a project near Lake Mazais Baltezers. In Estonia, 41 apartments were sold in the Kodukolde project and 32 residential plots in the Merivälja project. In Bulgaria, the Group sold 11 apartments in the Madrid project in Sofia.



For building and financing the next phase in the Kodukolde project (98 apartments), a contract has been signed with AS Merko Ehitus. Construction work has commenced and is on schedule. Two out of the four buildings will be completed in spring 2011.

The Development division acquired a property for building a nursery school in Harku rural municipality. There is a rental agreement with the local government, a construction contract with YIT Ehitus AS and a financing agreement with DnB NORD bank. Construction work has commenced and the nursery school will be completed in April 2011.

The Boulevard Residence Madrid commercial and residential building in Sofia was granted a use permit in June. Most of the commercial rental premises that were covered with preliminary contracts have been transferred to customers and tenants have moved in. The division has signed the first real right contracts (contracts that transfer the title) on the apartments and has transferred the apartments to customers. In addition, in 2010 the division sought potential partners and banks for starting the construction and financing of the Tivoli project. Preparatory site work is underway and construction should begin in spring 2011.

The real estate market of the Baltic countries has stabilised. The sharpest price increase has occurred in Latvia. In response, the Development division has increased prices also in the Group's development projects.

At the end of 2010, the Development division employed 26 people (31 December 2009: 23).

For further information on the Group's development projects, please refer to: www.arcorealestate.com/development.

A SUMMARY OF MAJOR PROJECTS

Project type	Name	Location	Ownership interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Commercial	Ahtri 3	Estonia, Tallinn	50%	48,518m^2	The old plan is in force. A new detailed plan for more extensive building rights is in the final stages of adoption. In the new plan, above-ground building rights extend to 51,100m^2.	Investments
Commercial	Alasniidu	Estonia, Harku rural municipality	100%	Usable floor space of the building 1.612 m^2	A nursery school for 144 children is under construction. A rental agreement has been signed with the local government.	Investment property
Commercial	Laeva 2	Estonia, Tallinn	100%	7,776m^2	A detailed plan has been adopted. A building permit has been obtained. Tenant search is under way.	Investment property
Project type	**Name**	**Location**	**Ownership interest**	**Building rights according to business plan**	**Current status**	**Classification in the statement of financial position**
Cash flow	Kerberon	Estonia, Tallinn	100%	13,236m^2	Building rights and the right to superficies have been obtained. Generates cash flow.	Investment property
Cash flow	Madrid	Bulgaria, Sofia	100%	6,950m^2	Building rights have been obtained. Generates cash flow.	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	2,529m^2	Building rights have been obtained. Generates cash flow.	Investment property
Project type	**Name**	**Location**	**Ownership interest**	**Building rights according to business plan**	**Current status**	**Classification in the statement of financial position**
Apartments	Bisumuiza 1	Latvia, Riga	99.9%	Unsold building rights 14,241m^2	Building rights have been obtained. Sale of apartments is under way. In 2010 we started completing apartments of phase II.	Inventories
Apartments	Bisumuiza 2	Latvia, Riga	49%	87,737m^2	Design work has been postponed.	Investments
Apartments	Hills	Lithuania, Vilnius	100%	6,500m^2	Building rights have been obtained. Sales have commenced.	Inventories
Apartments	Kolde	Estonia, Tallinn	100%	Unsold/unreserved building rights 7,191m^2	Building rights and the right to superficies have been obtained. Sale of apartments and construction of the last but one phase are under way.	Inventories

Apartments	Madrid	Bulgaria, Sofia	100%	Area of unsold/ unreserved apartments 2,793m^2	Building rights and use permit have been obtained. Sales are in progress.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Area of unsold/ unreserved apartments and commercial space 24,524m^2	Building rights have been obtained. Sales are in progress.	Inventories
Apartments	Paldiski mnt 70c	Estonia, Tallinn	33%	ca 34,000m^2	The initial planning outline is under preparation.	Investment property
Apartments	Tehnika 53	Estonia, Tallinn	50%	1,515m^2	A detailed plan is in the final phase of adoption.	Inventories
Apartments	Tivoli	Estonia, Tallinn	100%	58,470m^2	A detailed plan has been adopted. Preparations for the design of phase I are under way.	Inventories
Plots	Baltezers-3	Latvia, Riga	100%	172,380m^2, total land of 861,900m^2	The right to superficies has been obtained. 189 plots. Preparations for the construction of phase I infrastructure are under way (phase I comprises 33 plots).	Investment property
Plots	Baltezers-5	Latvia, Riga	100%	No of unsold plots 25	Building rights have been obtained. Construction has been completed, sales are under way.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold/unreserved 4,651m^2, 4 plots	Roads and networks have been completed. Sale of plots is under way.	Inventories
Plots	Palusambla 1	Estonia, Nõmme	100%	55,466m^2	A detailed plan for the formation of 12 plots for one detached building each is in the final phase of adoption.	Inventories
Plots	Pärtli	Estonia, Saue	50%	84 plots, average plot 1,500m^2	No building rights. The detailed plan process is under way. Is waiting for an improvement in the market situation.	Investments
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1,802m^2	No building rights. The detailed plan process is under way. Is waiting for an improvement in the market situation.	Investments
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3,363m^2	Building rights have been obtained. Design documentation has been prepared. Is awaiting an improvement in the market situation.	Inventories

Note: The development and success of the Group's development projects depend largely on external factors, particularly the adoption of plans and the issuance of building 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 and the competition environment. Management estimates the value of the project 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.

The projects presented in the above table account for the following portions of the Group's assets:

Line item in the statement of financial position	EEK		EUR	
	Balance of line item at 31 December 2010	Carrying amount of projects presented in the table of major projects at 31 December 2010	Balance of line item at 31 December 2010	Carrying amount of projects presented in the table of major projects at 31 December 2010
In millions				
Total assets	1,104.4	897.6	70.6	57.4
Inventories	559.2	550.0	35.7	35.2
Investment property	358.1	347.6	22.9	22.2
Property, plant and equipment	11.0	0.0	0.7	0.0
Investments	15.6	0.0	1.0	0.0

SIGNIFICANT CHANGES IN DETAILED PLANS IN 2010

Ahtri: The property has an effective detailed plan along with building rights. In connection with a new architectural solution and the need for changing the designated purpose of the property, on 21 August 2007 an application was filed with the Tallinn City Planning Department for initiating a new detailed plan. A new plan providing above-ground building rights to a gross enclosed area of 51,110 square metres was initiated on 7 May 2008. The detailed plan was approved on 16 September 2009 and was put on public display from 21 October to 4 November 2009. A submission was lodged by AS Tallinna Sadam that wanted to agree a fee for using a parcel of approximately 600 square metres designated as street property in the plan in force. To date, no agreement has been reached. Until the new detailed plan is adopted and takes effect, the building rights of the previous plan will apply.

Palusambla 1: A detailed plan was initiated on 22 November 2000 with a view to designating part of the area as residential land with associated building rights and maintaining the remainder as a green corridor. The detailed plan was approved by the Tallinn City Government on 9 June 2004 and was put on public display. In connection with the submissions and objections lodged, adoption proceedings halted. On 22 December 2009, the Tallinn City Planning Department decided that after the adjustment of the plan in light of submissions made, adoption proceedings could resume. In response to the submissions, the number of residential plots (for detached houses) was reduced to 12 (the average size of a plot is approximately 1,700 square metres), a new topo-geodetic base plan was prepared and a dendrological survey was conducted. The plan was adjusted to effective legislation. To date, the plan has been approved by the Tallinn Transport Department and the Tallinn Environmental Department. The Administrative Council of Nõmme City District has not adopted a decision despite repeated requests. Proceedings will resume in spring 2011.

Tehnika 53: A detailed plan for the property was initiated on 30 January 2002 for determining building rights. On 7 January 2004, Tallinn City Government approved the detailed plan and put it on public display. Owing to an objection lodged during public display, the adoption proceedings halted until 2009. To date, an updated version of the plan has been adjusted to effective legislation and has been approved by all relevant authorities. The detailed plan has also passed a new public hearing during which three submissions/objections were lodged, all of which have been removed. On 10 November 2010 the Tallinn City Government sent the plan for official adoption to the Tallinn City Council. The Tallinn City Council adopted the detailed plan on 2 December 2010 and the detailed plan took effect on 2 January 2011.

According to the detailed plan, 15% of the property is designated as commercial land and 85% as residential land. The respective gross enclosed areas are 200 square metres and 1,315 square metres. The maximum number floors is four and the planned number of apartments is 12.

PEOPLE

At Arco Vara we believe that our greatest asset is our highly professional people who are valued by both customers and colleagues.

In the first half of 2010, the real estate market continued to be adversely impacted by the economic downturn and we were forced to make some staffing changes. However, in the second half of the year the economy began recovering, giving us an opportunity to hire new specialists and attract additional experience and expertise. New people were successfully recruited to all divisions and the Group increased the number of cooperation partners working under service contracts.

At the end of 2010 the Group had 153 employees, 18 less than in 2009. It is notable that around 40% of our staff is made up of female employees. Personnel expenses for 2010 totalled 54.8 million kroons (3.5 million euros), 24% down from the 72.4 million kroons (4.6 million euros) posted for 2009.

The remuneration of the member of the management board including relevant taxes amounted to 1.9 million kroons (0.1 million euros) (since 4 September 2009 the board has had one member – Lembit Tampere). In 2009 the remuneration of the members of the management board amounted to 5.3 million kroons (0.3 million euros).

The remuneration of the members of the supervisory board together with relevant taxes totalled 1.5 million kroons (0.1 million euros) compared with 0.6 million kroons (0.04 million euros) in 2009.

Employees by geography and division as at 31 December 2010:

2010	Estonia	Latvia	Bulgaria	Total
Service	26	17	12	55
Development	11	6	9	26
Construction	49	0	0	49
General administration	23	0	0	23
TOTAL	**109**	**23**	**21**	**153**

2009	Estonia	Latvia	Bulgaria	Total
Service	39	15	12	66
Development	11	4	8	23
Construction	59	0	0	59
General administration	23	0	0	23
TOTAL	**132**	**19**	**20**	**171**

In 2010 we achieved exceptional results with a smaller number of staff. We completed centralisation of internal support services and streamlining of management structures, both launched in 2008, and are pleased to state that compared with previous years the new organisational structure that is based on a smaller number of people has allowed us to provide the same service quality across all service lines and markets and even to increase our operating volumes.

In 2010 we conducted performance interviews with all employees where we mapped their motivation factors and training and development needs and set goals for the new period. In addition, we conducted a satisfaction survey at the Estonian unit of the Service division in which people could evaluate the availability and quality of the Group's support services. The results of the survey provided us with assurance that despite the centralisation of the support functions and a decrease in the number of support staff the changes have served their purpose and people continue to be highly satisfied with the availability and quality of our support services.

In the reporting period we upheld all our traditions – briefing days in each country, corporate summer days, the Christmas party, selection of the best employees of the year – and fulfilled all the agreements and promises under our motivation system. The remuneration system developed for the Construction division in 2010 as well as the Group's general remuneration policy values each position (based on the employee's education, experience, length of service and similar factors) regardless of whether it is filled by a male or female employee.

Training activities remained modest. We provided the usual induction training to new employees but in the area of further internal and external training, only the most essential professional courses were offered. The sales training planned for the Service division was delayed and will be arranged on a larger scale in the first quarter of 2011.

All Group employees may join Arco Vara Sports Club, established in 2008 with a view to creating opportunities for engaging in team sports and contributing to employee health and wellbeing. In 2010 members of the club participated in various summer and winter competitions and organised joint sports and recreation events (a carting contest, air gymnastics, etc). The Group has signed contracts with various sports clubs where the staff can engage in indoor sports activities.

In addition to the Arco Vara Sports Club, the Group supports Group-wide sports events. For example, in September we arranged the Arco Vara Regatta in Pärnu where our employees could be crew members on racing yachts. We also provide our people with an opportunity to participate in numerous sports competitions on preferential terms.

Group management values employee health. The Group finances regular medical checkups and tests and provides an opportunity to be vaccinated against viral and infectious diseases.

CHARITABLE ACTIVITIES AND SOCIAL RESPONSIBILITY

Compared with the previous period, in 2010 the Group contributed more to the development of education, culture and sports as well as charitable activities. The Group has a partnership contract with the Russian Theatre and in 2010 we also supported the Saaremaa Opera Days. In cooperation with the Academy of Arts, every academic term the Group provides a scholarship to one student from the faculty of architecture. In the reporting period, the Group supported the Linnamäe Moto Race and the Pühajärve triathlon event TriStar111. In addition, the Group is a sponsor of basketball club Tarvas and football club Nõmme Kalju.

In 2010 Arco Vara participated in the charitable Onion Fair and Grandparents' Day at Lasnamäe. The Group's employees help the Keila SOS Children's Village and have come out with many support initiatives (gathering of donations, mutual visits, etc).

Our people are frequent blood donors at the North Estonia Medical Centre Blood Bank and participate in regularly arranged blood donation events. In summer 2010 our people's collective blood donation initiative was recognised by the media and inspired many other organisations to follow our example.

During the year we were also involved in many social projects, including those organised by the Labour Market Board. In cooperation with the labour market authorities, Arco Vara offered training, work and practice opportunities for many jobless people across Estonia, making a direct contribution to the mitigation of unemployment.

Arco Vara is committed to setting an example in supporting the development of education, culture and sports as well as philanthropy and hopes that the positive experience it creates with the contribution of its people will inspire other companies to invest more in activities that facilitate social integration, offer engagement opportunities for young people, involve senior citizens and help recognise the value of education and other important areas.

SHARE AND SHAREHOLDERS

In order to curb the volatility of the share price and allow for more effective pricing of the share, on 11 December 2009 an extraordinary general meeting decided to reduce the number of shares in Arco Vara AS 20-fold. The corresponding Commercial Registry entry took effect on 16 March 2010. The reduction in the number of shares did not change the balances of the Group's consolidated assets and liabilities and equity. After the cancellation, the number of ordinary shares outstanding is 4,741,707. All own shares were cancelled.

The number of shares outstanding is 4,741,707. At 31 December 2010, the company had 2,025 shareholders and the share price closed at 86.21 kroons (5.51 euros), having risen by 61% during the year.

The following charts provide an overview of movements in the Arco Vara share price and daily turnover

In Estonian kroons (EEK)

In euros (EUR)

Changes in share price compared with the benchmark index OMX Tallinn in 2010:

Index/equity	1 Jan 2010	31 Dec 2010	+/-%
OMX Tallinn	404.58	698.38	72.62
ARC1T	EUR 3.42	EUR 5.51	61.29

Major shareholders at 31 December 2010	Number of shares	Interest, %
Baltplast OÜ	1,106,897	23.3%
HM INVESTEERINGUD OÜ	1,038,632	21.9%
TOLETUM OÜ	1,037,975	21.9%
GAMMA HOLDING OÜ	412,937	8.7%
Skandinaviska Enskilda Banken Ab Clients	229,585	4.8%
Central Securities Depository of Lithuania	137,925	2.9%
FIREBIRD REPUBLICS FUND LTD	56,064	1.2%
LOKOTAR INVEST OÜ	25,250	0.5%
Other	703,042	14.8%
TOTAL	**4,741,707**	**100.0%**

Share price and associated statistics for the past three years:

EEK	2010	2009	2008
Year-end closing share price	86.21	53.45	53.45
Lowest share price	50.32	18.89	47.22
Highest share price	93.86	119.56	465.40
Average share price	70.95	51.75	206.85
Traded volume	1,119,201	3,021,064	3,259,404
Turnover, in millions	77.66	182.97	575.63
Market capitalisation, in millions	408.78	253.45	253.45
Earnings per share (EPS)	-0.93	-78.38	-0.21
Dividend per share	n/a	n/a	0.39
Dividend payout ratio	n/a	n/a	-1.84
Price to earnings ratio (P/E)	-93.18	-0.68	-251.91
Price to book ratio (P/BV)	0.94	0.58	0.31

EUR	2010	2009	2008
Year-end closing share price	5.51	3.42	3.42
Lowest share price	3.22	1.21	3.02
Highest share price	6.00	7.64	29.74
Average share price	4.53	3.31	13.22
Traded volume	1,119,201	3,021,064	3,259,404
Turnover, in millions	4.96	11.69	36.79
Market capitalisation, in millions	26.13	16.20	16.20
Earnings per share (EPS)	-0.06	-5.01	-0.01
Dividend per share	n/a	n/a	0.02
Dividend payout ratio	n/a	n/a	-1.84
Price to earnings ratio (P/E)	-93.18	-0.68	-251.91
Price to book ratio (P/BV)	0.94	0.58	0.31

Note: For comparability, the share price and traded volume have been adjusted for the reduction in the number of shares in the first quarter of 2010 (adjustment coefficient 20.09490464)

P/E – year-end closing share price/earnings per share
P/BV - year-end closing share price /equity per share

Holdings of members of the management and supervisory boards at 31 December 2010	Position	Number of shares held	Interest, %
Lembit Tampere	Member of Management Board	0	0%
Richard Tomingas (Toletum OÜ)	Chairman of Supervisory Board	1,037,975	21.9%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, close family members)	Member of Supervisory Board	1,048,139	22.1%
Aare Tark	Member of Supervisory Board	0	0%
Kalev Tanner	Member of Supervisory Board	0	0%
Ragnar Meitern	Member of Supervisory Board	0	0%
Total		**2,086,114**	**44.0%**

Dividend policy

In the past years, the Group has declared a dividend of up to 15% of its consolidated net profit for the period and intends to continue dividend distributions of the same proportion. Regardless of this, the Group cannot affirm that dividend distributions of the same proportion will be made in the future because the exact amount of a dividend distribution depends on the Group's performance and its projected liquidity in the medium- and long-term perspective.

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. Due 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 2010 the weighted average duration of interest-bearing liabilities was 0.8 years, which means that on average all loans need to be refinanced every ten months. Although at the end of 2010 the Group's cash and cash equivalents totalled 65.9 million kroons (4.2 million euros), 52.0 million kroons (3.3 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 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 2010 the Group's interest-bearing liabilities decreased by 71.7 million kroons (4.6 million euros) to 486.5 million kroons (31.1 million euros) at 31 December 2010. Interest payments of the year totalled 35.1 million kroons (2.2 million euros). Compared with the end of 2009, the weighted average interest rate has risen from 5.9% to 6.4%.

Currency risk

Purchase and sales contracts have mostly been signed in local currencies: Estonian kroons (EEK), Latvian lats (LVL) and Bulgarian levs (LEV). The Group is not protected against currency devaluations. Most liquid funds are held in short-term deposits denominated in euros.

Detailed information on the Group's financial risk management policies and risk exposures as at 31 December 2010 is presented in note 28 to the financial statements.

Corporate governance report

The shares of Arco Vara AS were listed in the main list of Tallinn Stock Exchange on 21 June 2007.

As a limited company, Arco Vara AS adheres to the legislation effective in the Republic of Estonia, the rules and recommendations of the Tallinn Stock Exchange and its own corporate values:

- 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

The annual report of Arco Vara AS includes its corporate governance report in which the company's management confirms compliance with the requirements of the Corporate Governance Recommendations (CGR) of Tallinn Stock Exchange or explains the reasons for any non-compliance.

The annual report has been prepared in accordance with the provisions of CGR. The corporate governance report is a separate section of the directors' report, which is part of the company's annual report.

I General meeting

The company's highest governing body is the general meeting of its shareholders.

The powers of the general meeting and the procedure for calling general meetings and passing resolutions are set out in the company's articles of association.

In 2010 there was one annual general meeting.

The annual general meeting was held on 13 May 2010 at Liivalaia 33 in Tallinn. Notice of the general meeting was published on 21 April 2010 in the national daily *Postimees*, on the company's website and in the stock exchange information system. The notice included information on where all significant data and materials concerning the general meeting had been made available, where shareholders could send their information requests and a direct link to the information on the agenda items and relevant materials on the company's website. The information was published in Estonian and English. Shareholders did not submit any questions or proposals regarding the agenda items prior to the annual general meeting.

The supervisory board did not publish its proposals regarding the agenda items separately before the general meeting on the company's website because the supervisory board did not have any additional proposals on the matters that would have been relevant. The proposals were published in the notice of the annual general meeting.

The meeting was chaired by Rainer Osanik, the company's authorised signatory and member of the legal department, who is not a member of the company's management or supervisory board.

The agenda of the annual general meeting was as follows: approval of the annual report for 2009, resolution of the allocation of profits, and appointment of the auditor. The meeting was attended by 12 shareholders whose votes represented 50.14% of the total voting power. The meeting was conducted in Estonian and the chairman of the meeting made sure that it was conducted smoothly. The meeting was attended by the member of the management board, Lembit Tampere, who gave an overview of the company's performance in 2009. In addition, the meeting was attended by the chairman of the supervisory board Richard Tomingas; one member of the supervisory board (Hillar-Peeter Luitsalu); and certified public accountant Hanno Lindpere from audit firm Ernst & Young Baltic AS. Other members of the supervisory board (Aare Tark, Kalev Tanner and Ragnar Meitern) were unable to attend due to work commitments at other companies.

The company did not consider it practicable to provide an opportunity to observe and attend the general meeting via electronic channels because there are no reliable solutions for identifying the shareholders and ensuring the privacy of the attending shareholders.

The resolutions of the annual general meeting as well as the minutes of the meeting and other relevant materials were made available on the company's website. Allocation of profits was discussed as a separate agenda item and a separate resolution was adopted on it. Information on the agenda items of all annual and extraordinary general meetings as well as the questions submitted by shareholders before the meeting and the responses to those questions are available on the company's website until the information on the next general meeting is published.

II Management board

Since 4 September 2009 the management board of Arco Vara AS has had one member:

- Lembit Tampere – chief executive officer responsible for the overall management of the company

In 2010 there were no changes in the composition of the management board.

The company has signed a service contract with the member of the management board. The term of office of the member of the management board is three years. The member of the management board may not concurrently be a member of the management board or the chairman of the supervisory board of another listed company or the chairman of the supervisory board of another listed company belonging to the same group as the company.

The service contract signed with the member of the management board sets out the powers, obligations, responsibilities and liability of the member of the management board and regulates disbursement of his basic remuneration. The service fee was agreed taking into account the board member's duties and activity and the company's current financial performance and future prospects. If the member of the management board is recalled without due cause, he will be entitled to termination benefits equal to his four-fold basic monthly service fee. The company has not instituted any bonus schemes for the member of the management board that are linked to the company's securities.

In 2010 the remuneration of the member of the management board amounted to 1.4 million kroons (89 thousand euros). No bonus or termination benefits were paid.

The member of the management board has notified the company of his ownership interests and involvement in the governing bodies of the following companies that do not belong to the Group:

- Lembit Tampere – member of the management board of OÜ Alasniidu, OÜ Overseas and OÜ Harku Projektijuhtimine and sole shareholder and member of the management board of OÜ Remmelga Aiand.

Ownership interests and involvement in the governing bodies of certain other companies do not constitute a breach of the prohibition on competition. The member of the management board has undertaken by contract not to breach the prohibition on competition. Moreover, the company's internal regulations provide that no member of the management board or staff may demand or accept for personal gain money or any other benefits from third persons in connection with their work and may not grant unlawful or unjustified benefits or discounts to third persons.

The member of the management board has not conducted any significant transactions with himself, his close family members, or persons related to him and has not made any decisions in the interest of personal gain.

III Supervisory board

The supervisory board is responsible for planning and organising the activity of the company and overseeing the activities of the management board. Members of the supervisory board are elected by the general meeting.

Under the CGR, half of the members of the supervisory board of a listed company have to be independent. In the event of an odd number of members of the supervisory board, the number of independent members may be smaller by one.

The company's supervisory board has five members. In 2010 the composition of the supervisory board did not change and throughout the year members of the supervisory board were Richard Tomingas (chairman), Hillar-Peeter Luitsalu, Aare Tark, Kalev Tanner and Ragnar Meitern.

According to the definition provided in the CGR, independent members of the supervisory board are Aare Tark, Kalev Tanner and Ragnar Meitern. Hillar-Peeter Luitsalu and Richard Tomingas cannot be regarded as independent because over the past three years they have been members of the governing bodies of various Group entities and have relations with the Group through companies belonging to them (OÜ HM Investeeringud and OÜ Toletum).

Accordingly, the company's supervisory board has three independent and two non-independent members and the company is in full compliance with the CGR. Such a composition of the supervisory board ensures effective management and is the best for the company and its shareholders.

Members of the supervisory board elect the chairman of the supervisory board from among themselves.

Richard Tomingas has been chairman of the supervisory board since 21 January 2008.

Throughout 2010 the remuneration of a member of the supervisory board was 15,000 kroons (959 euros) per month. The remuneration was approved by the general meeting with a resolution adopted on 17 December 2009. Members of the supervisory board are not eligible to any additional remuneration or termination benefits and the remuneration of the chairman of the supervisory board does not differ from that of other members of the supervisory board.

The company has provided Hillar-Peeter Luitsalu and Richard Tomingas who are actively involved in the work of the supervisory boards of entities controlled by the company with cars, computers and mobile phones whose costs are covered by the company based on a resolution adopted by the general meeting

In 2010 the supervisory board did not form any committees.

In 2010 the supervisory board had nine meetings that were attended by all members of the supervisory board except for Ragnar Meitern who attended six meetings and was not able to attend the rest due to commitments abroad.

In 2010 no members of the supervisory board had a conflict of interest with the company.

IV Cooperation of the management and supervisory boards

In line with the company's articles of association and organisation of work, the management and supervisory boards cooperate closely.

Members of the supervisory board Hillar-Peeter Luitsalu and Richard Tomingas are actively involved in the work of the supervisory boards of the parent companies of the three business lines (divisions) controlled by the company (Arco Ehitus OÜ, Arco Investeeringute AS and Arco Real Estate AS). In addition, Richard Tomingas is a member of the supervisory board of Arco Development SIA.

The management and supervisory boards have joint meetings for discussing matters related to the company's strategic development and exchange information about the company's strategic development on an ongoing basis. In the reporting period the member of the management board attended all meetings of the supervisory board. At the meetings, the member of the management board informs the supervisory board about any deviations from the company's plans and objectives and the reasons for those deviations.

The chairman of the supervisory board and the member of the management board meet as and when necessary for information exchange. There is a routine in place according to which the member of the management board provides an overview of significant matters and developments concerning the company at least once a week. In information exchange, all parties observe the rules approved by the supervisory board for keeping and disclosing inside information, making transactions with the shares in Arco Vara AS and segregating the functions of the management and supervisory boards.

V Disclosure of information

Since the flotation of its shares on the Tallinn Stock Exchange, Arco Vara AS has observed the information disclosure rules of the Tallinn Stock Exchange and the principle that all shareholders should be treated equally.

The website of Arco Vara AS is at www.arcorealestate.com and the information aimed at shareholders is available in the "Investor Relations" menu. The website including the information intended for shareholders is available in both Estonian and English. The company discloses on its website all facts, forecasts and estimates that are disseminated to financial analysts or other parties. Publicly disclosed information includes annual and interim reports, stock exchange announcements, information pertaining to the general meeting, general facts about the company, etc. The company also publishes on its website information about meetings with analysts, the times and locations of presentations and press conferences organised for analysts, investors or institutional investors and the company's general strategic plans. General and more specific information about the company can be found in different drop-down menus. All information is logically structured and easy to find.

The company's website (www.arcorealestate.com) contains the following information for shareholders: the corporate governance report; dates, locations and agendas of general meetings and other data concerning general meetings; the company's articles of association; composition of the management and supervisory boards; information on the auditor; and annual and interim reports. The website does not include information about shareholder agreements on concerted exercise of shareholder rights because such agreements have not been concluded. Previously, an outline of the company's overall strategy was also available on the website but currently it is not because the strategy document is being updated. The delay in the preparation of the document is attributable to the economic crisis that triggered a lot of unpredictable changes in the real estate sector, which did not allow making reliable short- and long-term forecasts for the strategy.

The company has not organised presentations to investors and analysts directly before the release of a financial report and has never disclosed inside information or undisclosed financial data in meetings with analysts or investors.

The company did not prepare a financial calendar at the beginning of 2010 although all reports were presented and released in line with regulatory requirements. Preparation of the financial calendar was hindered by delays in the launch of the consolidation project that would have allowed speeding up the preparation of annual and interim reports and might have caused deviations from a previously prepared financial calendar.

VI Financial reporting and auditing

The consolidated financial statements of Arco Vara AS are prepared in accordance with International Financial Reporting Standards (IFRS).

The company publishes the annual report once a year and interim reports during the year. All reports are available to shareholders on the company's website.

The auditor attended the meeting of the supervisory board where the results of the audit were discussed. The auditor presented his report and members of the management board were not present during the discussion. Minutes were taken of the meeting.

The notice of the annual general meeting included the name and data of the candidate for the company's new auditor. The company's auditor is re-appointed every year and since the previous auditor from audit firm Ernst & Young Baltics AS had audited the company for four years the management board decided to arrange a new tender for finding a new auditor or extending the agreement with the former auditor for another year. As a result of the tender the management board made the supervisory board a proposal to appoint for the company a new auditor from audit firm KPMG Baltics OÜ. Since the

supervisory board put forward a motion that the general meeting appoint a new auditor, the supervisory board did not present a report on the activity of the auditor.

Before the audit services agreement was signed, the management board submitted a draft of the agreement for approval to the supervisory board. The agreement sets out the auditor's responsibilities, the time schedule for the audit and the audit fee. The audit fee was not made public at the general meeting because in the company's opinion its non-disclosure does not affect the reliability of the auditor's report issued based on the audit.

For better risk assessment and management, most Group entities prepare a budget for the next financial year that is approved by the entity's supervisory board or general meeting. The company's consolidated budget is approved by the supervisory board. Completion of and adherence to approved budgets is monitored by the controller and, where necessary, additional internal control services are purchased from qualified service providers. In addition, the management board organises reporting meetings that review budget completion at least on a quarterly basis. The meetings are attended by the managers of all divisions and other key personnel.

To ensure high quality financial reporting and counteract the risks related to financial reporting, the company has created a financial controller's position. The financial controller participates actively in the preparation of the consolidated annual and interim reports. The consolidated financial statements are prepared using uniform Group-wide cross-border financial accounting and reporting software. Consolidation procedures have been largely automated and are performed monthly. Monthly reporting is presented to the managements of relevant entities and units and consolidated reporting is presented to the Group's management.

Statement by the management board

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

/signature/

Lembit Tampere
Chief Executive Officer and Member of the Management Board

12 April 2011

Consolidated financial statements

Consolidated statement of comprehensive income

		EEK		EUR	
	Note	**2010**	2009	**2010**	2009
In thousands					
Revenue from rendering of services		181,239	293,316	11,583	18,746
Revenue from sale of goods		149,423	92,274	9,550	5,897
Total revenue	5, 6	**330,662**	**385,590**	**21,133**	**24,643**
Cost of sales	8	-254,049	-414,186	-16,237	-26,471
Gross profit / loss		**76,613**	**-28,596**	**4,896**	**-1,828**
Other income	9	26,781	107,502	1,712	6,871
Distribution expenses	10	-4,734	-4,401	-302	-281
Administrative expenses	11	-63,225	-85,666	-4,041	-5,475
Other expenses	9	-37,458	-80,496	-2,394	-5,145
Operating loss		**-2,023**	**-91,657**	**-129**	**-5,858**
Finance income	12	26,326	8,152	1,682	521
Finance expenses	12	-28,494	-290,474	-1,821	-18,565
Loss before tax		**-4,191**	**-373,979**	**-268**	**-23,902**
Income tax expense / income	13	-400	868	-26	55
Loss for the period		**-4,591**	**-373,111**	**-294**	**-23,847**
Loss attributable to owners of the parent		*-4,387*	*-371,673*	*-281*	*-23,755*
Loss attributable to non-controlling interests		-204	*-1,438*	*-13*	*-92*
Other comprehensive income					
Exchange differences on translating foreign operations		0	303	0	19
Total comprehensive expense for the period		**-4,591**	**-372,808**	**-294**	**-23,828**
Total comprehensive expense attributable to owners of the parent		*-4,387*	*-371,370*	*-281*	*-23,736*
Total comprehensive expense attributable to non-controlling interests		*-204*	*-1,438*	*-13*	*-92*
Earnings per share	14				
- Basic		-0.93	-78.38	-0.06	-5.01
- Diluted		-0.93	-78.38	-0.06	-5.01

Consolidated statement of financial position

		EEK			EUR		
As at 31 December	Note	**2010**	2009	2008	**2010**	2009	2008
In thousands							
Cash and cash equivalents	16	65,858	64,724	156,061	4,209	4,137	9,974
Investments		0	0	40,416	0	0	2,583
Trade and other receivables	17	90,128	140,876	262,581	5,760	9,003	16,782
Prepayments		3,004	2,999	6,077	192	192	388
Inventories	18	559,215	754,805	827,237	35,740	48,241	52,870
Biological assets		0	0	3,680	0	0	235
Total current assets		**718,205**	**963,404**	**1,296,052**	**45,901**	**61,573**	**82,832**
Investments	19	15,580	17,853	216,025	996	1,141	13,807
Trade and other receivables	17	1,189	2,635	921	76	168	59
Investment property	20	358,104	219,129	157,367	22,887	14,005	10,058
Property, plant and equipment	21	10,994	10,545	41,664	703	674	2,663
Intangible assets		312	812	12,475	20	52	797
Total non-current assets		**386,179**	**250,974**	**428,452**	**24,682**	**16,040**	**27,384**
TOTAL ASSETS		**1,104,384**	**1,214,378**	**1,724,504**	**70,583**	**77,613**	**110,216**
Loans and borrowings	22	424,433	371,615	223,598	27,126	23,751	14,291
Trade and other payables	24	75,300	83,621	124,190	4,813	5,344	7,937
Deferred income	25	76,029	81,902	64,172	4,859	5,234	4,101
Provisions	26	21,555	43,571	37,999	1,378	2,785	2,429
Total current liabilities		**597,317**	**580,709**	**449,959**	**38,176**	**37,114**	**28,758**
Loans and borrowings	22	60,316	186,578	454,048	3,855	11,925	29,018
Trade and other payables	24	11,337	6,278	1,418	724	401	91
Provisions	26	0	1,100	3,191	0	70	204
Total non-current liabilities		**71,653**	**193,956**	**458,657**	**4,579**	**12,396**	**29,313**
TOTAL LIABILITIES		**668,970**	**774,665**	**908,616**	**42,755**	**49,510**	**58,071**
Share capital	27	47,417	952,842	952,842	3,030	60,898	60,898
Share premium		0	0	712,514	0	0	45,538
Statutory capital reserve	27	31,463	31,463	31,463	2,011	2,011	2,011
Retained earnings / accumulated losses		356,534	-540,600	-876,939	22,787	-34,551	-56,047
Own shares	27	0	-3,992	-3,992	0	-255	-255
Total equity		**435,414**	**439,713**	**815,888**	**27,828**	**28,103**	**52,145**
Equity attributable to non-controlling interests		-1,103	-1,191	3,614	-70	-76	231
Equity attributable to equity holders of the parent		**436,517**	**440,904**	**812,274**	**27,898**	**28,179**	**51,914**
TOTAL LIABILITIES AND EQUITY		**1,104,384**	**1,214,378**	**1,724,504**	**70,583**	**77,613**	**110,216**

Consolidated statement of cash flows

		EEK		EUR	
	Note	**2010**	2009	**2010**	2009
In thousands					
Loss for the period		-4,591	-373,111	-293	-23,846
Interest income and interest expense	12	18,164	22,595	1,161	1,444
Gain/loss on sale of subsidiaries and interests in joint ventures	12	-1,329	4,492	-85	287
Share of profits and losses of equity-accounted investees	12	2,841	235,339	182	15,041
Gain/loss on other long-term investments	12	-18,246	-2,001	-1,166	-128
Impairment losses on financial assets	12	0	18,888	0	1,207
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	8, 11	2,115	4,975	135	318
Impairment losses on goodwill	11	0	10,896	0	696
Gain/loss on the sale of property, plant and equipment and intangible assets	9	51	-1,550	3	-99
Gain/loss on the sale of investment property	9	332	-1,088	21	-70
Change in the fair value of investment property and biological assets	9	26,779	-24,265	1,711	-1,551
Gain/loss on inventory write-downs and reversals of inventory write-downs	8	-21,868	64,905	-1,398	4,148
Exchange gains and losses	12	-1,050	2,823	-67	180
Income tax expense / income		400	-868	26	-55
Operating cash flow before working capital changes		**3,598**	**-37,970**	**230**	**-2,428**
Change in receivables and prepayments		17,924	26,430	1,145	1,689
Change in inventories and biological assets		37,490	7,527	2,396	481
Change in payables and deferred income		-31,615	-47,037	-2,021	-3,006
NET CASH FROM / USED IN OPERATING ACTIVITIES		**27,397**	**-51,050**	**1,750**	**-3,264**
Acquisition of property, plant and equipment and intangible assets		-628	-1,961	-40	-125
Proceeds from sale of property, plant and equipment and intangible assets		25	5,729	2	366
Acquisition of investment property		-3,725	-2,776	-238	-177
Proceeds from sale of investment property		24,530	8,581	1,568	548
Acquisition of investments in subsidiaries and joint ventures		-500	-585	-32	-37
Proceeds from sale of investments in subsidiaries and joint ventures	7	23,105	69,479	1,477	4,441
Proceeds from sale of other investments	12	52,000	29,383	3,323	1,878
Loans granted		-3,613	-12,768	-231	-816
Repayment of loans granted		78	5,878	5	376
Interest received		3,809	3,929	243	251
NET CASH FROM INVESTING ACTIVITIES		**95,081**	**104,889**	**6,077**	**6,705**
Proceeds from loans received		65,157	115,005	4,164	7,350
Settlement of loans and finance lease liabilities		-151,386	-226,560	-9,675	-14,480
Interest paid		-35,070	-33,662	-2,241	-2,151
NET CASH USED IN FINANCING ACTIVITIES		**-121,299**	**-145,217**	**-7,752**	**-9,281**
NET CASH FLOW		**1,179**	**-91,378**	**75**	**-5,840**
Cash and cash equivalents at beginning of period		64,724	156,061	4,137	9,974
Increase / decrease in cash and cash equivalents		1,179	-91,378	75	-5,840
Effect of exchange rate fluctuations on cash held		-45	41	-3	3
Cash and cash equivalents at end of period		**65,858**	**64,724**	**4,209**	**4,137**

Consolidated statement of changes in equity

	Equity attributable to equity holders of the parent							
	Share capital	Share premium	Statutory capital reserve	Own shares	Retained earnings/ accumulated losses	Total	**Non-controlling interests**	**Total equity**
EEK thousands								
Balance at 31 December 2008	**952,842**	**712,514**	**31,463**	**-3,992**	**-880,553**	**812,274**	**3,614**	**815,888**
Change in non-controlling interests(through change in interests in subsidiaries)	0	0	0	0	0	0	-3,367	**-3,367**
Covering of accumulated losses	0	-712,514	0	0	712,514	0	0	**0**
Total comprehensive expense for the period	0	0	0	0	-371,370	-371,370	-1,438	**-372,808**
Balance at 31 December 2009	**952,842**	**0**	**31,463**	**-3,992**	**-539,409**	**440,904**	**-1,191**	**439,713**
Change in non-controlling interests(through change in interests in subsidiaries)	0	0	0	0	0	0	292	**292**
Reduction of share capital	-905,425	0	0	3,992	901,433	0	0	**0**
Total comprehensive expense for the period	0	0	0	0	-4,387	-4,387	-204	**-4,591**
Balance at 31 December 2010	**47,417**	**0**	**31,463**	**0**	**357,637**	**436,517**	**-1,103**	**435,414**

	Equity attributable to equity holders of the parent							
	Share capital	Share premium	Statutory capital reserve	Own shares	Retained earnings/ accumulated losses	Total	**Non-controlling interests**	**Total equity**
EUR thousands								
Balance at 31 December 2008	**60,898**	**45,538**	**2,011**	**-255**	**-56,278**	**51,914**	**231**	**52,145**
Change in non-controlling interests(through change in interests in subsidiaries)	0	0	0	0	0	0	-215	**-215**
Covering of accumulated losses	0	-45,538	0	0	45,538	0	0	**0**
Total comprehensive expense for the period	0	0	0	0	-23,735	-23,735	-92	**-23,827**
Balance at 31 December 2009	**60,898**	**0**	**2,011**	**-255**	**-34,475**	**28,179**	**-76**	**28,103**
Change in non-controlling interests(through change in interests in subsidiaries)	0	0	0	0	0	0	19	**19**
Reduction of share capital	-57,868	0	0	255	57,613	0	0	**0**
Total comprehensive expense for the period	0	0	0	0	-281	-281	-13	**-294**
Balance at 31 December 2010	**3,030**	**0**	**2,011**	**0**	**22,857**	**27,898**	**-70**	**27,828**

Notes to the consolidated financial statements

1 General information

These consolidated financial statements of Arco Vara AS and its subsidiaries as at and for the year ended 31 December 2010 were authorised for issue by the member of the management board on 12 April 2011. Under the Commercial Code of the Republic of Estonia, the final approval of the annual report prepared by the management board and approved by the supervisory board rests with the shareholders' general meeting. The consolidated financial statements are part of the annual report, which is subject to approval by the shareholders, and they serve as a basis for adopting the profit allocation resolution. Shareholders may decide not to approve the annual report, which has been prepared by the management board and approved by the supervisory board, and may demand that a new annual report be prepared.

Arco Vara AS (the "Parent") is a limited company incorporated and domiciled in Estonia. At the end of 2010, Arco Vara AS and its subsidiaries (the "Group") employed 153 people (2009: 171 people). The principal activities of the Group are described in notes 5 and 6. In addition to Estonia, the Group operates through its subsidiaries in Latvia, Lithuania and Bulgaria.

The structure of the Group as at 31 December 2010 is presented in note 34.

2 Statement of compliance and basis of preparation

The consolidated financial statements of Arco Vara AS and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements have been presented and submitted for approval in conformity with the requirements of the Estonian Accounting Act and the Commercial Code.

The functional and presentation currency of Arco Vara AS is the Estonian kroon (EEK). In accordance with the rules of NASDAQ OMX Tallinn AS (the stock exchange) requirements, the primary financial statements and the notes are also presented in thousands euros, unless indicated otherwise. As the Estonian kroon is pegged to the euro at a fixed exchange rate of 1 euro = 15.6466 Estonian kroons, the presentation of the financial statements in euros does not give rise to any exchange differences although rounding may result in arithmetic inaccuracies of up to 1 thousand euros.

The consolidated financial statements have been prepared on a historical cost basis, unless explained otherwise in note 4 *Significant accounting policies*.

Significant judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses, and the disclosure of contingent assets and contingent liabilities.

Although estimates and underlying assumptions are reviewed on an ongoing basis and they are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances, actual results may differ from the estimates.

In applying the Group's accounting policies, management has made the following judgements that have the most significant effect on the financial statements:

Classification of properties

Properties are classified as inventories, investment properties and items of property, plant and equipment both on initial recognition and on any subsequent reclassification based on management's intentions regarding their further use. Realization of management's plans depends, among other factors, on resolutions adopted by other parties (e.g. changes in the intended purpose of land, approval of detailed plans, issuance of construction permits, etc). This lessens the accuracy of the classification.

Properties which are acquired for the development and subsequent sale of living environments, single residential buildings, or residential plots, and properties which are acquired for resale in the ordinary course of business are classified as inventories.

Properties which are held to earn operating lease rentals or for capital appreciation and properties which are held over an extended period for an undetermined future use are classified as investment property.

Properties which are being developed for future use as commercial or business environments that will be let under operating lease and commercial and business properties which are being extensively renovated are classified as investment properties.

Estimation uncertainty

The estimates made by management are based on historical experience and the information available at the date the financial statements are authorised for issue. There is a risk that the estimates applied at the reporting date in respect of assets and liabilities and associated income and expenses need to be revised in the future. The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the consolidated financial statements are discussed below.

Measurement of loans and receivables

The Group's loans and receivables include mostly trade receivables and loans granted. Further information on risks that may influence measurement of loans and receivables is presented in note 28.

Estimation of the net realisable value of inventories

The Group has several properties that have been classified as inventories. All significant inventories were tested for impairment by estimating their recoverable amounts as at 31 December 2010 in order to determine whether:
1) the net realisable value of any item had decreased below its carrying amount;
2) any impairments recognised in prior periods needed to be reversed.

The properties were tested for impairment in the same way as the fair value of investment properties is measured, i.e. by using the following methods:

- the discounted cash flow analysis
- the sales comparison method
- existence of a sales contract under the law of obligations

For the most important properties carried as inventories, a valuation report was commissioned from an independent real estate appraiser. At 31 December 2010, the carrying amount of inventories tested for impairment using the discounted cash flow method and measured at net realisable value was 532,420 thousand kroons (34,028 thousand euros). The corresponding figure for 2009 was 677,120 thousand kroons (43,276 thousand euros). In 2010, the discount rates applied in the analysis fell between 11% and 13% and in 2009 between 11% and 18%.

At 31 December 2010, the sensitivity of the carrying amounts of inventories tested using the discounted cash flow method to the key valuation assumptions applied was as follows:

- a 1 percentage point increase in the discount rate would have caused a 20,021 thousand kroon (1,280 thousand euro) decrease in the net realisable value of inventories (31 December 2009: a 19,384 thousand kroon (1,239 thousand euro) decrease);
- a 1 percentage point decrease in the discount rate would have caused a 21,275 thousand kroon (1,360 thousand euro) increase in the net realisable value of inventories (31 December 2009: a 20,492 thousand kroon (1,310 thousand euro) increase);
- a 5% decrease, on average, in the sales price of the apartments/plots would have caused a 60,208 thousand kroon (3,848 thousand euro) decrease in the net realisable value of inventories (31 December 2009: a 70,637 thousand kroon (4,514 thousand euro) decrease);
- a 5% increase on average, in the sales price of the apartments/plots would have caused a 60,208 thousand kroon (3,848 thousand euro) increase in the net realisable value of inventories (31 December 2009: a 70,637 thousand kroon (4,514 thousand euro) increase).

Further information on inventories is presented in note 18.

Goodwill: impairment testing

The Group assesses whether goodwill obtained on the acquisition of subsidiaries and interests in joint ventures may be impaired (i.e. whether the carrying amount of the goodwill exceeds its recoverable amount) at least annually. This assumes estimating the fair value (less costs to sell) or value in use of the cash-generating unit to which the goodwill has been allocated. Value in use is determined by estimating the future net cash flows to be derived from the cash-generating unit and by applying an appropriate discount rate to calculate the present value of those cash flows. Impairment losses on goodwill are not reversed.

Investment property: determination of fair value

At each reporting date, investment properties are measured at their fair values. In addition to management's estimates, where necessary, the fair value of investment properties is measured based on valuation reports issued by independent real estate appraisers. This means that in the case of significant investment properties, an appraisal is commissioned from independent appraisers. Fair value is determined by reference to two basic techniques - the discounted cash flow method and the sales comparison method.

The discounted cash flow method is used to determine the value of investment properties that generate stable rental cash flow and properties whose fair value, according to management's assessment, cannot be determined reliably under the sales comparison method (for example, inactive property market in the location of the property being valued, absence of comparable transactions or an extensive period between a comparable transaction and the date of valuation). In order to determine the value of a property's discounted cash flows, the appraiser has to forecast the property's future cash flow (including rental per square metre and the occupancy rate or sale of apartment), capital expenditures and operating expenses. The present value of the future net cash flow is found by applying to the cash flow an appropriate discount rate

that best reflects the current market assessments of the time value of money and the risks specific to the asset. At 31 December 2010, the carrying amount of investment properties measured at fair value determined using the discounted cash flow method was 331,435 thousand kroons (21,183 thousand euro). The corresponding figure for 2009 was 143,631 thousand kroons (9,180 thousand euros). Further information on measuring the fair value of investment properties is presented in note 20.

At 31 December 2010, the sensitivity of the carrying amounts of investment properties measured using the discounted cash flow method to the key valuation assumptions applied was as follows:

- a 1 percentage point increase in the discount rate would have caused a 21,411 thousand kroon (1,368 thousand euro) decrease in the fair value of investment property (31 December 2009: a 12,763 thousand kroon (816 thousand euro) decrease)
- a 1 percentage point decrease in the discount rate would have caused a 23,047 thousand kroon (1,473 thousand euro) increase in the fair value of investment property (31 December 2009: a 14,017 thousand kroon (896 thousand euro) increase)
- a 5% decrease, on average, in the forecasted net operating cash flows would have caused a 16,259 thousand kroon (1,039 thousand euro) decrease in the fair value of investment property (31 December 2009: a 11,211 thousand kroon (717 thousand euro) decrease)
- a 5% increase, on average, in the forecasted net operating cash flows would have caused a 16,273 thousand kroon (1,040 thousand euro) increase in the fair value of investment property (31 December 2009: a 11,212 thousand kroon (717 thousand euro) increase)

The sales comparison method is applied to properties that do not generate rental cash flow and are held for future development or capital appreciation. Under this method, the market value of a property is determined by reference to the price per square metre agreed in transactions performed with similar properties. As the transactions selected for comparison are practically never identical with the property being valued their prices are adjusted to reflect differences in time, location, size and detailed plan. Where necessary, another valuation technique is applied (e.g. the discounted cash flow analysis) if management believes that the latter can measure the fair value of the property more reliably.

3 Changes in accounting policies and presentation practice

The consolidated financial statements are prepared in accordance with the principles of consistency and comparability, which means that the Group consistently applies the same accounting and presentation policies. Accounting policies and presentation practice are changed only when this is required by new or revised International Financial Reporting Standards (IFRS) and their interpretations or when a new accounting policy or presentation practice represents the Group's financial position, financial performance and cash flows more faithfully.

Change in accounting for interests in joint ventures

The Group's management has revised the policy for accounting for interests in joint ventures. Previously, interests in joint ventures were accounted for using proportionate consolidation. Since 1 January 2010, interests in joint ventures have been accounted for using the equity method. Management believes that the equity method provides a more faithful representation of the Group's assets, liabilities and equity.

Under the new policy, an investment in a joint venture is initially recognised at cost. The Group's investment includes the goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the profit or loss and equity movements of the investee, after adjustments to align the accounting policies with those of the Group, from the date the joint control commences until the date that joint control ceases. When the Group's share of losses of the investee exceeds its interest in the investee, the carrying amount of the investment is reduced to nil and the recognition of further losses is discontinued. Additional losses are provided for to the extent that the Group has incurred legal or constructive obligations on behalf of the investee.

All comparative amounts have been adjusted to the new policy. In addition, the Group discloses the adjusted opening balances of the prior period statement of financial position (presented as at 31 December 2008).

Statements of financial position as at 31 December 2009 and 31 December 2008 (aggregated versions) before the change in accounting policy:

	EEK		EUR	
As at 31 December	**2009**	**2008**	**2009**	**2008**
In thousands				
Cash and cash equivalents	71,392	172,574	4,563	11,029
Receivables and prepayments	175,268	307,188	11,202	19,634
Inventories	776,601	853,119	49,634	54,524
Investment property	328,988	542,753	21,026	34,688
Investments	15,613	40,671	998	2,599
Property, plant and equipment and intangible assets	11,357	54,287	726	3,469
Total assets	**1,379,219**	**1,970,592**	**88,149**	**125,943**

Current loans and borrowings	605,249	353,417	38,682	22,587
Payables and deferred income	172,908	197,851	11,051	12,645
Provisions	12,650	5,917	808	378
Non-current loans and borrowings	196,983	692,919	12,590	44,286
Other liabilities and provisions	7,379	8,715	472	556
Equity	384,050	711,773	24,545	45,491
Total liabilities and equity	**1,379,219**	**1,970,592**	**88,148**	**125,943**

Statements of financial position as at 31 December 2009 and 31 December 2008 (aggregated versions) after the change in accounting policy:

	EEK		EUR	
As at 31 December	**2009**	**2008**	**2009**	**2008**
In thousands				
Cash and cash equivalents	64,724	156,061	4,137	9,974
Receivables and prepayments	146,510	269,579	9,363	17,229
Inventories	754,805	830,917	48,241	53,105
Investment property	219,129	157,367	14,005	10,058
Investments	17,853	256,441	1,141	16,390
Property, plant and equipment and intangible assets	11,357	54,139	726	3,460
Total assets	**1,214,378**	**1,724,504**	**77,613**	**110,216**
Current loans and borrowings	371,615	223,598	23,751	14,291
Payables and deferred income	165,523	188,362	10,578	12,038
Provisions	43,571	37,999	2,785	2,429
Non-current loans and borrowings	186,578	454,048	11,925	29,018
Other liabilities and provisions	7,378	4,609	471	295
Equity	439,713	815,888	28,103	52,145
Total liabilities and equity	**1,214,378**	**1,724,504**	**77,613**	**110,216**

Statements of comprehensive income for 2009 and 2008 before the change in accounting policy:

	EEK		EUR	
	2009	2008	**2009**	2008
In thousands				
Revenue from rendering of services	309,449	487,478	19,777	31,156
Revenue from sale of goods	95,274	172,301	6,089	11,012
Total revenue	**404,723**	**659,779**	**25,866**	**42,168**
Cost of sales	-497,126	-1,010,810	-31,772	-64,603
Gross loss	**-92,403**	**-351,031**	**-5,906**	**-22,435**
Other income	136,865	30,644	8,747	1,959
Distribution expenses	-4,417	-13,422	-282	-858
Administrative expenses	-86,253	-124,506	-5,513	-7,957
Other expenses	-90,945	-591,402	-5,812	-37,797
Operating loss	**-137,153**	**-1,049,717**	**-8,766**	**-67,088**
Finance income	8,946	76,089	572	4,863
Finance expenses	-197,073	-177,702	-12,595	-11,357
Loss before tax	**-325,280**	**-1,151,330**	**-20,789**	**-73,582**

Income tax income / expense	868	-8,811	55	-563
Loss for the period attributable to:	**-324,412**	**-1,160,141**	**-20,734**	**-74,145**
Equity holders of the parent	*-324,412*	*-1,154,959*	-20,734	*-73,814*
Non-controlling interests	*0*	*-5,182*	*0*	*-331*
Other comprehensive income/expense				
Exchange differences on translating foreign operations	**303**	**-37**	19	**-2**
Total comprehensive expense attributable to:	**-324,109**	**-1,160,178**	**-20,715**	**-74,147**
Equity holders of the parent	*-322,671*	*-1,154,996*	*-20,623*	*-73,816*
Non-controlling interests	*-1,438*	*-5,182*	-92	-331

Statements of comprehensive income for 2009 and 2008 after the change in accounting policy:

	EEK		EUR	
	2009	2008	**2009**	2008
In thousands				
Revenue from rendering of services	293,316	461,150	18,746	29,473
Revenue from sale of goods	92,274	172,301	5,897	11,012
Total revenue	**385,590**	**633,451**	**24,643**	**40,485**
Cost of sales	-414,186	-979,809	-26,471	-62,621
Gross loss	**-28,596**	**-346,358**	**-1,828**	**-22,136**
Other income	107,502	35,968	6,871	2,299
Distribution expenses	-4,401	-12,223	-281	-781
Administrative expenses	-85,666	-121,580	-5,475	-7,770
Other expenses	-80,496	-192,410	-5,145	-12,297
Operating loss	**-91,657**	**-636,603**	**-5,858**	**-40,685**
Finance income	8,152	116,843	521	7,468
Finance expenses	-290,474	-483,026	-18,565	-30,871
Loss before tax	**-373,979**	**-1,002,786**	**-23,902**	**-64,088**
Income tax income / expense	868	-8,524	55	-545
Loss for the period attributable to:	**-373,111**	**-1,011,310**	**-23,847**	**-64,633**
Equity holders of the parent	*-371,673*	*-1,006,128*	-23,755	*-64,302*
Non-controlling interests	*-1,438*	*-5,182*	*-92*	*-331*
Other comprehensive income/expense				
Exchange differences on translating foreign operations	**303**	**-37**	19	**-2**
Total comprehensive expense attributable to:	**-372,808**	**-1,011,347**	**-23,828**	**-64,635**
Equity holders of the parent	*-371,370*	*-1,006,165*	*-23,736*	*-64,304*
Non-controlling interests	*-1,438*	*-5,182*	-92	-331

New and revised IFRS and interpretations not adopted

A number of new International Financial Reporting Standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which, if adopted by the EU, becomes mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4 Significant accounting policies

Business combinations and basis of consolidation

The consolidated financial statements comprise the financial statements of Arco Vara AS and its subsidiaries, combined line by line, and the Group's interests in joint ventures, accounted for using the equity method. The financial statements of all Group entities coincide with the calendar year. Group entities use in all material respects uniform accounting policies and measurement bases. Where necessary, the accounting policies and measurement bases of Group entities are adjusted (e.g. in the case of some foreign entities), to ensure consistency with the policies adopted by the Group.

A subsidiary is an entity that is controlled by the Parent. Control is the power to govern the financial and operating policies of an entity under a statute or an agreement or by some other means. Control is presumed to exist when the Parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity.

A joint venture is a contractual arrangement whereby two or more parties (including the Parent) undertake an economic activity that is subject to joint control. Joint control exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Subsidiaries are consolidated from the date the control commences until the date the control ceases.

In preparing the consolidated financial statements, all receivables, liabilities, income, expenses, cash flows and unrealised gains and losses arising from transactions between the Parent and its subsidiaries are eliminated in full. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

A non-controlling interest, i.e. the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, is separately presented in the consolidated statement of financial position (within equity) and the consolidated statement of comprehensive income.

Acquisitions of subsidiaries and interests in joint ventures are accounted for by applying the purchase method. Under the purchase method, the acquirer's assets, liabilities and contingent liabilities ("net assets") are recognised at their fair values. The excess of the cost of the business combination over the Group's interest in the fair value of the acquirer's net assets is recognised as goodwill. If the Group's interest in the fair value of the acquiree's net assets exceeds the cost of the business combination, the Group reassesses the identification and measurement of the acquiree's assets, liabilities and contingent liabilities and recognises any excess remaining after that reassessment (negative goodwill) immediately as income in the statement of comprehensive income.

When the Group increases its interest in a subsidiary by purchasing shares from a non-controlling shareholder, the difference between the cost of the interest acquired and the book value of the share of the net assets acquired is recognised directly in equity and attributed to owners of the Parent. If the Group acquires assets or net assets that can be defined as a business under IFRS 3, the cost of the assets is allocated to the individual identifiable assets and liabilities on the basis of their fair values at the date of acquisition.

When an interest in a subsidiary is disposed of, the difference between the sum of the consideration received and the carrying amount of the Group's share in the subsidiary's assets, liabilities and goodwill is recognised immediately in the statement of comprehensive income, either as a gain in finance income or a loss in finance expenses. If control ceases (e.g. the Group's interest decreases to or below half of the voting power), the remaining interest in the carrying amounts of the subsidiary's assets, liabilities and goodwill is classified either as an investment in an associate or joint venture or an investment in other financial assets.

Segment reporting

Segment reporting is based on the grouping of structural units for the Group's internal accounting and reporting purposes (management accounting and budgeting). The Group's primary reporting format is business segments. A business segment is a distinguishable component of the Group that is engaged in providing products or services that are different from those of other business segments, and which operates as an independent profit centre.

The Group's business segments comprise:

- Real estate development (Development segment): the development of residential and commercial environments and long-term investment in real estate
- Real estate services (Service segment): real estate brokerage, valuation and management, and short-term investment in real estate.
- Construction (Construction segment). General and sub-contracting in the field of general construction and civil and environmental engineering, and construction supervision.

Segment revenue is revenue that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated to the segment on a reasonable basis, whether from sales to external customers or from transactions with other segments of the Group.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of the Group's expense that can be allocated to the segment on a reasonable basis, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the Group. Segment expense does not include finance and investment expenses, the Group's general administrative expenses and other expenses that arise at the Group level. The costs incurred at the Group level are allocated to a segment only if they relate to the segment's operating activities and they can be directly attributed to the segment on a reasonable basis.

Unrealised gains and losses arising from transactions between the Group's segments are not allocated to any segment but are presented in inter-segment eliminations. Unrealised gains and losses arising from transactions between the Parent and a segment which can be allocated to the segment on a reasonable basis are included in the segment result. Such gains and losses may include previously capitalised interest expense which upon the reclassification of assets accounted for under the cost model to assets accounted for under the fair value model is recognised as a fair value adjustment in the period in which the assets are reclassified.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on reasonable basis. Segment assets include, for example, current assets, investment properties, property, plant and equipment and intangible assets used in a segment's operating activities. If an asset's depreciation or amortisation expense is included in segment expenses, the asset is included in segment assets. Segment assets do not include assets used for the Group's general needs or which cannot be directly allocated to the segment. Assets shared by two or more segments are allocated to those segments if a reasonable basis for allocation exists.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities include, for example, trade and other payables, accrued expenses, advances received from customers, warranty provisions and other liabilities related to the segment's products and services. Segment liabilities do not include loans, finance lease liabilities, debt securities and other liabilities related to financing activities. Income tax liabilities are not included in segment liabilities either.

Unallocated items comprise revenue and expenses and assets and liabilities which are not directly related to any segment and therefore cannot be allocated to any segment.

The Group's secondary reporting format is geographical segments. At 31 December 2010, geographical segments comprised Estonia, Latvia and Bulgaria.

Foreign currency transactions

All currencies other than the Estonian kroon (the functional currency of the Parent) have been treated as foreign currencies. Transactions in foreign currencies are initially recorded at the foreign exchange rates of the Bank of Estonia ruling at the date of the transaction. Monetary assets (cash, cash equivalents and receivables) and monetary liabilities (loans and borrowings, payables and other liabilities) denominated in foreign currencies at the reporting date are retranslated to Estonian kroons at the Bank of Estonia exchange rates ruling at the reporting date. Foreign exchange gains and losses are recognised in the statement of comprehensive income in finance income and finance expenses respectively in the period in which they arise. Non-monetary items denominated in foreign currencies that are measured in terms of historical cost are translated using the Bank of Estonia exchange rates ruling at the dates of the original transactions. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the Bank of Estonia exchange rates ruling at the date when the fair value was determined

In accordance with the rules of NASDAQ OMX Tallinn AS (the stock exchange) the Group's consolidated financial statements are also presented in euros. As the Estonian kroon is pegged to the euro at a fixed exchange rate of 1 euro = 15.6466 Estonian kroons, the presentation of the financial statements in euros does not give rise to any exchange differences.

When the functional currency of a subsidiary or a joint venture differs from the Parent's functional currency, the financial statements of the subsidiary or joint venture (e.g. in Latvia, Lithuania and Bulgaria) are translated for consolidation purposes using the central exchange rates of the currencies against the euro, which is why translation does not give rise to any significant exchange differences. All relevant countries, Latvia, Lithuania and Bulgaria, have pegged their currency to the euro. The Latvian lats has the widest permitted fluctuation corridor – its exchange rate may differ from the fixed central exchange rate by up to 1%.

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably.

Revenue from the sale of properties (real estate)

Sales of properties are recognised when all significant risks and rewards related to the properties have been transferred to the buyer and the Group has no obligation to perform significant additional work. In general, a sale is deemed to have occurred when the real right contract (the contract by which title is transferred) has been signed. Payments made by customers before the signature of the real right contract are recognised as deferred income.

Revenue from long-term service contracts

The revenue and expenses arising from long-term service contracts (including construction contracts) are recognised by reference to the stage of completion method. The stage of completion of a service is determined as the proportion that the costs incurred until the reporting date bear to the estimated total costs of the transaction. If the amount of progress billings as at the reporting date differs from the revenue determined by reference to the stage of completion method, the difference is recognised as a payable or a receivable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately in the statement of comprehensive income.

Revenue from other services

Revenue from the rendering of other services arises when the service has been rendered. Revenue from brokerage services is recognised when the transaction has been completed. Rental income from investment properties is recognised on a straight-line basis over the lease term. Revenue and expenses from intermediation of utilities services (electricity, heat, water, etc. charges) are offset against the costs of purchasing those services.

Revenue from the sale of other goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer and the amount of revenue can be measured reliably.

Cash and cash equivalents and the statement of cash flows

Cash and cash equivalents comprise cash and short-term (up to 3 months) highly liquid investments which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Such assets are cash, demand deposits, term deposits with a maturity of up to three months and shares in money market funds.

In the statement of cash flows, cash flows from operating activities are reported using the indirect method. Cash flows from investing and financing activities are reported using the direct method, i.e. by disclosing separately gross cash receipts and gross cash payments.

Financial assets

When a financial asset is recognised initially, it is measured at cost, which is the fair value of the consideration given for it. Acquisition costs are any costs that are directly attributable to the acquisition of the asset, including fees and commissions paid to agents, advisers, brokers and dealers, as well as any non-recoverable levies, taxes and duties. Exceptions include transaction costs directly attributable to the acquisition of a financial asset at fair value through profit or loss which are recognised as an expense in the statement of comprehensive income as incurred.

A regular way purchase or sale of financial assets is recognised using trade date accounting. The trade date is the date on which the Group commits itself to purchase or sell a financial asset (e.g. the date on which the agreement is signed). A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established by regulation or convention in the marketplace concerned.

Subsequent to initial recognition, financial assets are classified into different categories (see below). The designation is re-evaluated and adjusted at each financial year end. Financial assets whose reclassification is not permitted by IFRS are not reclassified. After initial recognition, financial assets are measured as follows:

1) financial assets at fair value through profit or loss – at their fair values;

2) loans and receivables – at their amortised cost.

Financial assets measured at fair value

Financial assets that are measured at fair value are re-measured to fair value at each reporting date without any deduction for transaction costs that may be incurred on the sale or disposal of the asset. The fair values of listed securities are based on the closing prices of the securities and the official exchange rates of the Bank of Estonia ruling at the reporting date. The fair values of unlisted securities are determined based on all available information and by reference to comparison with the fair values of other instruments which are substantially the same and/or the discounted cash flow analysis.

A gain or loss arising from a change in the fair value of a financial asset is recognised in the statement of comprehensive income (in finance income and finance expenses respectively).

A gain and loss arising on the disposal of financial assets measured at fair value as well as the interest and dividends on these assets is recognised in the statement of comprehensive income (in finance income and finance expenses).

Loans and receivables

Loans and receivables, except those that the Group intends to sell in the near term, are measured at amortised cost using the effective interest method. The amortised cost is calculated taking into account any discount or premium on acquisition and any directly attributable transaction costs.

If there is objective evidence that an impairment loss on a financial asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount and recoverable amount of the asset. The recoverable amount is the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised in the statement of comprehensive income. Impairment losses on financial assets related to operating activities are charged to administrative expenses and impairment losses on financial assets related to investing activities are charged to finance expenses

Financial assets that are individually significant are assessed for impairment individually. Receivables overdue for 180 days or more are considered impaired and are expensed in full. If impairment becomes evident sooner, the asset is written down earlier.

If a receivable that has been written down is collected or any other event occurs which reverses an impairment loss which has been recognised, the reversal is recognised by reducing the expense item in the statement of comprehensive income in which the impairment loss was originally recognised.

Interest income on loans and receivables is recognised in the statement of comprehensive income in finance income.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale and are not classified to any other category of financial assets.

Own shares

When own equity instruments are reacquired, the consideration paid including any transaction charges is deducted from equity. Repurchased shares are classified as own shares within equity. When own shares are sold, the amount of consideration received is recognised as an increase in equity and the gain or loss on the transaction is recognised in retained earnings.

Inventories

Finished goods and work in progress are initially recognised at their cost of conversion. The cost of conversion includes all direct and indirect production costs incurred in bringing the inventories to their present location and condition. Production overheads are allocated to the costs of conversion based on the normal capacity of the production facilities. Other inventories are initially recognised at cost. The cost of inventories includes all direct and indirect costs incurred in bringing the inventories to their present location and condition. Indirect costs that are included in the cost of inventories include, among other items, the borrowing costs (interest charges, amortisation of contract fees, etc) incurred in financing their construction. Borrowing costs are capitalised until the construction of the underlying asset is complete. Borrowing costs related to registered immovable properties and apartments treated as movable properties are added to the carrying amounts of the assets until a permit of use has been issued.

The cost of inventories is assigned using the weighted average cost formula except that the cost of registered immovable properties and apartments treated as movable properties is assigned by specific identification of their individual costs.

In the statement of financial position, inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory write-downs to net realisable value are recognised in the cost of sales in the statement of comprehensive income.

Investment property

Investment property is property (land or a building or both) held to earn rentals or for capital appreciation, rather than for use in the production or supply of goods or services of for administrative purposes. In addition, investment property includes properties which are held over an extended period for an undetermined future use. Land and buildings acquired for development and resale are carried as inventories. Properties being constructed or developed for future use as investment properties (commercial buildings) and buildings treated as movable properties (commercial buildings under renovation) are carried as investment properties.

An investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Transaction costs that are directly attributable to acquisition include notary's fees, stamp duties, advisors' fees and other transaction costs. After initial recognition, investment properties are measured using the fair value model. The fair value of investment property reflects market conditions at the reporting date.

In addition to estimates made by management, the fair value of investment property is determined based on the valuations performed by qualified independent appraisers. This means that in the case of significant investment properties valuation reports are also commissioned from independent real estate appraisers. Fair value is determined using the following methods:

- Discounted cash flow analysis. The discounted cash flow method is used to determine the value of investment properties that generate stable rental income and properties whose fair value, according to management's assessment, cannot be determined reliably under the sales comparison method (for example, inactive property market in the location of the property being valued, absence of comparable transactions or an extensive period between a comparable transaction and the date of valuation). In order to calculate the present value of a property's future cash flows, the appraiser has to forecast the property's future rental income (including rental per 1 square metre and the occupancy rate) and operating expenses. Depending on the terms of the lease (whether

and how easily the lease can be terminated by the lessee), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow should be found by applying a discount rate which best reflects the current market assessments of the time value of money and the risks specific to the asset. The discount rate should be selected based on the market's average capital structure, not asset structure.

- Sales comparison method. The sales comparison method is applied to properties that do not generate rental cash flow and are held for future development or capital appreciation. Under this method, the market value of a property is determined by reference to the price per square metre agreed in transactions performed with similar properties. As the transactions selected for comparison are practically never identical with the property being valued, their prices are adjusted to reflect differences in time, location, size and detailed plan. Where necessary, another valuation technique is applied (e.g. the discounted cash flow analysis) if management believes that the latter can measure the fair value of the property more reliably.
- Existence of a sales contract under the law of obligations. In the case of properties which at the reporting date have been sold based on a contract under the law of obligations but in respect of which the real right contract has not been signed (title has not transferred), fair value is determined by reference to the sales price of the property in the contract under the law of obligations. The sales price agreed in the contract under the law of obligations is used for determining the fair value of a property only when the Group has reasonable assurance that the related real right contract will be concluded under the same terms and conditions (e.g. the buyer has made a substantial prepayment for the property by the reporting date or the real right contract is concluded after the reporting date but before the date management approves the financial statements for issue).

Gains and losses arising from changes in the fair value of investment property are recognised in the statement of comprehensive income in the period in which they arise (in other income and other expenses respectively).

An investment property is derecognised on disposal or when the property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains and losses arising from the retirement or disposal of investment property are recognised in the statement of comprehensive income in the period of retirement or disposal (in other income or other expenses respectively).

Transfers to and from investment property are made when there is a change in use. From the date of transfer, an asset is accounted for using the policies applied to the class of assets to which it has been transferred. For a transfer from investment property to inventories or property, plant and equipment, the property's deemed cost for subsequent accounting is its fair value at the date of transfer.

When an item of property, plant and equipment is transferred to investment property, any positive difference between the fair value and carrying amount of the property at the date of transfer is recognised in the revaluation reserve in equity. Any negative difference is recognised in the statement of comprehensive income in depreciation expense. When a property is transferred from inventories to investment property, any difference between fair value and carrying amount is recognised in the statement of comprehensive income in other income or other expenses as appropriate.

Property, plant and equipment

Assets are classified as items of property, plant and equipment when their useful life extends beyond one year.

An item of property, plant and equipment is initially recognised at cost. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to its acquisition. The cost of properties which are carried as items of property, plant and equipment includes borrowing costs (interest charges, amortisation of contract fees, etc) incurred in financing the construction of the properties. Capitalisation of borrowing costs commences at the date the construction of the asset begins and ceases when the asset is complete.

After recognition, an item of property, plant and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses.

If an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for separately and assigned depreciation rates that correspond to their useful lives.

Subsequent expenditure on an item of property, plant and equipment (e.g. the costs of replacing a part of an item) is added to the carrying amount of the item, provided that it meets the following criteria: (a) it is probable that future economic benefits associated with the item will flow to the Group; and (b) the cost of the item can be measured reliably. The carrying amounts of the parts that are replaced are derecognised. All other subsequent expenditures related to property, plant and equipment are recognised as an expense in the period in which they are incurred.

Items of property, plant and equipment are depreciated on a straight-line basis. Each part of an item of property, plant and equipment is assigned a depreciation rate that corresponds to its useful life. The following annual depreciation rates are applied:

- Buildings and structures 2–18%
- Plant and equipment 8–20%
- Vehicles 15–25%
- Other equipment and fixtures 20–40%

Items of property, plant and equipment are depreciated until their residual value exceeds their carrying amount. The residual value is the estimated amount that the Group would currently obtain from the disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

Depreciation methods, depreciation rates and residual values are reviewed at least at each reporting date. When measurement bases are revised, the revisions are applied prospectively.

The carrying amounts of items of property, plant and equipment are reviewed for impairment when there is evidence that the carrying amount of an asset may exceed its recoverable amount. Impairment testing is described in more detail below (see the policy *Impairment of assets*).

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is recognised in the statement of comprehensive income in other income or other expenses, as appropriate, in the period in which the item is derecognised.

Items of property, plant and equipment whose sale within the next 12 months is highly probable, are reclassified to non-current assets held for sale. Non-current assets held for sale are presented separately from other assets in the statement of financial position and their depreciation is discontinued. A non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

Other intangible assets

Other acquired intangible assets are initially measured at cost. Following initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are divided into assets with finite and indefinite useful lives. Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives (generally three to six years). Amortisation expense is recognised in the statement of comprehensive income in the expense category consistent with the function of the underlying asset. The amortisation periods and amortisation methods of intangible assets with finite useful life are reviewed at each financial year-end. Changes in the expected useful life of an asset and the pattern in which the asset's future economic benefits are expected to be consumed are accounted for as changes in accounting estimates and are applied prospectively.

Intangible assets with indefinite useful lives are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether events and circumstances continue to support the indefinite life assessment for that asset. If not, the change is accounted for as a change in an accounting estimate on a prospective basis and the asset is subjected to amortisation.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the level of the cash-generating unit. The carrying values of intangible assets with finite useful lives are reviewed for impairment when there is evidence that the carrying value may not be recoverable. If an impairment test indicates that the recoverable amount of an intangible asset is lower than its carrying amount, the asset is written down to its recoverable amount. Impairment losses are recognised in the statement of comprehensive income similarly to amortisation expenses, i.e. they are grouped according to the use of the underlying assets. Impairment testing is described in greater detail in the section *Impairment of assets*.

Impairment of assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If such an indication exists or at least once a year (if so required by IFRS), the Group measures the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down, either individually or as part of a cash-generating unit, to its recoverable amount. An asset's recoverable amount is the higher of the present value of its estimated future cash flows (value in use) and its fair value less costs to sell. In measuring value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where necessary, the assistance of independent experts is used. Impairment losses, including impairment losses for cash-generating units are recognised in the statement of comprehensive income in other expenses or depreciation and amortisation expense in the period in which they are incurred.

If there is evidence that an impairment loss recognised in prior years no longer exists or has decreased, the impairment loss is reversed. Impairment losses and prevailing circumstances are reviewed at least annually at each reporting date. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised. Reversals of impairment losses are recognised on the same line of the statement of comprehensive income on which the original impairment loss was recognised.

Financial liabilities

All financial liabilities (trade and other payables, loans and borrowings, accrued expenses, debt securities issued, and other short and long-term liabilities) are initially recognised at cost. The cost of a financial liability includes all transaction costs that are directly attributable to its acquisition. After initial recognition, financial liabilities are measured at amortised cost (except for financial liabilities acquired for resale which are measured at their fair value).

As a rule, the amortised cost of a short-term financial liability equals its nominal value. Therefore, short-term financial liabilities are stated in the statement of financial position at the amount payable. Long-term financial liabilities are initially recognised at the fair value of the consideration received (less the transaction charges). Thereafter, they are measured at amortised cost using the effective interest rate method. Interest expenses on financial liabilities are recognised in finance expenses in the statement of comprehensive income on an accrual basis except that interest expenses on financing the development of assets (properties carried as inventories, investment properties, and items of property, plant and equipment) are capitalised and added to the carrying amount of the asset from the date the development of the asset commences to the date the development is complete.

A financial liability is classified as current when it is due to be settled within 12 months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for more than 12 months after the reporting date. Financial liabilities which are due to be settled within 12 months after reporting date are classified as current even if an agreement to refinance on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue. When a contract is breached on or before the reporting date with the effect that the liability becomes payable on demand, the liability is classified as current.

A financial liability is removed from the statement of financial position when it is discharged or cancelled or expires.

Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits are recognised as an expense when the Group is demonstrably committed, without a realistic possibility of withdrawal, to a detailed formal plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense when the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

Provisions and contingent liabilities

A provision is recognised only when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Promises, guarantees and other commitments that may transform into obligations under certain circumstances (which have not yet occurred) are disclosed as contingent liabilities in the notes to the consolidated financial statements.

Present obligations arising from past events which according to management’s judgement will not realise or cannot be measured reliably are also disclosed as contingent liabilities.

Leases

A lease that transfers substantially all the risks and rewards incidental to ownership of the leased asset to the lessee is classified as a finance lease. All other leases are classified as operating leases.

Finance leases related to assets acquired are recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Assets acquired with finance lease are depreciated over the shorter of the lease term and the useful life of the asset. Assets leased out under a finance lease are recognised in the statement of financial position and presented as a receivable at an amount equal to the net investment in the lease. Lease payments made are apportioned between finance expense and the reduction of the outstanding liability and lease payments received are apportioned between finance income and repayment of the principal. A constant periodic rate of interest is applied throughout the lease term.

Assets subject to operating leases are recognised in the lessor's statement of financial position. Operating lease receipts and payments are recognised as income and expense respectively on a straight-line basis over the lease term

Statutory capital reserve

According to the Commercial Code of the Republic of Estonia, the statutory capital reserve has to amount to at least 10% of the company's share capital. Accordingly, the Parent company transfers at least 5% of its net profit for the period to the capital reserve until the required level has been achieved. The capital reserve may not be distributed as dividends but it may be used for covering accumulated losses if the latter cannot be covered with unrestricted equity, and for increasing share capital through a bonus issue.

Finance income and expenses

The Group's finance income comprises of interest income (mainly interest income on loans granted and term deposits with commercial banks), gains on sale of investments in subsidiaries and joint ventures, share of profits of joint ventures under the equity method and gains on sale of other investments.

Interest income is recognised on an accrual basis using the effective interest rate method. Dividend income is recognised when the right to receive payment is established.

The Group's finance expenses comprise interest expense on loans received, losses on sale of investments in subsidiaries and joint ventures and share of losses of joint ventures calculated under the equity method.

Borrowing costs that are not directly related to real estate development (and which are not capitalised and added to the cost of the assets) are recognised on an accrual basis using the effective interest rate method.

Finance income and expenses arising from foreign exchange differences are offset and recognised in the net amount.

Income tax

Income tax assets and liabilities and income tax expense and income comprise current and deferred items. Current tax is recognised as a short-term asset or liability and deferred tax is recognised as a long-term asset or liability.

Parent company and subsidiaries and joint ventures registered in Estonia

Pursuant to the Estonian Income Tax Act, companies do not have to pay income tax on their earnings (profit for the period). Instead, income tax is levied on profit distributions (dividends). From 31 December 2007, the amount of tax payable is calculated as 21/79 of the amount distributed as the net dividend. The income tax payable on a dividend distribution is recognised as the income tax expense of the period in which the dividends are declared (the payment obligation arises).

Because of the specific nature of the taxation system, deferred income tax liabilities and assets do not arise for companies registered in Estonia. The contingent income tax liability that might be incurred on the distribution of the entire retained earnings as dividends is not recognised in the statement of financial position. Instead, the income tax liability which would arise if all of the unrestricted equity were distributed as dividends is disclosed in the notes to the consolidated financial statements (note 30).

Latvian, Lithuanian and Bulgarian subsidiaries and joint ventures

In Latvia, Lithuania and Bulgaria the profit earned by companies is subject to income tax. The tax rate in Latvia is 15%, in Lithuania 15% (2009: 20%) and in Bulgaria 10% of taxable income. Taxable income is identified by adjusting profit before tax for the temporary and permanent differences permitted by the local tax laws.

In the case of foreign subsidiaries, deferred income tax assets and deferred income tax liabilities are recognised for all temporary differences between the carrying amounts and tax bases of assets and liabilities. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Investments in subsidiaries and joint ventures in the Parent's unconsolidated financial statements presented in accordance with the Estonian Accounting Act

The Parent's unconsolidated primary financial statements (note 35) represent supplementary information which is presented in accordance with the Estonian Accounting Act and they do not constitute separate financial statements as defined in IAS 27.

In the Parent's unconsolidated primary financial statements, investments in subsidiaries and joint ventures are measured using the cost model. This means that the investment is initially recognised at cost, which is considered equal to the fair value of the consideration given for it, and thereafter measured at cost less any impairment losses.

Investments are tested for impairment at each financial year-end or whenever there is any indication that an investment may be impaired (see policy *Impairment of assets*). Impairment losses are recognised in finance expenses in the statement of comprehensive income.

Dividends received and receivable from subsidiaries and joint ventures are recognised in finance income when the right to receive payment has been established. The dividends distributed from the retained earnings accumulated by a subsidiary or joint venture before the date of acquisition are not recognised as income. Instead, such dividends are recognised as a reduction of the investment.

5 Segment reporting – business segments

The Group's business segments comprise:

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

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

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

Inter-segment transactions are conducted at market prices and priced similarly to transactions with the Group's external customers. A significant proportion of inter-segment transactions is made up of construction and brokerage services that companies of the Construction and Service segments sell to companies of the Development segment. Brokerage fees extend to 2.5-5% and in the case of major transactions and public procurements to 1-1.5% of the cost of the brokered property across all geographical markets.

Segment	Service		Development		Construction		Unallocated items		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
EEK, thousands										
External revenues	25,106	30,438	170,818	112,065	134,629	242,930	109	157	330,662	385,590
Inter-segment revenues	4,551	6,806	1,582	230	871	35,661	-7,004	-42,697	0	0
Total revenue	**29,657**	**37,244**	**172,400**	**112,295**	**135,500**	**278,591**	**-6,895**	**-42,540**	**330,662**	**385,590**
Operating profit/loss	**-5,595**	**-19,543**	**23,379**	**-37,226**	**-8,100**	**-8,220**	**-11,707**	**-26,668**	**-2,023**	**-91,657**
Of which:										
Inventory write-downs and reversals of inventory write-downs	*0*	*-1,308*	*21,868*	*-63,597*	*0*	*0*	*0*	*0*	*21,868*	*-64,905*
Changes in fair value of investment property	*-1,148*	*-3,145*	*-25,631*	*28,986*	*0*	*-1,576*	*0*	*0*	*-26,779*	*24,265*
Depreciation, amortisation and impairment losses	*-560*	*-830*	*-225*	*-860*	*-625*	*-2,668*	*-705*	*-617*	*-2,115*	*-4,975*
Impairment losses on goodwill	*0*	*0*	*0*	*0*	*0*	*-10,896*	*0*	*0*	*0*	*-10,896*
Finance income									26,326	8,152
Finance expenses									-28,494	-290,474
Income tax expense/income									-400	868
Loss for the period									**-4,591**	**-373,111**

Segment	Service		Development		Construction		Unallocated items		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
EUR, thousands										
External revenues	1,605	1,945	10,917	7,162	8,604	15,526	7	10	21,133	24,643
Inter-segment revenues	291	435	101	15	56	2,279	-448	-2,729	0	0
Total revenue	**1,896**	**2,380**	**11,018**	**7,177**	**8,660**	**17,805**	**-441**	**-2,719**	**21,133**	**24,643**
Operating profit/loss	**-358**	**-1,249**	**1,494**	**-2,379**	**-518**	**-525**	**-747**	**-1,705**	**-129**	**-5,858**
Of which:										
Inventory write-downs and reversals of inventory write-downs	*0*	*-84*	*1,397*	*-4,064*	*0*	*0*	*0*	*0*	*1,397*	*-4,148*
Changes in fair value of investment property	*-73*	*-201*	*-1,639*	*1,853*	*0*	*-101*	*0*	*0*	*-1,712*	*1,551*
Depreciation, amortisation and impairment losses	*-36*	*-53*	*-14*	*-55*	*-40*	*-171*	*-45*	*-39*	*-135*	*-318*
Impairment losses on goodwill	*0*	*0*	*0*	*0*	*0*	*-696*	*0*	*0*	*0*	*-696*
Finance income									1,682	521
Finance expenses									-1,821	-18,565
Income tax expense/income									-26	55
Loss for the period									**-294**	**-23,847**

Segment	Service		Development		Construction		Unallocated items		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
EEK, thousands										
Assets	9,355	10,798	966,207	1,046,071	45,929	67,657	82,893	89,852	1,104,384	1,214,378
Liabilities	5,006	4,584	593,017	646,103	31,897	55,339	39,050	68,639	668,970	774,665

Segment	Service		Development		Construction		Unallocated items		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
EUR, thousands										
Assets	598	690	61,752	66,856	2,935	4,324	5,298	5,743	70,583	77,613
Liabilities	320	293	37,901	41,293	2,039	3,537	2,495	4,387	42,755	49,510

6 Segment reporting – geographical segments

Revenue by country of origin	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Estonia	257,111	295,710	16,433	18,898
Latvia	41,016	85,724	2,621	5,479
Bulgaria	32,535	3,114	2,079	199
Ukraine	0	1,042	0	67
Total revenue	**330,662**	**385,590**	**21,133**	**24,643**

Immovable properties by location[1]	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Bulgaria	444,583	473,584	28,414	30,268
Estonia	363,277	376,212	23,218	24,043
Latvia	105,898	108,440	6,768	6,931
Lithuania	9,000	9,000	575	575
Total immovable properties	**922,758**	**967,236**	**58,975**	**61,817**

[1] Comprises properties held for sale in the category of inventories; investment properties; and land and buildings within property, plant and equipment (notes 18, 20 and 21).

7 Changes in the structure of Arco Vara Group

7.1 Scope of consolidation and summary of changes within the Group

At 31 December 2010, Arco Vara Group had 18 Estonian (31 December 2009: 19), 7 Latvian (31 December 2009: 7), 2 Lithuanian (31 December 2009: 2), 1 Ukrainian (31 December 2009: 1), 4 Bulgarian (31 December 2009: 4) and 1 Romanian (31 December 2009: 1) consolidated entities.

In 2010 the number of consolidated entities decreased by one as the Group disposed of one subsidiary (see note 7.2) and investments in three joint ventures (see note 7.2) and established three subsidiaries (see note 7.4). In addition, the Group reduced its ownership interest in one subsidiary from 63% to 50%, as a result of which the investment became an investment in a joint venture (note 7.3), and increased its investment in a joint venture from 50% to 100%, as a result of which the latter became a subsidiary (note 7.3). The Group also raised its interest in one subsidiary from 80% to 100%. The transaction was conducted at the nominal value of the investment and its impact on the Group's figures was insignificant.

The structure of Arco Vara Group is presented in note 34 to the consolidated financial statements.

The most important joint ventures are Arco HCE OÜ (owns the Ahtri 3 development project in Tallinn) and Bisumuizas Nami SIA (owns the Bisumuiza 2 development project in Latvia).

7.2 Disposals

Subsidiaries

On 10 December 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, disposed of its 100% interest in Wilson Kinnisvara OÜ whose share capital was 45 thousand kroons (3 thousand euros). The sales price of the stake was 3,333 thousand kroons (213 thousand euros) and sales gain amounted to 2,705 thousand kroons (173 thousand euros). For further information, see note 12. The buyer paid 23,000 thousand kroons (1,470 thousand euros) of which 19,667 thousand kroons (1,257 thousand euros) was repayment of a loan taken by Wilson Kinnisvara OÜ from the parent.

	EEK		EUR	
Effect of disposal of the subsidiary on the Group's assets and liabilities	**2010**	**2009**	**2010**	**2009**
In thousands				
Cash and cash equivalents	-100	-3,186	-6	-204
Other current assets	-107	-20,222	-7	-1,292
Non-current receivables	0	-6,018	0	-385
Investment property (note 20)	-20,212	-60	-1,292	-4
Property, plant and equipment	0	-6,533	0	-418
Intangible assets	0	-500	0	-32
Current loans and borrowings	0	-3,730	0	-238
Other current liabilities	-124	-26,995	-8	-1,725
Non-current loans and borrowings	0	-473	0	-30

Joint ventures

On 11 March 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, divested its 50% interest in the joint venture Arco Vara Saare Kinnistute OÜ (nominal value: 100 thousand kroons (6 thousand euros)). At the date of the transaction, the sales price of the investment was 6,000 thousand kroons (383 thousand euros) and the transaction gave rise to a loss of 2,237 thousand kroons (143 thousand euros). For further information, see note 12. The final price of the transaction may prove 3.0 million kroons (0.2 million euros) smaller, depending on the realisation of a contingent tax liability of the divested entity. Through the transaction, the number of the Group's joint ventures decreased by a further entity because Arco Vara Saare Kinnistud OÜ held a 67% stake in Varamaad Kinnisvara OÜ.

On 4 May 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, divested its interest in the joint venture Arco Vara Arenduse OÜ (nominal value: 40 thousand kroons (3 thousand euros)). The sales price of the investment was 105 thousand kroons (7 thousand euros) and the transaction gave rise to a loss of 34 thousand kroons (2 thousand euros). For further information, see note 12.

7.3 Changes in ownership interests at Group entities

On 11 March 2010 Arco Development SIA, a 99.9% subsidiary of Arco Investeeringute AS, reduced its interest in AD Saulkrasti SIA from 63% to 50%. The transaction was conducted at the nominal value of the shares, which was 6 thousand kroons (0.4 thousand euros). The transaction gave rise to a gain of 895 thousand kroons (57 thousand euros) for the Group. For further information, see note 12.

On 5 July 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, raised its interest in Pärnu Elumaja OÜ from 50% to 100%. The transaction was conducted at the carrying amount of the investment, which was 2,182 thousand kroons (139 thousand euros).

Effect of changes in ownership interests on the Group's assets and liabilities:

	EEK	EUR
In thousands		
Cash and cash equivalents	565	36
Current receivables	2,291	146
Inventories	337	22
Current liabilities	-2,055	-131

7.4 Establishment of companies

On 16 April 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, established Tivoli Arenduse OÜ - a wholly-owned subsidiary with a share capital of 0.04 million kroons (0.003 million euros).

On 19 April 2010 Arco Ehitus OÜ, a wholly-owned subsidiary of Arco Vara AS, established AE Ehitusjuhtimise OÜ - a wholly-owned subsidiary with a share capital of 0.04 million kroons (0.003 million euros).

On 31 May 2010 Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, established Alasniidu LA OÜ – a wholly-owned subsidiary with a share capital of 0.04 million kroons (0.003 million euros).

Notes to the statement of comprehensive income

8 Cost of sales

	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Cost of properties sold	-117,053	-87,313	-7,481	-5,580
Cost of construction services purchased	-118,205	-205,216	-7,555	-13,116
Management and administration costs	-12,013	-11,787	-768	-753
Personnel expenses	-23,824	-34,345	-1,523	-2,195
Vehicle expenses	-2,855	-4,627	-182	-296
Depreciation, and amortisation expense and impairment losses	-176	-1,728	-11	-110
Inventory write-downs and reversals of inventory write-downs (note 18)	21,868	-64,905	1,397	-4,148
Other costs	-1,791	-4,265	-114	-273
Total cost of sales	**-254,049**	**-414,186**	**-16,237**	**-26,471**

9 Other income and other expenses

Other income

	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Gains on fair value adjustments to investment property (note 20)	6,701	89,639	429	5,729
Gains on sale of investment property	758	7,458	48	477
Gains on sale of property, plant and equipment	0	249	0	16
Release of provisions (note 26)	16,323	0	1,043	0
Miscellaneous income	2,999	10,156	192	649
Total other income	**26,781**	**107,502**	**1,712**	**6,871**

Other expenses

	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Losses on fair value adjustments to investment property (note 20)	-33,480	-65,374	-2,140	-4,178
Losses on sale of investment property	-1,090	-6,370	-70	-407
Losses on sale of property, plant and equipment	-51	-1,799	-3	-115
Late payment interest and penalty charges	-1,172	-1,355	-75	-87
Miscellaneous expenses	-1,665	-5,598	-106	-358
Total other expenses	**-37,458**	**-80,496**	**-2,394**	**-5,145**

10 Distribution expenses

	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Advertising expenses	-2,565	-2,367	-164	-151
Brokerage fees	-675	-845	-43	-54
Market research expenses	-77	-37	-5	-2
Personnel expenses	-1,054	-870	-67	-56
Other distribution expenses	-363	-282	-23	-18
Total distribution expenses	**-4,734**	**-4,401**	**-302**	**-281**

11 Administrative expenses

	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Personnel expenses	-29,907	-37,165	-1,911	-2,375
Office expenses	-8,671	-16,064	-554	-1,027
Legal and consulting fees	-12,623	-7,722	-807	-494
Impairment of goodwill	0	-10,896	0	-696
Depreciation, amortisation and impairment losses	-1,939	-3,247	-124	-208
Expenses from write-down of receivables	-4,970	-2,652	-318	-169
Vehicle expenses	-3,217	-4,879	-206	-312
Other expenses	-1,898	-3,041	-121	-194
Total administrative expenses	**-63,225**	**-85,666**	**-4,041**	**-5,475**

12 Finance income and finance expenses

Finance income

	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Gains on sale of investments in subsidiaries (note 7)	3,600	1,153	230	74
Share of profit of equity-accounted investees (joint ventures)	71	123	5	8
Interest income	3,222	4,725	205	301
Foreign exchange gains	1,187	150	76	10
Gain on other long-term investments[1]	18,246	2,001	1,166	128
Total finance income	**26,326**	**8,152**	**1,682**	**521**

Finance expenses

	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Losses on sale of investments in subsidiaries	0	-5,645	0	-361
Losses on sale of investments in joint ventures (note 7)	-2,271	0	-145	0
Share of losses of equity-accounted investees (joint ventures)	-2,912	-235,462	-186	-15,049
Interest expense[2]	-21,386	-27,320	-1,367	-1,746
Foreign exchange losses	-137	-2,973	-9	-190
Other finance expenses	-1,788	-186	-114	-12
Write-down of financial assets	0	-18,888	0	-1,207
Total finance expenses	**-28,494**	**-290,474**	**-1,821**	**-18,565**

[1] In 2010 Arco Investeeringute AS, a wholly-held subsidiary of Arco Vara AS, divested its receivable from Celia Crowd AS (formerly Ühendatud Kapital AS) to AS EMF Invest for 52,000 thousand kroons (3,323 thousand euros). The Group's gain on the transaction amounted to 18,246 thousand kroons (1,166 thousand euros).

[2] Interest expense consists mainly of interest expense on loans taken for acquiring and building real estate projects. Interest expense on loans taken for financing active development projects is capitalised. In 2010 and 2009, capitalised interest expenses totalled 11,609 thousand kroons (742 thousand euros) and 32,101 thousand kroons (2,052 thousand euros) respectively.

13 Income tax expense

	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Income tax expense on the profit of Latvian subsidiaries	-2	-3	0	0
Income tax expense on the profit of the Romanian subsidiary	0	-11	0	-1
Income tax expense/income on the profit of Bulgarian subsidiaries	-398	882	-25	56
Total income tax expense/income	**-400**	**868**	**-25**	**55**

14 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. Under section 283 of the Estonian Commercial Code, own shares do not provide the company with any shareholder rights. Accordingly, they are not included in calculating the weighted average number of ordinary shares.

	EEK		EUR	
	2010	2009[1]	**2010**	2009[1]
Weighted average number of ordinary shares outstanding during the period	**4,741,707**	4,741,707	**4,741,707**	4,741,707
Net loss attributable to equity holders of the parent (in thousands)	**-4,387**	-371,673	**-281**	-23,755
Earnings per share	**-0.93**	-78.38	**-0.06**	-5.01

[1] For comparability, the number of shares has been adjusted for the reduction of the number of shares in the first quarter of 2010.

At 31 December 2009 the Parent company had 450,000 own shares. At 31 December 2010 there were no own shares.

Diluted earnings per share are calculated by adjusting the profit or loss attributable to equity holders of the Parent and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares. At 31 December 2010 and 31 December 2009 the Group did not have any dilutive potential ordinary shares. Therefore, diluted earnings per share equalled basic earnings per share.

15 Operating lease expenses

In the reporting period the Group leased office premises, vehicles and office equipment under operating leases.

Operating lease expenses on	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Premises	2,198	2,148	140	137
Vehicles	2,477	3,441	158	220
Office equipment	813	1,896	52	121
Total	**5,488**	**7,485**	**350**	**478**

As at the reporting date, future non-cancellable operating lease rentals were payable as follows:

Future lease expenses		
	EEK	**EUR**
In thousands		
Payable within one year	2,277	146
Payable from second to fifth years	440	28
Total	**2,717**	**174**

Notes to the statement of financial position

16 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in the Group's bank accounts. In accordance with IAS 7 *Statement of Cash Flows*, the Group recognises within cash and cash equivalents also demand deposits and term deposits with a maturity of up to three months.

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Cash on hand and demand deposits	13,754	10,198	879	652
Term deposits	52,104	54,526	3,330	3,485
Total cash and cash equivalents	**65,858**	**64,724**	**4,209**	**4,137**

Term deposits as at 31 December 2010 comprise deposits with a maturity of up to three months of 44,133 thousand kroons (2,821 thousand euros) and overnight deposits of 7,971 thousand kroons (509 thousand euros). At the end of 2009 term deposits totalled 37,197 thousand kroons (2,377 thousand euros) and overnight deposits totalled 17,329 thousand kroons (1,108 thousand euros).

In 2010 the interest rates of term deposits ranged from 0.66% to 7.5% (2009: 1.3% to 11%) per year and the interest rates of overnight deposits ranged from 0.05% to 1.3% (2009: 0.25% to 5.7%) per year.

Although the Group's consolidated cash and cash equivalents balance as at the end of 2010 was 65,858 thousand kroons (4,209 thousand euros), only 51,072 thousand kroons (3,264 thousand euros) of this was directly under the Group's control. The remainder was in the accounts of subsidiaries or joint ventures and transfers from those accounts to other Group entities or the Parent company require the counterparty's or the bank's consent. At the end of 2009, the consolidated cash and cash equivalents balance was 64,724 thousand kroons (4,137 thousand euros) and 33,877 thousand kroons (2,165 thousand euros) of this was under the Group's direct control.

17 Trade and other receivables

Current receivables

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Trade receivables				
Trade receivables	36,299	55,950	2,320	3,576
Allowance for doubtful items	-5,014	-2,972	-320	-190
Total trade receivables	**31,285**	**52,978**	**2,000**	**3,386**
Other receivables				
Loans granted	27,426	58,874	1,753	3,763
Miscellaneous receivables	10,308	5,777	659	369
Total other receivables	**37,734**	**64,651**	**2,412**	**4,132**
Accrued income				
Interest receivable	3,095	3,681	198	235
Due from customers under long-term construction contracts (note 25)	6,711	293	429	19
Prepaid and refundable VAT	8,574	11,471	548	733
Other accrued income	2,729	7,802	173	498
Total accrued income	**21,109**	**23,247**	**1,348**	**1,485**
Total current receivables	**90,128**	**140,876**	**5,760**	**9,003**

Non-current receivables

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Non-current loan receivables	18	1,632	1	104
Other non-current receivables	1,171	1,003	75	64
Total non-current receivables	**1,189**	**2,635**	**76**	**168**

18 Inventories

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Properties purchased and developed for resale[1]	555,240	739,742	35,486	47,278
Other goods purchased for resale	0	453	0	29
Materials and finished goods	504	298	32	19
Prepayments to suppliers	3,471	14,312	222	915
Total inventories	**559,215**	**754,805**	**35,740**	**48,241**

[1] In 2010 the net realisable values of some inventories decreased below their carrying amount. As a result, the Group wrote inventories down by 4,377 thousand kroons (280 thousand euros). In 2009 inventories were written down by 64,905 thousand kroons (4,148 thousand euros). In 2010 the Group reversed prior period inventory write-downs of 26,245 thousand kroons (1,677 thousand euros). In 2009 no inventory write-downs were reversed. See also note 8.

Information on inventories pledged as collateral is presented in note 29.

19 Investments

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Investments in equity-accounted investees (joint ventures)	22	2,295	1	146
Long-term investments in equities – measured at cost[1]	15,558	15,558	995	995
Total long-term investments	**15,580**	**17,853**	**996**	**1,141**

[1] Long-term investments in equities include mainly an investment made in Floriston Group OÜ (12.5% ownership interest), whose value at both 31 December 2010 and 31 December 2009 was 15,423 thousand kroons (986 thousand euros). Long-term investments in equities are measured at cost because their fair value cannot be determined reliably. The investments are classified as available-for-sale financial assets.

20 Investment property

The Group recognises commercial buildings that have been leased out and properties that have development potential but whose future use is still uncertain as investment properties.

	EEK	EUR
In thousands		
Balance at 31 December 2008	**157,367**	**10,058**
Acquisitions	17,021	1,088
Transfer from property, plant and equipment (note 21)	15,258	975
Transfer from inventories	24,146	1,543
Sales	-18,868	-1,206

Disposals on disposal of subsidiaries	-60	-4
Net gain on changes in fair value (note 9)	24,265	1,551
Balance at 31 December 2009	**219,129**	**14,005**
Acquisitions	28,057	1,793
Transfer from inventories	185,152	11,833
Sales	-24,530	-1,568
Transfer to property, plant and equipment (note 21)	-2,713	-173
Disposals on disposal of subsidiaries (note 7)	-20,212	-1,292
Net loss on changes in fair value (note 9)	-26,779	-1,711
Balance at 31 December 2010	**358,104**	**22,887**

The fair values of significant investment properties are determined based on the valuation reports issued by certified real estate appraisers. Fair value is determined using the following methods:

- Discounted cash flow analysis
- Sales comparison method
- Sales price in a sales contract under the law of obligations

Further information on the valuation of investment properties can be found in note 4. For investment properties pledged as collateral, see note 29.

In measuring the fair value of properties generating rental cash flow, the following assumptions were applied:

%	**2010**	2009
Growth in rental income per year	0.0-3.0	0.0-3.0
Growth in property management expenses per year	0.0-3.0	0.0-3.0
Vacancy rate of premises leased out	0.0-20.0	0.0-10.0
Capitalisation rate	8.0-10.0	9.0-12.0

Operating leases: the Group as a lessor

The Group's rental income on investment properties amounted to 18,728 thousand kroons (1,197 thousand euros) in 2010 and to 17,467 thousand kroons (1,116 thousand euros) in 2009. Direct property management expenses totalled 6,450 thousand kroons (412 thousand euros) in 2010 and 3,997 thousand kroons (255 thousand euros) in 2009.

As at 31 December 2010, uncancellable operating lease rentals were receivable as follows:

	EEK	EUR
In thousands		
Within one year	23,109	1,477
From second to fifth years	53,955	3,448
After five years	32,125	2,053
Total	**109,189**	**6,978**

21 Property, plant and equipment

	Land and buildings	**Plant and equipment**	**Other items of property, plant and equipment**	**Assets under construction and prepayments**	**Total property, plant and equipment**
EEK, thousands					
Carrying amount at 31 December 2008	**22,115**	**2,496**	**6,389**	**10,664**	**41,664**
Additions	1,490	697	0	4,782	6,969
Disposals	-11,815	-520	-588	-2	-12,925
Disposals on disposal of subsidiaries	-2,251	-967	-3,091	0	-6,309
Transfer to investment property (note 20)	0	0	0	-15,258	-15,258
Depreciation charge	-1,174	-648	-1,774	0	-3,596

Carrying amount at 31 December 2009	**8,365**	**1,058**	**936**	**186**	**10,545**
Of which cost	*14,711*	*4,286*	*6,228*	*186*	*25,411*
Of which accumulated depreciation	*-6,346*	*-3,228*	*-5,292*	*0*	*-14,866*
Additions	0	310	113	6	429
Disposals	0	-23	-54	0	-77
Transfer from investment property (note 20)	2,713	0	0	0	2,713
Transfer to inventories	-1,170	0	0	0	-1,170
Transfers within property, plant and equipment	0	-362	362	0	0
Depreciation charge	-494	-331	-572	-49	-1,446
Carrying amount at 31 December 2010	**9,414**	**652**	**785**	**143**	**10,994**
Of which cost	*16,254*	*4,198*	*6,536*	*143*	*27,131*
Of which accumulated depreciation	*-6,840*	*-3,546*	*-5,751*	*0*	*-16,137*

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total property, plant and equipment
EUR, thousands					
Carrying amount at 31 December 2008	**1,413**	**160**	**408**	**682**	**2,663**
Additions	95	45	0	306	446
Disposals	-755	-33	-38	0	-826
Disposals on disposal of subsidiaries	-144	-62	-197	0	-403
Transfer to investment property (note 20)	0	0	0	-975	-975
Depreciation charge	-75	-42	-114	0	-231
Carrying amount at 31 December 2009	**534**	**68**	**59**	**13**	**674**
Of which cost	*940*	*274*	*398*	*13*	*1,625*
Of which accumulated depreciation	*-406*	*-206*	*-339*	*0*	*-951*
Additions	0	20	7	0	27
Disposals	0	-1	-3	0	-4
Transfer from investment property (note 20)	173	0	0	0	173
Transfer to inventories	-75	0	0	0	-75
Transfers within property, plant and equipment	0	-23	23	0	0
Depreciation charge	-32	-21	-37	-3	-93
Carrying amount at 31 December 2010	**602**	**41**	**50**	**10**	**703**
Of which cost	*1,039*	*268*	*418*	*10*	*1,735*
Of which accumulated depreciation	*-437*	*-227*	*-368*	*0*	*-1,032*

Information on assets pledged as collateral is presented in note 29.

22 Loans and borrowings

Loans and borrowings comprise the following items:

As at 31 December	**2010**		2009	
	Total	**Of which current portion**	Total	Of which current portion
EEK, thousands				
Debt securities[1]	0	0	18,870	18,870
Bank loans[2]	457,421	418,942	523,756	338,378
Finance lease liabilities (note 23)	707	185	954	247
Other loans[3]	26,621	5,306	14,613	14,120
Total	**484,749**	**424,433**	**558,193**	**371,615**

As at 31 December	2010		2009	
	Total	**Of which current portion**	Total	Of which current portion
EUR, thousands				
Debt securities[1]	0	0	1,206	1,206
Bank loans[2]	29,235	26,775	33,474	21,626
Finance lease liabilities (note 23)	45	12	61	16
Other loans[3]	1,701	339	935	903
Total	**30,981**	**27,126**	**35,676**	**23,751**

[1] In 2010 the Group redeemed early short-term commercial paper "Arco Vara Commercial paper I" with a nominal value of 18,870 thousand kroons (1,206 thousand euros). In 2009 the Group redeemed partially commercial paper "Arco Vara Commercial Paper I" with a nominal value of 47,628 thousand kroons (3,044 thousand euros). In 2010 the average effective interest rate of the commercial paper was 16.0% (2009: 13.52%).

[2] In 2010, the weighted average interest rate of the Group's loans was 6.38% (2009: 5.86%); the weighted average interest rate of bank loans was 6.35% (2009: 5.44%).

[3] Other loans as at 31 December 2010 include loans from related parties of 4,540 thousand kroons (290 thousand euros). At 31 December 2009 other loans included loans from related parties of 10,774 thousand kroons (689 thousand euros). For further information of related parties, see note 32.

Amounts, interest rates and maturity dates of individually significant loans:

As at 31 December	Maturity date (month/year)	Loan amount EEK		Loan amount EUR		Interest rate, %	
		2010	2009	**2010**	2009	**2010**	2009
In thousands							
Bank loan, development[1]	6/2015	238,086	220,783	15,216	14,111	7.50	7.20
Bank loan, purchase of land[2]	1/2011	82,500	85,500	5,273	5,464	4.02	3.75
Bank loan, development	1/2012	34,316	34,316	2,193	2,193	7.50	7.20
Bank loan, development[3]	1/2012	25,529	48,263	1,632	3,085	4.50	3.75
Bank loan, cash flow	3/2012	23,829	27,056	1,523	1,729	4.72	4.44
Other loan, development[4]	2/2013	21,315	0	1,362	0	6.50	n/a
Bank loan, purchase of land[3]	1/2012	20,000,	20,000	1,278	1,278	4.02	3.75
Bank loan, cash flow	7/2011	8,769	10,897	560	696	5.12	4.85
Bank loan, purchase of land	12/2012	5,476	5,476	350	350	4.82	4.52
Bank loan, working capital	5/2017	4,936	0	315	0	11.27	n/a
Bank loan, working capital	9/2016	4,203	0	269	0	5.19	n/a
Bank loan, working capital[2]	1/2011	4,153	0	265	0	10.00	n/a
Bank loan, development	5/2011	3,375	46,044	216	2,943	5.01	2.99

[1] The bank loan taken for the Boulevard Residence Madrid development project in Sofia is classified as a current liability in accordance with the requirements of IAS 1.74 because as at 31 December 2010 the bank had the contractual right to demand repayment of the full outstanding amount in 2011. After the reporting date it has been established that the bank will not demand repayment of the full amount in 2011 but that the loan will be serviced in accordance with the previously agreed settlement schedule. The maturity date of the loan is 30 June 2015 and according to the sales forecast and settlement schedule as at 31 December 2010 the portion to be repaid in the next 12 months is 72,053 thousand kroons (4,605 thousand euros).

[2] The loan was repaid in full in the first quarter of 2011. See also note 33.

[3] The maturity dates of the loans were extended in the first quarter of 2011. As at 31 December 2010 the maturity dates were in January 2011.

[4] The loan has a fixed interest rate. The interest rates of other loans presented in the table are linked to 3 or 6 month Euribor.

The Group's loan liabilities are fixed either in Estonian kroons or in euros. The base currency of one loan was the Bulgarian lev. At 31 December 2010 the loan amount was 4,153 thousand kroons (265 thousand euros) but the loan was repaid in full in the first quarter of 2011. Information on the contractual maturities of the Group's loan liabilities is presented in note 28. Information on assets pledged as loan collateral is presented in note 29.

23 Finance lease liabilities

	EEK		EUR	
Finance lease liabilities by maturity as at 31 December	**2010**	2009	**2010**	2009
In thousands				
Payable within one year	185	247	12	16
Payable from second to fifth years	522	707	33	45
Total (note 22)	**707**	954	**45**	61

	EEK		EUR	
Assets acquired with finance lease as at 31 December In the statement of financial position	**2010**	2009	**2010**	2009
In thousands				
Property, plant and equipment	347	977	22	62

24 Trade and other payables

Current payables	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Trade payables	**37,738**	**45,532**	**2,412**	**2,910**
Miscellaneous payables	**18,464**	**15,851**	**1,180**	**1,013**
Taxes payable				
Value added tax	1,035	2,315	66	148
Corporate income tax (including dividend tax)	2,454	3,553	157	227
Personal income tax	957	1,047	61	67
Social security tax	1,616	1,881	103	120
Other taxes	156	339	10	22
Total taxes payable	**6,218**	**9,135**	**397**	**584**
Accrued expenses				
Interest payable	1,991	2,627	127	168
Payables to employees	4,393	5,118	281	327
Other accruals	6,496	5,358	416	342
Total accrued expenses	**12,880**	**13,103**	**824**	**837**
Total current trade and other payables	**75,300**	**83,621**	**4,813**	**5,344**

Non-current payables	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Payables for non-current asset transactions	0	5,201	0	332
Retentions and deposits received	11,282	1,077	720	69
Other non-current payables	55	0	4	0
Total non-current trade and other payables	**11,337**	**6,278**	**724**	**401**

25 Deferred income

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Advances related to sale of real estate	72,034	73,067	4,604	4,669
Deferred income from long-term service contracts	3,528	8,448	225	540
Other deferred income	467	387	30	25
Total deferred income	**76,029**	**81,902**	**4,859**	**5,234**

Amounts due from and amounts due to customers under long-term construction contracts

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Costs under the stage of completion method	151,666	181,396	9,693	11,593
Estimated gross profit of projects	1,066	8,952	68	572
Revenue under the stage of completion method	152,732	190,348	9,761	12,166
Progress billings	149,549	198,503	9,557	12,687
Difference between progress billings and revenue recognised under the stage of completion method	**3,183**	**-8,155**	**204**	**-521**
Due from customers (note 17)	6,711	293	429	19
Due to customers	-3,528	-8,448	-225	-540

26 Provisions

	Warranties provisions[1]	Other provisions related to business operations[2]	Total provisions
EEK, thousands			
Provisions at 31 December 2008	**7,916**	**33,274**	**41,190**
Provisions made	5,367	0	5,367
Provisions used	-712	-1,174	-1,886
Provisions at 31 December 2009	**12,571**	**32,100**	**44,671**
Of which non-current portion	0	1,100	1,100
Release of provisions (note 9)	-223	-16,100	-16,323
Provisions made	4,430	0	4,430
Provisions used	-11,223	0	-11,223
Provisions at 31 December 2010	**5,555**	**16,000**	**21,555**
Of which non-current portion	0	0	0

	Warranties provisions[1]	Other provisions related to business operations[2]	Total provisions
EUR, thousands			
Provisions at 31 December 2008	**506**	**2,127**	**2,633**
Provisions made	343	0	343
Provisions used	-46	-75	-121
Provisions at 31 December 2009	**803**	**2,052**	**2,855**
Of which non-current portion	0	70	70
Release of provisions (note 9)	-14	-1,029	-1,043
Provisions made	283	0	283
Provisions used	-717	0	-717
Provisions at 31 December 2010	**355**	**1,023**	**1,378**
Of which non-current portion	0	0	0

[1] The warranties provisions of the subsidiary Arco Ehitus OÜ are recognised based on management's best estimates, i.e. by reference to the terms and conditions of each construction contract (whether the Group acts as a general contractor or uses own labour, who the subcontractors are, how complicated the project is, where the project is performed, etc). A provision amounts to up to 1% of the cost of the contract. Warranty provisions are created for covering the costs which may be incurred during the warranty period. A warranty period lasts for two years from the delivery of work performed.

The Group's Bulgarian development company has created a builder's warranty provision. At 31 December 2010 the provision amounted to 3,644 thousand kroons (232 thousand euros). At 31 December 2009 the provision amounted to 10,994 thousand kroons (703 thousand euros).

[2] At 31 December 2010 other provisions related to business operations comprised the provisions made for the surety commitments assumed by the Group for securing the bank loans of its joint ventures. The provisions totalled 16,000 thousand kroons (1,023 thousand euros). In 2010 the Group released provisions of 15,000 thousand kroons (959 thousand euros) made for surety liabilities because according to management's estimates the probability of their realisation had decreased.

27 Share capital

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
Number of issued shares fully paid up	4,741,707	95,284,150	4,741,707	95,284,150
Share capital (in thousands)[1]	47,417	952,842	3,030	60,898
Statutory capital reserve (in thousands)[2]	31,463	31,463	2,011	2,011
Own shares (in thousands)[1]	0	-3,992	0	-255

[1] Reduction of share capital and own shares. Based on a resolution of the annual general meeting of Arco Vara shareholders dated 14 May 2008, Arco Vara AS was granted the right to acquire own shares under the following terms and conditions:

a) the company may acquire own shares within five years after the adoption of the resolution of the general meeting;

b) the total nominal value of the shares acquired by the company may not exceed 10% of share capital;

c) the amount paid for a share may not be less than half of the nominal value of the share or more than the price in the last independent transaction conducted with an Arco Vara share on the Tallinn Stock Exchange on the date of acquisition of the share or the highest effective independent bid price quoted on the Tallinn Stock Exchange on the day of acquisition of the share; and

d) own shares will be paid for using assets that exceed share capital, the capital reserve and share premium.

On 8 October 2010 Arco Vara AS decided to terminate the repurchase programme.

At 31 December 2009 the company's maximum authorised number of shares was 121,812,148. An extraordinary general meeting that convened on 11 December 2009 resolved to lower the maximum number of authorised shares specified in the company's articles of association to 18,000,000 shares.

Share capital was reduced as follows:

- first, share capital was reduced by cancelling the company's 450,000 own shares and, additionally, 10 shares comprising of 5 shares held by Toletum OÜ (registry number 11011219) and 5 shares held by HM Investeeringud OÜ (registry number 10963165) (the "compensating shareholders");
- then by cancelling 19/20 of all shares so that 19/20 of the shares belonging to each shareholder were cancelled and where the number of shares held by a shareholder (the "shareholder to be compensated") did not allow cancelling an exact whole number of shares, a whole number of shares owned by the shareholder to be compensated was cancelled (rounded downwards) and the number of shares that the shareholder to be compensated should additionally have had so that an exact whole number of shares could have been cancelled without rounding was cancelled from among the shares held by the compensating shareholders (the "compensation shares") (e.g. if prior to the reduction of share capital a shareholder to be compensated held 30 shares, then 28 of the shares held were cancelled (after the reduction of share capital the shareholder had 2 shares) and, additionally, 10 compensation shares were cancelled from among the shares held by the compensating shareholders);
- compensation shares were cancelled equally from among the shares held by the compensating shareholders;
- where the compensation shares could not be cancelled equally from among the shares held by the compensating shareholders, then a larger number of shares held by HM Investeeringud OÜ was cancelled. As a result of the reduction of share capital, the number of shares outstanding is 4,741,707, i.e. 90,542,443 shares were cancelled. Accordingly, share capital was reduced by 905,424 thousand kroons (57,867 thousand euros).

The list of shareholders whose shares were cancelled in connection with the reduction of share capital was determined as at 1 March 2010 at 23:59. The Commercial Registry entry concerning the reduction of the share capital of Arco Vara AS took effect on 16 March 2010. Share capital decreased from 952,841 thousand kroons (60,898 thousand euros) to 47,417 thousand kroons (3,030 thousand euros).

In accordance with the Commercial Code of the Republic of Estonia, the equity of a company has to amount to at least half of the nominal value of its share capital. Cancellation of the shares allowed Arco Vara AS to meet the regulatory requirement.

[2] Under the Commercial Code of the Republic of Estonia, a company has to transfer to the capital reserve at least 5% of its profit for the period until the capital reserve amounts to at least 10% of its share capital. At 31 December 2010, the capital reserve of the Group's Parent was in compliance with the regulatory requirement, amounting to 66% of share capital.

28 Financial instruments and financial risk management

The Group's activities expose it to various financial risks: credit risk, liquidity risk and market risk.

The Group's risk management programme is based on the assumption that the financial markets are unpredictable and appropriate measures have to be adopted to minimise potential adverse impacts on the Group's financial activities. The Group may use derivative financial instruments to hedge certain risk exposures.

The Group's risk management process is based on the premise that the Group's success depends on constant monitoring, careful analysis and effective management of the risks faced by the Group. Centralised financial risk management is the responsibility of the Group's financial team. The main objective of financial risk management is to prevent any damage or financial loss that could jeopardise the Group's equity and continuous operation. The Group designs and implements risk management policies and activities that are aimed at identifying, evaluating, monitoring and managing risks and spreading risks across time, activities and geographical areas. Risk management policies and activities are implemented by the managers of Group entities.

In managing its financial risks, the Group's main focus is on monitoring the risk exposures of the Development segment because a significant proportion of the Group's liquidity and interest rate risks are concentrated in one segment, the Development segment, and in two geographical areas, Estonia and Bulgaria. The main reasons are the extensive capital needs of development operations and the fact that several major investment projects have fallen in the same time period.

Financial instruments by category

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Cash and cash equivalents (note 16)	65,858	64,724	4,209	4,137
Loans and receivables	*65,858*	*64,724*	*4,209*	*4 137*
Trade and other receivables (note 17)	91,317	143,511	5,836	9,171
Loans and receivables	*91,317*	*143,511*	*5,836*	*9 171*
Investments (note 19)	15,580	17,853	996	1,141
Available-for-sale financial assets	*15,558*	*15,558*	*995*	*995*
Equity-accounted investments	*22*	*2,295*	*1*	*147*
Total financial assets	**172,755**	**226,088**	**11,041**	**14,449**
Loans and borrowings (note 22)	484,749	558,193	30,981	35,676
Financial liabilities measured at amortised cost	*484,749*	*558,193*	*30,981*	*35 676*
Trade and other payables (note 24)	86,637	89,899	5,537	5,745
Financial liabilities measured at amortised cost	*86,637*	*89,899*	*5,537*	*5 745*
Total financial liabilities	**571,386**	**648,092**	**36,518**	**41,421**

Income and expenses and gains and losses on financial instruments by category:

				2010
	Loans and receivables	Assets at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
EEK, thousands				
Interest income (note 12)	3,222	0	0	**3,222**
Interest expense (note 12)	0	0	-21,386	**-21,386**
Gains and losses on other long-term investments (note 12)	18,246	0	0	**18,246**
Net result	**21,468**	**0**	**-21,386**	**82**

				2010
	Loans and receivables	Assets at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
EUR, thousands				
Interest income (note 12)	205	0	0	**205**
Interest expense (note 12)	0	0	-1,367	**-1,367**
Gains and losses on other long-term investments (note 12)	1,166	0	0	**1,166**
Net result	**1,371**	**0**	**-1,367**	**4**

				2009
	Loans and receivables	Assets at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
EEK, thousands				
Interest income (note 12)	4,041	684	0	**4,725**
Interest expense (note 12)	0	0	-27,320	**-27,320**
Gains and losses on other long-term investments (note 12)	1,276	725	0	**2,001**
Impairment losses of financial assets (note 12)	-18,888	0	0	**-18,888**
Net result	**-13,571**	**1,409**	**-27,320**	**-39,482**

				2009
	Loans and receivables	Assets at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
EUR, thousands				
Interest income (note 12)	257	44	0	**301**
Interest expense (note 12)	0	0	-1,746	**-1,746**
Gains and losses on other long-term investments (note 12)	82	46	0	**128**
Impairment losses of financial assets (note 12)	-1,207	0	0	**-1,207**
Net result	**-868**	**90**	**-1,746**	**-2,524**

Credit risk

Credit risk is the risk that the other party to a financial instrument will cause a financial loss to the Group by failing to discharge an obligation.

Credit risk is managed by making sure that there are no major concentrations of credit risk. Group entities prevent and minimize credit risk by monitoring and managing customers' settlement behaviour on a daily basis so that appropriate measures could be applied in due time. In addition, sales and construction activities are partly financed with customer prepayments and in real estate transactions, where the other party is often financed by a credit institution, the Group cooperates with banks. Consequently, the risks arising from customer insolvency are well mitigated.

Allowances are made for potential losses. Potential losses are estimated based on historical experience, the other party's ability to meet existing obligations in the short term, and developments in the economic environment.

Group entities perform transactions only with counterparties who are considered creditworthy. As a rule, immediate payment is demanded. Credit is granted against additional collateral only. Accordingly, management believes that the need for additional hedging of credit risk is minimal. The carrying amount of the Group's financial assets represents the Group's maximum exposure to credit risk.

Aging of receivables

The Group has receivables that are past due but have not been provided for. Management has estimated the value of such receivables on an individual basis and has determined that the items are recoverable.

The structure of the Group's past due receivables is as follows:

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Up to 3 months	23,188	43,554	1,482	2,784
3 to 6 months	1,447	4,227	93	270
6 to 12 months	1,829	1,598	117	102
Over 12 months	4,821	3,599	308	230
Total trade receivables (note 17)	**31,285**	**52,978**	**2,000**	**3,386**

In 2010 receivables were written down by 4,970 thousand kroons (318 thousand euros). In 2009, the write-down was 2,652 thousand kroons (169 thousand euros). Detailed information on receivables is presented in note 17.

Liquidity risk

Liquidity risk is the risk that a change in its financial position will cause the Group to encounter difficulty in meeting the obligations associated with its financial liabilities in a due and timely manner, or that the Group will be unable to dispose of its assets at market price and within the desired timeframe. Above all, the Group's liquidity is affected by the following factors:

- Group entities' ability to generate independent positive net operating cash flows and the volatility of those cash flows
- Mismatch in the maturities of assets and liabilities and flexibility in adjusting it
- Marketability of long-term assets
- Volume and pace of property development
- Volume and pace of geographical expansion
- Financing structure

The Group's financial team manages the Group's liquidity based on a relevant strategy which is aligned with the Group's investment plan.

Short-term liquidity management is based mainly on Group entities' continuously monitored quarterly cash flow forecasts. The purpose of short-term liquidity management is to guarantee the availability of sufficient highly liquid funds (i.e. cash and cash equivalents and highly liquid investments). The main tools for short-term liquidity management are the Group's cash pool (the group account), which pools the funds of Group entities, and, in the case of foreign Group entities, loans from the Parent.

Long-term liquidity is primarily influenced by investment decisions. The Group observes the principle that Group entities' net cash inflows from operating and investing activities have to cover the Group's cash outflows from financing activities. Accordingly, the purpose of long-term liquidity management is to ensure sufficient liquidity of the real estate investment portfolio, harmonize the timing of cash flows from investing and financing activities, and determine the optimal financing structure. Long-term projects are monitored to ensure that the timing and amounts of investing cash flows do not differ significantly from the timing and amounts of financing cash flows. The following table illustrates the Group's exposure to refinancing risk.

Maturity structure of financial assets and financial liabilities

	As at 31 December 2010				
	< 3 months	3-12 months	1-5 years	> 5 years	Total
EEK, thousands					
Cash and cash equivalents	65,858	0	0	0	65,858
Trade and other receivables	31,762	58,366	1,189	0	91,317
Investments	0	0	15,580	0	15,580
Total assets	**97,620**	**58,366**	**16,769**	**0**	**172,755**
Loans and borrowings	387,273	37,160	56,944	3,372	484,749
Trade and other payables	48,349	26,951	11,337	0	86,637
Provisions	0	21,555	0	0	21,555
Total liabilities	**435,622**	**85,666**	**68,281**	**3,372**	**592,941**

	As at 31 December 2009				
	< 3 months	3-12 months	1-5 years	> 5 years	Total
EEK, thousands					
Cash and cash equivalents	64,724	0	0	0	64,724
Trade and other receivables	55,025	85,851	2,635	0	143,511
Investments	0	0	17,853	0	17,853
Total assets	**119,749**	**85,851**	**20,488**	**0**	**226,088**
Loans and borrowings	138,068	233,547	186,578	0	558,193
Trade and other payables	59,785	23,836	6,278	0	89,899
Provisions	0	43,571	1,100	0	44,671
Total liabilities	**197,853**	**300,954**	**193,956**	**0**	**692,763**

	As at 31 December 2010				
	< 3 months	3-12 months	1-5 years	> 5 years	Total
EUR, thousands					
Cash and cash equivalents	4,209	0	0	0	4,209
Trade and other receivables	2,030	3,730	76	0	5,836
Investments	0	0	996	0	996
Total assets	**6,239**	**3,730**	**1,072**	**0**	**11,041**
Loans and borrowings	24,751	2,375	3,639	216	30,981
Trade and other payables	3,090	1,722	725	0	5,537
Provisions	0	1,378	0	0	1,378
Total liabilities	**27,841**	**5,475**	**4,364**	**216**	**37,896**

	As at 31 December 2009				
	< 3 months	3-12 months	1-5 years	> 5 years	Total
EUR, thousands					
Cash and cash equivalents	4,137	0	0	0	4,137
Trade and other receivables	3,516	5,487	168	0	9,171
Investments	0	0	1,141	0	1,141
Total assets	**7,653**	**5,487**	**1,309**	**0**	**14,449**
Loans and borrowings	8,824	14,927	11,925	0	35,676
Trade and other payables	3,821	1,523	401	0	5,745
Provisions	0	2,785	70	0	2,855
Total liabilities	**12,645**	**19,235**	**12,396**	**0**	**44,276**

Based on the maturities of liabilities included in the Group's loan portfolio, at 31 December 2010 the average weighted maturity of loans and borrowings was 0.8 years (31 December 2009: 1.2 years). Loan liabilities fall due as follows:

	EEK	EUR
In thousands		
2011	424,433	27,126
2012	31,970	2,043
2013	22,871	1,462
2014	1,046	67
2015	1,057	68
2016 - ...	3,372	215
Total loans and borrowings (note 22)	**484,749**	**30,981**

Refinancing risk is managed by monitoring the liquidity position on a daily basis and analysing different financing options on a consistent and ongoing basis. In addition, partner banks from different countries and professionals qualified in analysing developments in international capital markets are involved in the process already in the initial stage.

Principal amounts of loans and borrowings falling due in 2011 total 258,400 thousand kroons (16,515 thousand euros). Out of short-term loans and borrowings, 5,306 thousand kroons (339 thousand euros) is mostly made up of loans from related parties whose extension is not a problem and 109,727 thousand kroons (7,013 thousand euros) is made up of loans related to active development projects whose settlement is linked to sales transactions. Those loans do generally not require refinancing because their due dates are mostly linked to the completion dates of the projects.

Refinancing risk is the highest in the case of loans taken for the purchase of land in projects where the commencement of development operations has been postponed. Such short-term loan liabilities total 107,976 thousand kroons (6,901 thousand euros). The Group deals actively with minimising the refinancing risk of the said loans by holding negotiations with various credit institutions and potential investors. Where necessary, the sale of a project is considered.

Market risk

Interest rate risk

Interest rate risk is the risk that a rise in market interest rates will increase interest expense to an extent that will have a significant impact on the Group's performance. Exposure to interest rate risk results from two factors:

- use of loans and borrowings with a floating interest rate, and;
- the need for refinancing in connection with the arrival of the due dates of liabilities or the involvement of new loans in connection with the realisation of an investment plan in a situation where the volatility of financial markets is increasing and the economic environment is changing.

The majority of the Group's long-term loans and borrowings are linked to Euribor. Therefore, the Group is exposed to developments on the international financial markets. Interest rate risk is managed, among other things, by monitoring movements in the money market interest rate curve, which reflects the market participants' expectations of market interest rates and allows estimating a trend for euro-denominated interest rates.

In response to a roughly 0.2 percentage point rise in Euribor in 2010, the Group analysed the sensitivity of its profit before tax and cash flows to a 1 percentage point change in interest rates.

The sensitivity analysis of consolidated cash flows indicated that a 1 percentage point change (increase or decrease) in interest rates would have affected (increased or reduced) the Group's cash flows for 2010 by 4,937 thousand kroons (316 thousand euros) (2009: 5,269 thousand kroons/337 thousand euros). The sensitivity analysis of profit before tax demonstrated that a 1 percentage point change (increase or decrease) in interest rates would have affected (increased or reduced) profit before tax for 2010 by 3,393 thousand kroons (217 thousand euros) (2009: 2,718 thousand kroons/ 174 thousand euros). In managing its short-term interest rate risks, the Group regularly compares potential losses from changes in interest rates against corresponding risk hedging expenses. To date, no financial instruments have been used to hedge short-term interest rate risks because according to management's assessment hedging expenses would exceed the losses that might be incurred from changes in interest rates.

The Group's interest-bearing assets and liabilities

					As at 31 December 2010
By maturity	< 3 months	3-12 months	1-5 years	> 5 years	Total
EEK, thousands					
Interest-bearing assets	52,104	29,222	730	0	82,056
Interest-bearing liabilities	-387,273	-37,160	-56,944	-3,372	-484,749
Net exposure	**-335,169**	**-7,938**	**-56,214**	**-3,372**	**-402,693**

					As at 31 December 2009
By maturity	< 3 months	3-12 months	1-5 years	> 5 years	Total
EEK, thousands					
Interest-bearing assets	54,526	27,511	2,344	0	84,381
Interest-bearing liabilities	138,068	233,547	186,578	0	558,193
Net exposure	**-83,542**	**-206,036**	**-184,234**	**0**	**-473,812**

					As at 31 December 2010
By maturity	< 3 months	3-12 months	1-5 years	> 5 years	Total
EUR, thousands					
Interest-bearing assets	3,330	1,868	47	0	5,245
Interest-bearing liabilities	24,751	2,375	3,639	216	30,981
Net exposure	**-21,421**	**-507**	**-3,592**	**-216**	**-25,736**

					As at 31 December 2009
By maturity	< 3 months	3-12 months	1-5 years	> 5 years	Total
EUR, thousands					
Interest-bearing assets	3,485	1,758	150	0	5,393
Interest-bearing liabilities	8,824	14,927	11,925	0	35,676
Net exposure	**-5,339**	**-13,169**	**-11,775**	**0**	**-30,283**

Currency risk

Currency risks are mitigated by conducting most transactions and signing most agreements and contracts in euros or currencies pegged to the euro. The main currency risk is the risk that the local currency may be devalued against the euro. In view of the low probability of devaluation, the risk is not significant.
After the adoption of the euro in Estonia from 1 January 2011 the currency risk related to the exchange rate of the Estonian kroon against the euro will cease to exist. The contracts denominated in Estonian kroons as at 31 December 2010 will be translated to euros as from 1 January 2011 using the fixed exchange rate of 1 euro = 15.6466 kroons.

Financial assets by currency

	EEK		**EUR**		**Proportion, %**	
As at 31 December	**2010**	2009	**2010**	2009	**2010**	2009
In thousands						
EEK	127,293	152,128	8,136	9,723	74	67
EUR	9,190	6,442	587	411	5	3
Other currencies	36,272	67,518	2,318	4,315	21	30
Total	**172,755**	**226,088**	**11,041**	**14,449**	**100**	**100**

Loans and borrowings by currency

	EEK		EUR		Proportion, %	
As at 31 December	**2010**	2009	**2010**	2009	**2010**	2009
In thousands						
EUR	478,346	553,237	30,572	35,359	99	99
EEK	2,250	2,971	144	190	0	1
BGN	4,153	1,985	265	127	1	0
Total (note 22)	**484,749**	**558,193**	**30,981**	**35,676**	**100**	**100**

The Group's liabilities are denominated mainly in the euro or in the Estonian kroon and operating volumes are the largest in countries whose local currency is pegged to the euro (the largest fluctuation, 1% of the central exchange rate, is permitted in the case of the Latvian lats). Therefore, the Group's currency risk is insignificant. Currency risk exposures are mitigated with euro-denominated transactions between countries and matching the timing of receipts and payments in the country involved.

Price risk

The Group does not have any significant investments in equity instruments. Therefore the price risk inherent in equity instruments is not relevant for the Group's operation.

Fair value

The main financial assets and financial liabilities of Group entities are recognised in the statement of financial position. The Group does not have any significant off-the statement of financial position financial assets or liabilities that have not been disclosed in these consolidated financial statements. Because of the accounting and reporting principles applied, the carrying amounts of the Group entities' financial assets and financial liabilities do not differ significantly from their fair values.

The fair values of assets and liabilities with a fixed interest rate are not significantly different from their carrying amounts because the fixed interest rate does not differ significantly from current market interest rates.

Other notes

29 Assets pledged as collateral

The Group has secured its loans and borrowings (note 22) including finance lease liabilities by pledging the following assets:

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Mortgages				
Real estate recognised within inventories (note 18)	525,581	690,840	33,591	44,153
Investment property (note 20)	282,875	159,000	18,079	10,162
Property, plant and equipment (note 21)	5,287	2,891	338	185
Total carrying value of real estate encumbered with mortgages	**813,743**	**852,731**	**52,008**	**54,500**
Commercial pledges				
Inventories (note 18)	329	58	21	4
Property, plant and equipment (note 21)	458	334	29	21
Total carrying amount of movable assets encumbered with commercial pledges	**787**	**392**	**50**	**25**
Other pledges				
Cash and cash equivalents (note 16)	7,115	19,921	455	1,273
Trade and other receivables (note 17)	5,639	3,887	360	248
Total carrying amount of assets encumbered with other pledges	**12,754**	**23,808**	**815**	**1,521**
Total carrying value of assets pledged as collateral	**827,284**	**876,931**	**52,873**	**56,046**

Share pledges

Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, has pledged its interest (49.38%) in Bisumuizas Nami SIA to Nordea Bank Finland Plc, its interest (100%) in Alasniidu LA OÜ to DnB Nord bank and its interest (100%) in Arco Invest EOOD to Piraeus bank. The shares have been pledged to secure investment loans.

30 Contingent assets and liabilities

Contingent income tax liability on profit distributions

At 31 December 2010 the retained earnings of Arco Vara AS amounted to 356,534 thousand kroons (22,787 thousand euros). At 31 December 2009 Arco Vara AS had accumulated losses of 540,600 thousand kroons (34,551 thousand euros). Upon the distribution of dividends to shareholders, there arises an income tax liability calculated as 21/79 of the amount of the net dividend distribution. The maximum contingent income tax liability that could arise upon the distribution of retained earnings as dividends equals 94,775 thousand kroons (6,057 thousand euros). At 31 December 2009 there was no contingent income tax liability.

Claims filed by Arco Vara AS and Arco Ehitus OÜ against Tempera Ehitus OÜ

OÜ Tempera Ehitus was declared bankrupt by a ruling issued by Harju County Court on 26 February 2009.

Arco Vara AS filed its claim on 4 March 2009. The claim of 2,343 thousand kroons (150 thousand euros) was based on a credit agreement signed on 7 August 2008.

Arco Ehitus OÜ filed its claim on 9 March 2009. The claim of 2,371 thousand kroons (152 thousand euros) was based on a loan agreement and site management and construction services agreement.

The first meeting of the creditors was held on 25 March 2009. The meeting decided not to approve the appointment of Maire Arm as the trustee in the bankruptcy proceedings. On 3 April 2009, the creditors submitted to the court a jointly prepared list of desired trustees. On 9 April 2009, the court appointed Katrin Prükk as the new trustee.

On 5 November 2009, the trustee Katrin Prükk imposed an injunction requiring rectification of deficiencies in the proof of claim. Arco Ehitus OÜ and Arco Vara AS rectified the deficiencies outlined in the injunction by 13 December 2009.

On 19 November 2009, Arco Vara AS partially assigned its claim to Leising Grupp OÜ. The claim was assigned to the extent of 500 thousand kroons (32 thousand euros).

The meeting for defending the claims against OÜ Tempera Ehitus (bankrupt) was held on 20 November 2009. The claim of Arco Ehitus OÜ was defended to the extent presented in the proof of claim. The trustee filed an objection to interest for 2009 of 42 thousand kroons (3 thousand euros) claimed by Arco Vara AS. Thus, the claim of Arco Vara AS was defended to the extent of 2,301 thousand kroons (147 thousand euros).

The report prepared by the bankruptcy trustee indicates that the debtor has commitments of 13,588 thousand kroons (868 thousand euros) but no tangible assets. Accordingly, the Group's management board believes that it is unlikely that the claims filed by Arco Vara AS and Arco Ehitus OÜ against OÜ Tempera Ehitus (bankrupt) will be settled.

On 27 September 2010 the general meeting of the creditors decided to extend the bankruptcy committee by one member.

There were no developments in the above bankruptcy proceedings in the fourth quarter of 2010.

The bankruptcy proceedings are pending.

Bankruptcy petition filed by Arco Investeeringute AS against Celia Crowd AS (former Ühendatud Kapital AS)

On 11 December 2009, Arco Investeeringute AS filed a bankruptcy petition against Ühendatud Kapital AS. The petition was forwarded to the Haapsalu Court House of Pärnu County Court located in Kärdla, because after receiving a bankruptcy caution from Arco Investeeringute AS Ühendatud Kapital AS transferred its legal address to Kärdla and changed its name for Celia Crowd AS. Arco Investeeringute AS has claimed from Celia Crowd AS payment of 128,711 thousand kroons (8,230 thousand euros) based on the ruling of the Court of Arbitration of the Estonian Chamber of Commerce and Industry dated 21 December 2009.

In connection with the amendments to the Bankruptcy Act that took effect at the beginning of the year, on 18 January 2010 Arco Investeeringute AS filed an application to Pärnu County Court for changing the jurisdiction. The court satisfied the application on 19 January 2010. Celia Crowd AS filed an appeal against the change of jurisdiction. On 25 February 2010 Pärnu County Court ruled that the appeal was baseless and forwarded the case to Tallinn Circuit Court. On 24 March 2010, the circuit court overturned the ruling of Pärnu County Court regarding the change of jurisdiction and sent the petition of Arco Investeeringute AS for Celia Crowd AS to be declared bankrupt back to the Haapsalu Court House of Pärnu County Court located in Kärdla.

On 29 March 2010, Arco Investeeringute AS filed an application to the Haapsalu Court House of Pärnu County Court located in Kärdla in which it requested that the bankruptcy petition be dismissed. The court satisfied the application on 8 April 2010. On the same date, i.e. on 8 April 2010, Arco Investeeringute AS filed a bankruptcy petition against Celia Crowd AS with Harju County Court. Amendments to the Bankruptcy Act that took effect at the beginning of this year permit initiating bankruptcy proceedings in the jurisdiction of the debtor's former location.

Celia Crowd AS challenged the ruling of Pärnu County Court of 8 April 2010 by filing an appeal dated 8 April 2010 with Pärnu Circuit Court. The court received the appeal on 12 April 2010.

On 16 April 2010, Harju County Court returned the bankruptcy petition filed by Arco Investeeringute AS on 8 April 2010 against Celia Crowd AS, stating that since Celia Crowd AS had challenged the ruling of Pärnu County Court made in its Haapsalu Court House in Kärdla regarding the dismissal of the bankruptcy petition, the ruling had not entered into force and it was not possible to conduct concurrent proceedings in the same matter at two different courts.

On 15 September 2010 Pärnu Circuit Court sent Celia Crowd AS' appeal dated 8 April 2010 for review to the Haapsalu Court House of Pärnu County Court located in Kärdla and on 22 September 2010 the court decided, based on the application of Arco Investeeringute AS, not to review the bankruptcy petition and to return the bankruptcy petition.

On 22 September 2010 Arco Investeeringute AS filed another bankruptcy petition against Celia Crows AS with Harju County Court and on 26 October 2010 the court decided to assign Celia Crowd AS a temporary bankruptcy trustee and set the date for the bankruptcy hearing on 9 December 2010.

On 9 November 2010 Arco Investeeringute AS transferred its entire claim against Celia Crowd AS and filed applications for the termination of all ongoing legal proceedings it had instituted against Celia Crowd AS.

To date the litigations have been terminated.

Action brought by Indrek Porila against Arco Vara AS

On 13 May 2010, Indrek Porila, a former employee of Arco Vara AS, brought an action against Arco Vara AS at Harju County Court, claiming settlement of a principal liability of 21,000 thousand kroons (1,342 thousand euros) and associated late payment interest of 6,287 thousand kroons (401 thousand euros), i.e. 27,287 thousand kroons (1,743 thousand euros) in aggregate. In addition, Indrek Porila claimed a 12.5% stake in Floriston Grupp OÜ that belongs to Arco Vara AS.

Arco Vara AS filed a response to the action on 3 June 2010 in which it did not admit the claims, stating that they were in contradiction with the original agreement with Indrek Porila as none of the real estate projects on the basis of which the shareholding was to be divided had realised. On the same date, the Republic of Estonia acting through the Ministry of Finance filed an appeal against the ruling of Harju County Court under which Indrek Porila had been granted state legal aid. The Ministry of Finance had established that Indrek Porila had knowingly provided false information about his financial position as a result of which the state fee payable on the claim had been reduced. The court has not yet ruled on the appeal.

On 9 June 2010, Arco Vara AS filed an application with the court in which it requested security to be provided by Indrek Porila. The court has not yet ruled on the application.

In the fourth quarter there were no changes or developments in the matter.

The litigation is pending.

Action brought by Arco Ehitus OÜ against the Republic of Estonia through the Ministry of Education and Research

On 9 March 2010 Järvamaa Education Centre, a state-owned vocational educational institution administered by the Ministry of Education and Research, Arco Ehitus OÜ and OÜ Kristiine Ehitus signed general renovation contract no 1/344 within the framework of the public procurement tender for the renovation of the Paide academic building of Järvamaa Education Centre (procurement reference number 115793) (hereinafter "the contract"). Arco Ehitus OÜ was the co-tenderer and OÜ Kristiine Ehitus was the leading partner of the consortium. On 23 March 2010, as required by the documents of the public procurement tender for the renovation of the Paide academic building of Järvamaa Education Centre, Arco Ehitus OÜ submitted to Järvamaa Education Centre a letter of guarantee of 1,381,380 kroons (88,286 euros) valid from 23 March 2010 until 31 August 2010.

During construction, it appeared that the documents Järvamaa Education Centre had submitted to the contractor contained a number of deficiencies which were brought to the attention of Järvamaa Education Centre already at the construction meetings. On 24 August 2010 OÜ Kristiine Ehitus notified Järvamaa Education Centre of the fact that if the latter did not discharge its contractual obligations, the contract would be cancelled on 30 August 2010. Järvamaa Education Centre did not respond by the said date and accordingly the contract was cancelled.

On 30 August 2010 Järvamaa Education Centre sent Arco Ehitus OÜ and OÜ Kristiine Ehitus notice of unilateral termination of general renovation contract no 1/344 as of 31 August 2010 and a letter of claim to AS SEB Pank for payment of the guaranteed amount.

On 13 September 2010 Arco Ehitus OÜ and OÜ Kristiine Ehitus brought an action demanding recognition of the cancellation of the contract and settlement of claim. On 27 December 2010 Arco Ehitus OÜ and OÜ Kristiine Ehitus filed additional statements and a specification of the action according to which their principal claim against the Republic of Estonia amounts to 13,918,157 kroons (889,532 euros) plus late payment interest. The Republic of Estonia has not recognised the claim and has contested it in full.

The preliminary hearing and hearing in the matter took place in Harju County Court on 17 January 2011.

The litigation is pending.

31 Capital management

The objective of capital management is to maintain a capital base which ensures the Group's continuous operation and development and to prevent risks which could jeopardise the Group's equity.

The Group finances its operations with both debt and equity capital. Property development is very capital intensive. Therefore, as a rule, related investment projects are financed on the assumption that equity financing should not exceed 30% of the cost of the project.

In designing the optimal financing structure and identifying and measuring risks, the Group monitors the proportion of equity in the consolidated statement of financial position. At 31 December 2010, equity accounted for 39.4% (2009: 36.2%) of total assets.

Management makes a proposal for the distribution of dividends based on the Group's results of operation and investment plan, and developments in the economic environments of the markets in which the Group operates (Estonia as well as other markets). In previous periods the Group has declared dividends of up to 15 % of consolidated net profit and intends to continue dividend distributions of the same proportion of net profit. Regardless of the intent, the Group cannot confirm that future dividend distributions will be of the same proportion because the exact amount of profit distributed as dividends depends on the Group's performance and projected liquidity position in the medium- and -long term perspective.

32 Transactions with related parties

The Group's related parties comprise:

- joint ventures;
- companies related to members of the supervisory board that have a significant interest in the Group's Parent;
- the Group's key personnel including members of the Parent company's management and supervisory boards and the subsidiaries' management boards;
- other related parties including companies related to members of the Parent company's management and supervisory boards.

Transactions and balances with related parties

	EEK		EUR	
	12 months 2010 or at 31 Dec 2010	12 months 2009 at 31 Dec 2009	**12 months 2010 or at 31 Dec 2010**	12 months 2009 at 31 Dec 2009
In thousands				
Transactions and balances with joint ventures				
Revenue	40	136	3	9
Current loan receivables	16,108	13,893	1,029	888
Trade receivables	72	918	5	59
Current interest receivables	210	0	13	0
Current loan liabilities	0	1,300	0	83
Current interest liabilities	0	53	0	3
Transactions and balances with companies related members of the supervisory board that have a significant interest in the Group's Parent company				
Purchase of property, plant and equipment	0	10,190	0	651
Other current receivables	5,879	8,728	376	558
Current interest receivables	1,434	2,114	92	135
Current loan liabilities	0	15,329	0	980
Current interest liabilities	0	2,447	0	156
Non-current loan liabilities	0	5,201	0	332
Transactions and balances with the Group's key personnel				
Revenue	0	1,704	0	109
Other current receivables	0	313	0	20
Interest liabilities	0	748	0	48
Transactions and balances with other related parties				
Purchase of services	2,413	298	154	19
Acquisition of investment properties	3,000	0	192	0
Sale of inventories	6,685	0	427	0
Trade receivables	227	0	15	0
Other current receivables	2,849	2,849	182	182
Current interest receivables	1,167	1,025	75	66
Trade payables	108	0	7	0
Other payables	5,201	15,465	332	988
Current loan liabilities	4,457	10,008	285	640
Current interest liabilities	39	700	2	45
Non-current liabilities from transactions with property, plant and equipment	0	5,998	0	383

In 2010, the remuneration of the member of the Group's management board (since 4 September 2009 the Group's management board has had one member - Lembit Tampere) including relevant taxes totalled 1.9 million kroons (0.1 million euros). In 2009 the remuneration of the members of the board together with relevant taxes was 5.3 million kroons (0.3 million euros).

The remuneration of the Group's supervisory board including relevant taxes totalled 1.5 million kroons (0.1 million euros) in 2010 and 0.6 million kroons (0.04 million euros) in 2009.

33 Events after the reporting period

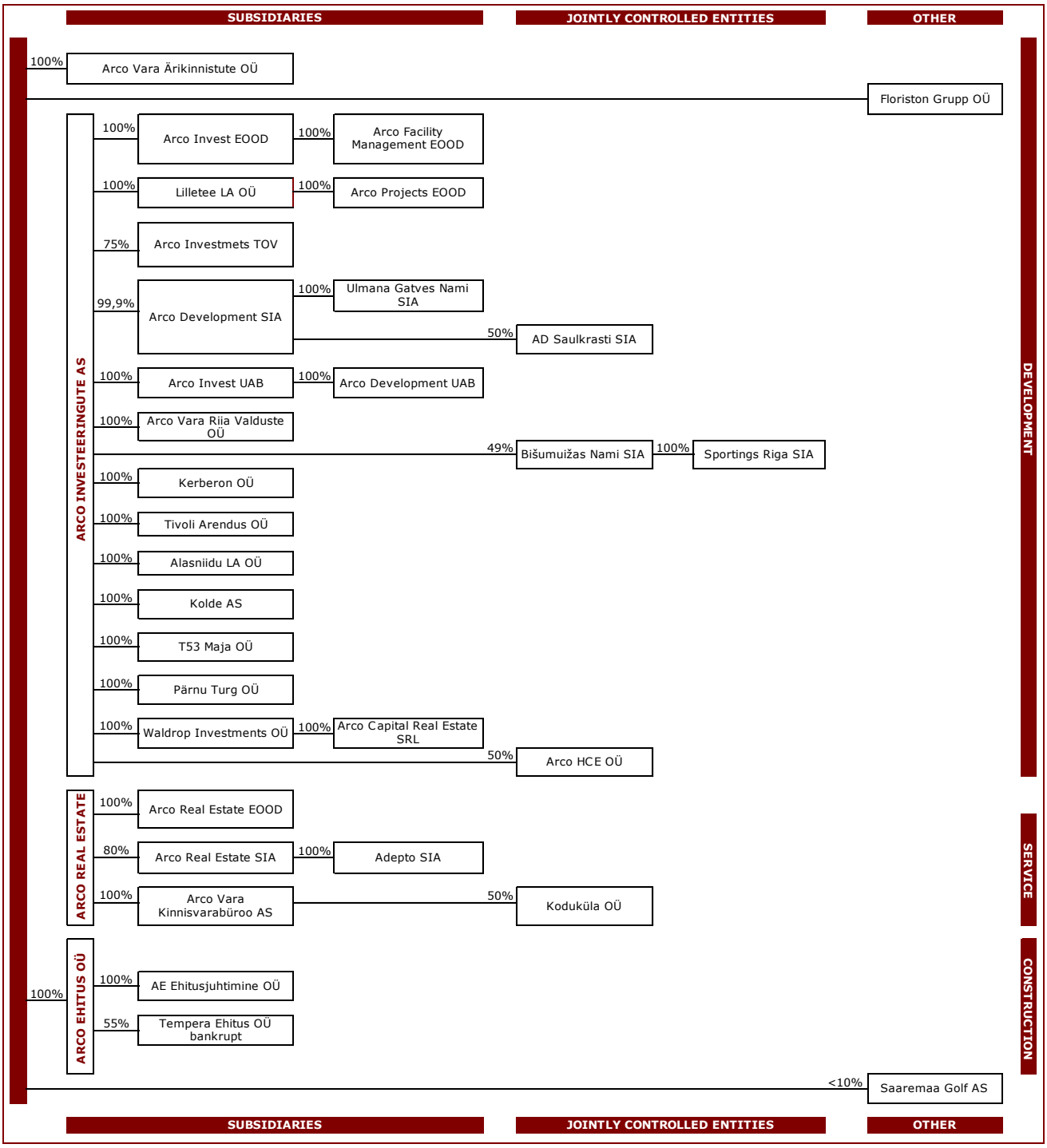
Disposal of a 50% interest in Tivoli Arendus OÜ
On 18 March 2011 the Group's subsidiary Arco Investeeringute AS sold the property acquired for the Tivoli development project in Kadriorg to its subsidiary Tivoli Arendus OÜ. On the same day, a 50% interest in Tivoli Arendus OÜ was sold to International Invest Project OÜ. The majority shareholder (80%) of International Invest Project OÜ is Natalia Levina, a Russian citizen.

As a result of the transactions, the Group repaid to AS SEB Pank the entire loan taken for the acquisition of the land for the Tivoli project of 82,500 thousand kroons (5,273 thousand euros, see also note 22) and another loan of 1,883 thousand kroons (120 thousand euros). Since the property and ownership interest were divested at their carrying values the transactions will have no impact on the Group's statement of the comprehensive income. By involving a partner in Tivoli Arendus OÜ, the Group has raised additional funds of six million euros for financing the construction operations, which will allow continuing development of the Tivoli project and, according to management's estimates, starting the construction of a new residential area this autumn.

Adoption of the euro in Estonia
On 1 January 2011 the Republic of Estonia joined the euro-zone and the former national currency the Estonian kroon was replaced by the euro. As a result, from 2011 the functional and presentation currency of the Group is the euro. Comparative prior period data will be translated using the exchange rate fixed for the switchover of 15.6466 kroons to 1 euro. The official Estonian kroon-euro exchange rate was the same until 31 December 2010.

34 Structure of Arco Vara Group

As at 31 December 2010



35 Parent company's unconsolidated financial statements as required by the Estonian Accounting Act

UNCONSOLIDATED INCOME STATEMENT

	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Revenue from rendering of services	6,914	7,422	442	474
Cost of sales	-222	-1,473	-14	-94
Gross profit	**6,692**	**5,949**	**428**	**380**
Other income	0	-238	0	-15
Distribution expenses	-1,943	-1,215	-124	-78
Administrative expenses	-27,419	-22,386	-1,752	-1,431
Other expenses	-243	-13,011	-15	-832
Operating loss	**-22,913**	**-30,901**	**-1,463**	**-1,976**
Loss on investments in subsidiaries and joint ventures	-499,410	-641,824	-31,918	-41,020
Other finance income	44,639	113,473	2,853	7,252
Other finance expenses	-1,783	-36,144	-114	-2,310
Net loss	**-479,467**	**-595,396**	**-30,642**	**-38,054**

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Cash and cash equivalents	52,077	33,893	3,328	2,166
Trade and other receivables	604,457	1,063,877	38,633	67,994
Prepayments	47	43	3	3
Total current assets	**656,581**	**1,097,813**	**41,964**	**70,163**
Investments	10,287	61,619	657	3,938
Property, plant and equipment	305	390	19	25
Intangible assets	39	636	2	41
Total non-current assets	**10,631**	**62,645**	**678**	**4,004**
TOTAL ASSETS	**667,212**	**1,160,458**	**42,642**	**74,167**
Loans and borrowings	1,000	18,870	64	1,206
Trade and other payables	18,244	18,089	1,165	1,156
Total current liabilities	**19,244**	**36,959**	**1,229**	**2,362**
Loans and borrowings	3,936	0	252	0
Total non-current liabilities	**3,936**	**0**	**252**	**0**
TOTAL LIABILITIES	**23,180**	**36,959**	**1,481**	**2,362**
Share capital	47,417	952,842	3,030	60,898
Share premium	0	0	0	0
Statutory capital reserve	31,463	31,463	2,011	2,011
Retained earnings	565,152	143,186	36,120	9,151
Own shares	0	-3,992	0	-255
Total equity	**644,032**	**1,123,499**	**41,161**	**71,805**
TOTAL LIABILITIES AND EQUITY	**667,212**	**1,160,458**	**42,642**	**74,167**

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory capital reserve	Own shares	Retained earnings	Total
EEK, thousands						
Balance at 31 December 2008	**952,842**	**712,514**	**31,463**	**-3,992**	**26,068**	**1,718,895**
Transfer for covering losses	0	-712,514	0	0	712,514	0
Loss for the period	0	0	0	0	-595,396	-595,396
Balance at 31 December 2009	**952,842**	**0**	**31,463**	**-3,992**	**143,186**	**1,123,499**
Reduction of share capital	-905,425	,0	0	3,992	901,433	0
Loss for the period	0	0	0	0	-479,467	-479,467
Balance at 31 December 2010	**47,417**	**0**	**31,463**	**0**	**565,152**	**644,032**

	Share capital	Share premium	Statutory capital reserve	Own shares	Retained earnings	Total
EUR, thousands						
Balance at 31 December 2008	**60,898**	**45,538**	**2,011**	**-255**	**1,666**	**109,857**
Transfer for covering losses	0	-45,538	0	0	45,538	0
Loss for the period	0	0	0	0	-38,053	-38,053
Balance at 31 December 2009	**60,898**	**0**	**2,011**	**-255**	**9,151**	**71,805**
Reduction of share capital	-57,868	0	0	255	57,613	0
Loss for the period	0	0	0	0	-30,644	-30,644
Balance at 31 December 2010	**3,030**	**0**	**2,011**	**0**	**36,120**	**41,161**

Adjusted unconsolidated equity

	EEK		EUR	
As at 31 December	**2010**	2009	**2010**	2009
In thousands				
Parent company's unconsolidated equity	644,032	1,123,499	41,161	71,805
Carrying amount of investments in subsidiaries and joint ventures in the unconsolidated statement of financial position	0	0	0	0
Value of investments in subsidiaries and joint ventures under the equity method	-125,606	-757,330	-8,028	-48,402
Parent company's adjusted unconsolidated equity	**518,426**	**384,050**	**33,133**	**24,546**

UNCONSOLIDATED STATEMENT OF CASH FLOWS

	EEK		EUR	
	2010	2009	**2010**	2009
In thousands				
Operating loss	-22,913	-30,901	-1,463	-1,976
Adjustments for:	704	13,076	45	835
Depreciation and amortisation	*704*	*617*	45	*39*
Write-down of property, plant and equipment and intangible assets	*0*	*44*	0	*3*
Changes in fair value of investment property	*0*	*12,415*	0	*793*
Operating profit after adjustments	**-22,209**	**-17,825**	**-1,418**	**-1,141**
Changes in receivables and prepayments	217,280	6,439	13,886	413
Changes in payables and deferred income	392	13,536	25	865
NET CASH FROM OPERATING ACTIVITIES	**195,463**	**2,150**	**12,493**	**137**
Acquisition of property, plant and equipment and intangible assets	-23	-232	-1	-15
Acquisition of investments in subsidiaries and joint ventures	0	-116,898	0	-7,471
Proceeds from disposal of investments in subsidiaries and joint ventures	0	6,100	0	390
Proceeds from disposal of other investments	0	40,416	0	2,583
Loan granted	-39,531	-49,808	-2,526	-3,183
Repayment of loans granted	3,858	15,373	247	983
Change in the group cash pool receivables	-127,522	96,467	-8,151	6,165
Interest received	1,318	3,073	84	196
NET CASH USED IN INVESTING ACTIVITIES	**-161,900**	**-5,509**	**-10,347**	**-352**
Proceeds from loans received	10,000	0	639	0
Repayment of loans received	-23,934	-43,294	-1,531	-2,767
Change in group cash pool liabilities	591	-32,002	38	-2,045
Interest paid	-2,034	-4,233	-130	-271
NET CASH USED IN FINANCING ACTIVITIES	**-15,377**	**-79,529**	**-984**	**-5,083**
NET CASH FLOW	**18,186**	**-82,888**	**1,162**	**-5,298**
Cash and cash equivalents at beginning of period	33,893	117,861	2,166	7,533
Increase / decrease in cash and cash equivalents	18,186	-82,888	1,162	-5,298
Effect of exchange rate fluctuations on cash held	-2	-1,080	0	-69
Cash and cash equivalents at end of period	**52,077**	**33,893**	**3,328**	**2,166**

KPMG Baltics OÜ
Narva mnt 5,
Tallinn 10117
Estonia

Telephone +372 6 268 700
Fax +372 6 268 777
Internet www.kpmg.ee

INDEPENDENT AUDITOR'S REPORT

(Translation from the Estonian original)

To the shareholders of Arco Vara AS

We have audited the accompanying consolidated financial statements of Arco Vara AS, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, consolidated cash flows and consolidated changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 24 to 73.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Arco Vara AS as of 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 12 April 2011

KPMG Baltics OÜ
Licence no 17
Narva mnt 5, Tallinn

/signature/

Eero Kaup
Authorized Public Accountant

Proposal for covering the loss

The member of the management board of Arco Vara AS proposes that the general meeting of shareholders transfer the net loss for the year ended 31 December 2010 of 4,591 thousand kroons (293 thousand euros) to retained earnings.

Retained earnings as at 31 December 2010 amount to 356,534 thousand kroons (22,787 thousand euros).

/signature/

Lembit Tampere
Chief Executive Officer and Member of the Management Board

12 April 2011

Signature of the member of the management board

I hereby affirm that the information presented in the annual report of Arco Vara AS for 2010 is true and complete.

/signature/

Lembit Tampere
Chief Executive Officer and Member of the Management Board

12 April 2011