



Arco Vara AS

Interim report 1 quarter and 3 months 2010

FIRST QUARTER AND THREE MONTHS 2010
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

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Core activities: Construction of buildings (EMTAK 41000)

Civil engineering (EMTAK 42000)

Special engineering (EMTAK 43000)

Real estate activities (EMTAK 6800)

Financial year: 1 January 2010 – 31 December 2010

Reporting period: 1 January 2010 – 31 March 2010

Supervisory board: Richard Tomingas, Hillar-Peeter Luitsalu, Ragnar Meitern,
Kalev Tanner, Aare Tark

Manager: Lembit Tampere

Auditor: KPMG Baltics AS

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Management report for the first quarter and three months of 2010

GENERAL INFORMATION

Arco Vara AS and other companies of its Group (hereinafter Group) are engaged in various aspects of the real estate development that can be divided into three business lines: Service Division, Development Division and Construction Division.

As at end of Q1 2010, the group comprised 24 subsidiaries (2009 Q1: 29), 7 joint ventures (2009 Q1: 13) and 2 associates (2009 Q1: 2).

The performance of all divisions of the Group is subject to seasonal fluctuations. The transaction volumes of the Service Division are usually higher in autumn and spring than in summer and winter, while the turnover of the Construction Division and the investment volumes of the Development Division subside in the winter.

The principal activity of the Service Division is real estate brokerage, valuation, management, consulting and short-term investment in residential real estate.

The principal activity of the Development Division is developing integrated residential environments and commercial real estate. Fully developed housing solutions are sold to end-consumers. Commercial properties are developed until they start generating cash flow after which they are sold to a real estate fund or another developer. The Group holds some completed commercial properties that are yielding income from rent, but have not been sold yet as they have not been developed to their full potential.

The principal activity of the Construction division is offering general and subcontracting service and carrying out environmental engineering works.

Domestic markets of the Group are Estonia, Latvia and Bulgaria.

Mission, objective and common values

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

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

Core values of Arco Group:

Partnership – our client is our partner

Reliability – we are reliable, open and honest

Professionalism – we deliver high-quality services

Respect – we respect our client's personality

Responsibility – we keep our promises

STRUCTURE OF THE GROUP

		Group's ownership interest	
Company	Domicile	31.03.2010	31.12.2009
%			
Service segment			
Subsidiaries			
Arco Real Estate EOOD	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

		Group's ownership interest	
Company	Domicile	31.03.2010	31.12.2008
%			
Development segment			
Subsidiaries			
Arco Invest EOOD ¹	Bulgaria	100	100
Arco Facility Management EOOD ¹	Bulgaria	80	80
Arco Project EOOD ¹	Bulgaria	100	100
Arco Bulgaaria OÜ ¹	Estonia	100	100
Arco Investeeringute AS	Estonia	100	100
Arco Vara Riia Valdused OÜ ¹	Estonia	100	100
Kerberon OÜ ¹	Estonia	100	100
Kolde AS ¹	Estonia	100	100
Pärnu Turg OÜ ¹	Estonia	100	100
Waldrop Investments OÜ ¹	Estonia	100	100
Wilson Kinnisvara OÜ ¹	Estonia	100	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	Ukraine	75	75
Jointly controlled entities			
AD Saulkrasti SIA ¹	Latvia	50	50,4
Arco HCE OÜ ¹	Estonia	50	50
Arco Vara Arenduse OÜ ¹	Estonia	50	50
Arco Vara Saare Kinnistud OÜ ¹	Estonia	sold	50
Koduküla OÜ ¹	Estonia	50	50
Pärnu Elumaja OÜ	Estonia	50	50
Varamaad Kinnisvara OÜ ¹	Estonia	sold	33,4
Bišumuizžas Nami SIA ^{1,2}	Latvia	49,83	49,83
Sporting Riga SIA ^{1,2}	Latvia	49,83	49,83
Associate			
Jüri Arendus OÜ ¹	Estonia	20	20
Floriston Grupp OÜ ¹	Estonia	12,5	12,5
Construction segment			
Subsidiaries			
Arco Ehitus OÜ	Estonia	100	100
Tempera Ehitus OÜ (bankrupt)	Estonia	55	55

CHANGES IN THE GROUP STRUCTURE

Arco Investeeringute AS, a 100% subsidiary of Arco Vara AS, transferred its holding in Arco Vara Saare Kinnistuste OÜ (a 50% associate of Arco Investeeringute AS) with a share capital of 0.2 million kroons (0.01 million euros). The transaction is based on the strategic goal to exit from an activity where no full control over the management is possible. At the time of transaction, the transaction price was 6.0 million kroons (0.4 million euros) and the loss 3.6 million kroons (0.2 million euros). The final transaction price may be by 3.0 million kroons (0.2 million euros) lower depending on the potential tax liabilities in the sold company.

On 11.03.2010, Arco Development SIA, a 99.9% subsidiary of Arco Investeeringute AS, reduced its holding in AD Saulkrasti SIA from 63% to 50%. The transaction was carried out in nominal share prices.

Changes in the Group structure after the balance sheet date:

On 04.05.2010, Arco Investeeringute AS, a 100% subsidiary of Arco Vara AS, transferred its holding in Arco Vara Arenduse OÜ (a 50% associate of Arco Investeeringute AS) with a share capital of 0.04 million kroons (0.003 million euros). The transaction price was 0.1 million kroons (0.01 million euros) and the loss 0.03 million kroons (0.002 million euros).

Management report to 1st quarter 2010

KEY FINANCIALS

- Revenue and other income for the 1st quarter totalled 68.0 million kroons (4.3 million euros), 25 % down year-over-year.
- Operating loss was -9.8 million kroons (-0.6 million euros), 42% down year-over-year.
- Net loss was -11.8 million kroons (-0.8 million euros), 33% down year-over-year.
- Equity ratio was 37.1 % (2009 Q1: 49 %) of the balance sheet total. ROE was negative (2009 Q1: negative). ROIC was negative (2009 Q1: negative).
- The residual volume of building contracts is 125.7 million kroons (8.0 million euros)
- During the quarter, a total of 30 apartments and plots were sold.

	EEK 2010 Q1	2009 Q1	EUR 2010 Q1	2009 Q1
In millions				
Revenue and other income	68.0	90.2	4.3	5.8
Operating profit	-9.8	-17.1	-0.6	-1.1
<i>incl. revaluation of investment property and inventory</i>	-3.3	0.0	-0.2	0.0
Profit before tax	-11.8	-17.6	-0.8	-1.1
<i>incl. profit or loss from transfer of financial assets</i>	-3.7	-4.7	-0.2	-0.3
Profit for the year	-11.8	-17.6	-0.8	-1.1
EPS 1 (in kroons and euros)	-2.45	-3.52	-0.16	-0.23
Total assets at period end	1 180.2	1 657.0	75.4	105.9
Invested capital at period end	997.8	1 435.4	63.8	91.7
Net loans at period end	509.1	519.2	32.5	33.2
Equity at period end	438.2	812.3	28.0	51.9
Average loan term (in years)	1.6	1.8	1.6	1.8
Average interest rate of loans (per year)	6.0%	6.7%	6.0%	6.7%
ROIC (rolling 4 quarters)	neg	neg	neg	neg
ROE (rolling 4 quarters)	neg	neg	neg	neg
Number of staff at period end	160	245	160	245

Comments by the CEO

During the first quarter of 2010, 30 apartments or plots were sold under Arco Vara projects. The strategy of Arco Vara development division is to finish the unfinished apartments in the Bišumuiža-1 project in Riga, the apartments and business areas in the Boulevard Residence Madrid and Manastirski projects in Sofia.

At the same time, new developments have to be started, in order to be ready for the market demand. The sales pace during recent quarters has considerably decreased the stock-in-trade and the construction prices are still favourable. AS Kolde, a subsidiary of Arco Vara AS group, and AS Merko Ehitus agreed on the next construction and financing phase of the Kodukolde development project. The new residential complex consists of four apartment houses with 100 apartments and 40 underground garage boxes, with a gross enclosed area of 8,760 square meters. The two first houses will be completed by the spring 2011. In January, the detailed plan of Paldiski road 80 entered into force, providing for a business building with a maximum gross enclosed area of 30,300 m².

By restructuring the service division, the administration costs were considerably reduced (by 62% on year-over-year basis), at a somewhat slower pace, the turnover has decreased (by 39% on year-over-year basis). The operating loss of the quarter from current operations amounted to 1.4 million kroons (0.1 million euros), 74% down year-over-year. Reduction of the number of employees has stopped and the staff decreased by 14% on year-over-year basis. The work organisation of some smaller offices outside the capital city was changed by giving up the classical office-based work organisation and applying the home office system by maintaining our full service selection at the same time. In other offices, more cost effective work organisation solutions are being implemented in cooperation with employees. The aim of the service division is to continue implementing the work organisation that has been applied and has justified itself in Estonia also in foreign markets. This allows increasing service provision with unlimited means in these countries, with a future focus on Estonia, Latvia and Bulgaria.

In construction division, new contracts amounting to 83.4 million kroons (5.3 million euro) in total were concluded during the three months, which is considerably more than the 34.0 million kroons (2.2 million euros) of Q4. The reserve of construction agreements has increased to 125.7 million kroons (8.0 million euros). The main contracting authority is still the government sector and municipalities. In addition to environmental and infrastructure projects, resources are directed to projects related to education sector. It is important to mention that the internal turnover related to construction has been almost non-existent during the first quarter in the group.

The gross profit without revaluation was 10.9 million kroons (0.7 million euros). The net profit without revaluation of inventory, property investment, financial assets, and goodwill, and without the loss of transfer of holdings and assets amounted to -4.9 million kroons (-0.3 million euros). The reduction in fixed costs accomplished during the last year has had a positive effect to the results of the current year, the administration costs have been reduced by 14% year-over-year.

The management is still focused on the reduction of fixed costs. In addition to reduction, cost optimisation in a manner that supports the sales increase in the best possible way has become important again. In order to cover the fixed costs, construction and sales of new production were started. In addition to the development of the last stage of the Kodukolde project, we are negotiating with banks and potential partners in order to start the first stage of the Tivoli project (approx. 150 apartments) and find a beneficial financing structure for it.

In order to improve liquidity, the group has sold on a current basis smaller property investments during the first quarter, over which no control and management can be exercised or that in any other way do not meet the group's strategic goals.

The group has extended the loan taken from the Piraeus Bank Bulgaria for the development of the Madrid project in Sofia, as well as the SEB bank loans related to the Navigator and Tivoli projects in Tallinn in a total amount of 371.6 million kroons (23.8 million euros). As a result, the loan term for the Madrid project was extended by three years from 2012 to 2015, the loan for the Navigator and Tivoli projects were extended to 30 June 2010. Thanks to the extension of loans, the financial risks of the group are considerably lower.

In December last year, Arco Vara AS shareholders decided to reduce the share capital and on 16.03.2010, the relevant entry in the business register entered into force. Reduction of share capital has reduced the volatility of the share price, enabled a more efficient pricing of the share on stock exchange (through reduction in purchase and sales price difference), and created possibilities for a further strengthening of the capital structure.

Change in accounting policies for recognising jointly controlled entities.

The Group's management has reviewed the accounting principles for reflecting the joint ventures. Previously, jointly controlled entities were recognised using proportionate consolidation. Starting from January 2010, jointly controlled entities are recognised by equity method. In management's opinion, the equity method reflects the assets, liabilities and equity of the group on a more adequate basis than before.

REVENUE AND PROFIT

	EEK		EUR	
	2010 Q1	2009 Q1	2010 Q1	2009 Q1
In millions				
Revenue and other income				
Service	6.6	10.8	0.4	0.7
Development	38.9	24.7	2.5	1.6
Construction	24.1	58.9	1.5	3.8
Eliminations	-1.6	-4.2	-0.1	-0.3
Total revenue and other income	68.0	90.2	4.3	5.8
Operating profit				
Service	-1.4	-5.2	-0.1	-0.3
Development	-2.7	-3.7	-0.2	-0.2
Construction	-2.0	-3.4	-0.1	-0.2
Eliminations	3.9	0.0	0.2	0.0
Unallocated expenses	-7.6	-4.8	-0.5	-0.4
Total operating profit	-9.8	-17.1	-0.7	-1.1
Interest income and expense	-2.0	0.2	-0.1	0.0
Net other financial items	0.0	-0.6	0.0	0.0
Profit for the year	-11.8	-17.6	-0.8	-1.1

During the first quarter of 2010, no considerable revaluations of assets were made. Main cost cuttings have been made, and striving towards reduced costs has become a routine practice in all of our business units. The main focus is now set on increasing the turnover, completing the Madrid project, and improving the liquidity through the sales of projects and stock-in-trade.

The financial income and expenses were mainly influenced by the exchange rate profit of 2.3 million kroons (0.15 million euros) from the claim against AS Ühendatud Kapital in US dollars, as well as by the loss from the sales of Arco Vara Saare Kinnistute OÜ – 3.6 million kroons (0.23 million euros). Despite of the reduction in sales and other operating

revenue and income in the construction and service divisions, the operating loss has decreased in all divisions year-over-year.

CASH FLOWS

	EEK		EUR	
	2010 Q1	2009 Q1	2010 Q1	2009 Q1
In millions				
Cash flows from operating activities	-0.8	-37.7	-0.1	-2.4
Cash flows from investing activities	-0.2	34.7	0.0	2.2
Cash flows from financing activities	-13.5	-88.3	-0.9	-5.6
Net cash flow	-14.5	-91.3	-1.0	-5.8
Cash and cash equivalents at beginning of period	64.7	156.1	4.1	10.0
Effect of exchange rate fluctuations	0.2	0.0	0.0	0.0
Cash and cash equivalents at end of period	50.5	64.7	3.2	4.1

No extraordinary loan redemptions were made during Q1 2010. Financing activity from net cash flows comprises interest payments 8.0 million kroons (0.5 million euros), which has reduced 20% year-over-year. Scheduled repayments as well as principal repayments related to the sales of inventories have amounted to 31.6 million kroons (2.0 million euros), the biggest portion of limits used during the period is made up by the financing in the amount of 25.5 million kroons (1.6 million euros) related to the completion of the Madrid project.

Major short-term liabilities during the next 12 months:

- „Tivoli” and „Laeva2” project loans in the total amount of 102.5 million kroons (6.6 million euros)
- „Kodukolde” project loan in the amount of 31.2 million kroons (2.0 million euros);
- The loan for the Bišumuiža-1 (BM-1) development project in Riga in the amount of 45.1 million kroons (2.9 million euros);
- calculated principal returns from the sales of booked spaces in the „Boulevard Residence Madrid” project on Sofia as the house will be finished by the 1st half-year 2010 at the latest, in an amount of 115.0 million kroons (7.4 million euros);
- commercial papers in the amount of 18.9 million kroons (1.2 million euros).

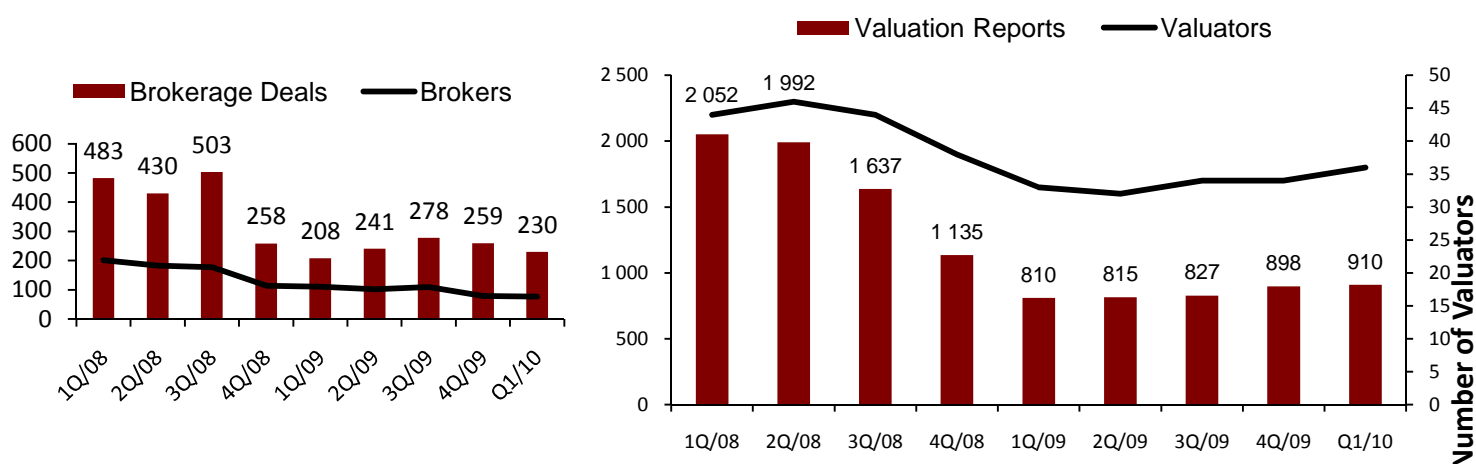
On a current basis, loans have been redeemed in the „Kodukolde” and Merivälja 2 projects in Tallinn and the „Bišumuiža-1” in Riga as well as in projects creating cash flow. Most of the liabilities of the Group are in euros.

SERVICE DIVISION

Costs have been minimised to a large extent, but they are being kept under strict supervision. Some cooperation agreements that are not profitable for the service division anymore, are intended to be terminated. Two previous unprofitable investments were sold. In connection with signs of activation on the residential market segment, more powerful marketing campaign was started all over Estonia, which is intended to be continued until end of 2010. Negotiations for cooperation agreements with bigger residential and commercial area developers were started, managers and sales persons for offices were recruited, in order to activate brokerage, valuation and marketing activity in all Estonian regions and make our services and office locations more visible for our customers. Our aim is to help customers to make decisions in a difficult market situation and offer a broad service and property selection.

Division's total operating profit for Q1 amounted to -1.4 million kroons (-0.09 million euros), whereof doubtful receivable impairments made up 0.6 million kroons (0.04 million euros). Thus, quarter operating profit from core activities amounted to -0.8 million kroons (-0.05 million euros) which is historically one of the best results.

The number of brokerage transaction of the group has increased by 11% year-over-year, also the number of valuation reports has increased by 12%. As of 31 March 2010, the division employed 63 persons (31 March 2009: 73 persons).



	2010 Q1	2009 Q1	change, %
Number of brokered objects	230	208	11%
Projects being sold, pcs.	171	186	-8%
Number of valuation reports	910	810	12%
Number of appraisers*	36	33	9%
Number of real estate brokers*	77	111	-31%
Average number of staff	63	73	-14%

* Includes authorisation agreements

DEVELOPMENT DIVISION

Within three months, 30 apartments or plots were sold under Arco Vara projects. In Latvia, 3 Bišumiža apartments and 4 residential plots in the project near the Mazais Baltezers lake were sold. In Estonia, 16 Kodukolde apartments and 7 Merivälja plots were sold. For the construction (100 apartments) and financing of the next stage of Kodukolde a contract for services with AS Merko Ehitus has been concluded. The two first houses will be finished by the spring 2011.

With regard to the Tivoli project, negotiations for finding possible partners and banks for starting and financing the construction are being held.

The main risk factor for the development division is still the refinancing of loans of plots in Estonia.

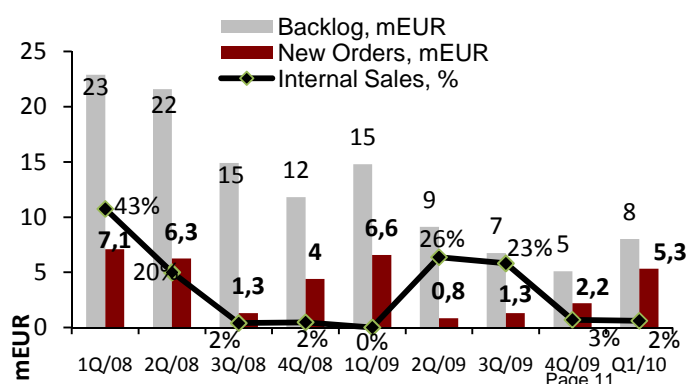
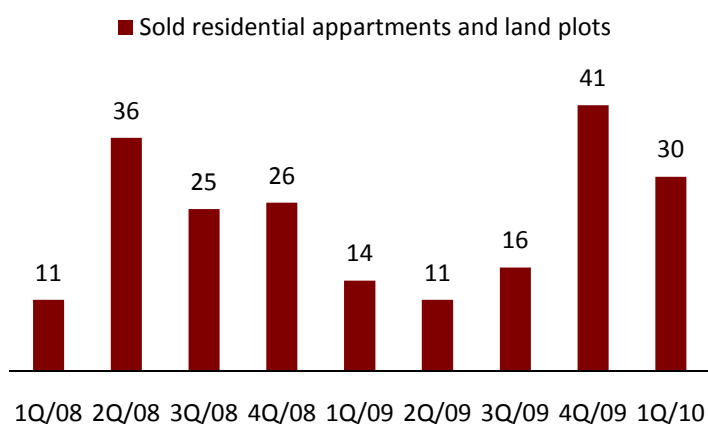
Thanks to stabilisation of the real estate market, the previous price deductions made for promoting sales have been suspended, for some projects, the prices have increased to some extent. 2010. As of 31 March 2010, the division employed 26 people (31 March 2009: 30 persons).

Further information on the projects:

www.arcorealestate.com/development

CONSTRUCTION DIVISION

In addition to routine environmental and infrastructure projects, the construction division has won tenders related to educational institutions.



The biggest construction agreements during three months were Aviation Academy with 43.9 million kroons (2.8 million euros), Tallinn Technical University 4th block, and the Paide study building of the Järvamaa Education Centre. New construction agreements amounting to 83.4 million kroons (5.3 million euro) in total were concluded during the three months, which is considerably more than the 34.0 million kroons (2.2 million euros) of last year's Q4. At the end of 1st quarter, the construction agreements volume stood at 125.7 million kroons (8.0 million euros) against 80.0 million kroons (5.1 million euros) at the end of 2009. As of 31 March 2010, the division employed 49 people (31 March 2009: 59 persons).

SUMMARY TABLE OF MAJOR PROJECTS

Type	Name	Location	Holding	Building rights according to business plan	Current state	Classification in balance sheet
Commercial	Ahtri 3	Estonia Tallinn	50%	48,518m ²	The old plan and building permit are in effect. Establishing the detailed plan for increasing the building rights is in the end phase. In the new plan, above-ground building rights are 51,100 m ²	Financial investments
Commercial	Laeva 2	Estonia Tallinn	100%	7,776 m ²	Detailed plan approved. Building permit for the building part acquired. Negotiations with potential tenants.	Investment property
Commercial	Paldiski 80	Estonia Tallinn	100%	24,000 m ²	Detailed plan established.	Investment property
Type	Name	Location	Holding	Building rights according to business plan	Current state	Classification in balance sheet
Cash flow	Enerpoint	Estonia, Kuressaare	100%	3,326 m ²	Building rights in place. Generates cash flow.	Investment property
Cash flow	Kerberon	Estonia Tallinn	100%	13,236 m ²	Building rights in place, building rights. Generates cash flow.	Investment property
Cash flow	Pärnu turg	Estonia, Pärnu	100%	2,529 m ²	Building rights in place. Generates cash flow.	Investment property
Type	Name	Location	Holding	Building rights according to business plan	Current state	Classification in balance sheet
Apartments	Bišumuiža 1	Latvia, Riia	100%	Unsold/unreserved building rights 17,594 m ²	Sales of the apartments in progress. In 2010, the completion of the second-phase apartments will be started.	Inventories
Apartments	Bišumuiža 2	Latvia, Riia	49%	87,770 m ²	Designing has been postponed.	Financial investments
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m ²	Building rights acquired. Project is on sale.	Inventories
Apartments	Kolde	Estonia Tallinn	100%	Unsold/unreserved building rights 11,188 m ²	Right of superficies, building rights acquired. Apartments are on sale. Preparation for the two last construction stages ongoing.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Unsold/unreserved building rights 12,150 m ²	Building rights. Construction and sale of apartments are under way.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Unsold/unreserved building rights 23,473 m ²	Building rights. Sales ongoing.	Inventories
Apartments	Tivoli	Estonia Tallinn	100%	58,470 m ²	Detailed plan established.	Inventories
Plots	Baltezers-3	Latvia, Riia	100%	172,380 m ² , total land 861,900 m ²	Rights of superficies. 189 plots, 1 st stage of infrastructure in preparation (1 st stage includes 33 plots).	Investment property
Plots	Baltezers-5	Latvia, Riia	100%	40 plots unsold	Building rights acquired. Construction finished, sales ongoing.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold/unbooked 30,740 m ² , 26 plots	Construction of roads and utility lines finished, sales of plots ongoing.	Inventories
Plots	Pärtli	Estonia, Saue	50%	84 plots, average plot 1,500 m ²	No building rights. Adoption of a detailed plan suspended until improvement in market situation.	Financial investments
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1,802 m ²	No building rights. Adoption of a detailed plan suspended until improvement in market situation.	Financial investments

Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3,363 m ²	Building rights and building design in place, suspended until improvement in market situation.	Inventories
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Note: The development and success of the Group's development projects depend largely on external factors. Their success is the adoption of plans and the issuance of building permits by the local government and the planning authorities. The information presented in the tables, such as building rights according to business plan, current state, project type and classification of the project in the balance sheet, 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 according to changes in the market and in competition. 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 summary table account for the following portions of the Group's assets:

Balance Sheet Item	EEK		EUR	
	Balance sheet item at 31.03.2010	Book values of projects presented in the summary table at 31.03.2010.	Balance sheet item at 31.03.2010	Book values of projects presented in the summary table at 31.03.2010.
In millions				
Total assets	1 180.2	933.5	75.4	59.7
Inventories	749.2	730.8	47.9	46.7
Investment property	217.1	202.7	13.9	13.0
Property, plant and equipment	10.2	0.0	0.7	0.0

SIGNIFICANT CHANGES IN DETAILED PLANS IN 3 MONTHS OF 2010:

Ahtri: The property has a valid detailed plan and building rights. Due to the need for a new architectural solution and a change in the intended purpose, an application was submitted on 21.08.2008 to the Tallinn City Planning Department for initiating drafting of a new detailed plan. A new detailed plan was initiated on 07.05.2008 providing as ground-based building rights 51,110 m² gross enclosed area. The detailed plan was adopted on 16.09.2009. The detailed plan was displayed to public from 21.10 to 04.11.2009 during which one remark was made by AS Tallinna Sadam. AS Tallinna Sadam wants to achieve an agreement on the fee for the use of a street land property with a size of 600 m² that has been established in the valid detailed plan. Negotiations will be started during the first half of 2010. As long as there is no new detailed plan, the building rights of the previous plan are in force.

PM80: detailed plan was adopted on 13.05.2009 at a session of the Tallinn City Government. After the adoption, the detailed plan was displayed to public from 02.06 to 16.06.2009, during which no objections or suggestions were received. The detailed plan was adopted by the Harju county governor and was established by the Tallinn City Council on 26 November 2009. The detailed plan entered into force on 26.01.2010. The valid detailed plan changed the effective Tallinn comprehensive plan with regard to storeys.

Palusambla street 1: A detailed plan for the property was initiated on 22.11.2000 with the aim of defining this area partially as residential land and establishing building rights, by maintaining the green passage in the rest of the area. On 09.06.2004, the detailed plan was adopted at the Tallinn City Government session and sent for public display. Due to the remarks and objections made during the public statements, the processing of the detailed plan stagnated. On 22.12.2009, the committee of the Tallinn City Planning Department adopted a decision according to which detailed plans cannot be processed during implementation of remark notes. Based on remarks, the number of plots on residential properties was reduced to 12 (average property size 1,700 m²), a new topo-geodetic basic plan and dendrology were prepared. The detailed plan was adjusted to valid legislation. At present, the detailed plan is being endorsed by the

Tallinn Transport Board Tallinn Environmental Board, and Nõmme District Administrative Board. After endorsement, the detailed plan is forwarded for public display.

Tehnika street 53: A detailed plan for the property was initiated on 30.01.2002 with the aim of establishing building rights. On 07.01.2004, the detailed plan was adopted at the Tallinn City Government session and forwarded for public display. Due to an objection received during the public display, the process stagnated until 2009. Today, the renewed solution of the detailed plan meets the effective legislation and has been endorsed by relevant authorities. Besides that, the detailed plan has passed a new public requirement during which three remarks/objections were submitted, whereof two have been withdrawn. Negotiations with one objector are ongoing in order to find a suitable compromise.

With the abovementioned detailed plan, the purpose of the plot should be divided by 15% business land and 85% residential land. The relevant gross enclosed areas are 200 m² and 1,315 m². The maximum number of storeys is 4 and the planned number of apartments is 12.

STAFF

The number of employees at the end of Q1 2010 was 160 persons, in Q1 2009, there were 245 persons. Payroll including associated taxes totalled 12.6 million kroons (0.8 million euros) against 20.2 million kroons (1.3 million euros) in 1st quarter 2009.

The remuneration of the Group's management board for the 1st quarter of 2010, including associated taxes, totalled 0.4 million kroons (0.03 million euros). In 2009, the same indicator amounted to 1.1 million kroons (0.07 million euros).

Starting from 5 September 2009, the Group has one board member – Lembit Tampere.

SHARE AND SHAREHOLDERS

The total number of outstanding shares of the company is 4,741,707. As of end of 31.03.2010, the company has 2,366 shareholders and the share price was closed at 70.1 kroons (4.48 euros) level, up 31% within a quarter.

The share price changes of the shares of Arco Vara AS, and changes of transaction volumes in Q1 2010 are reflected by the following diagrams:

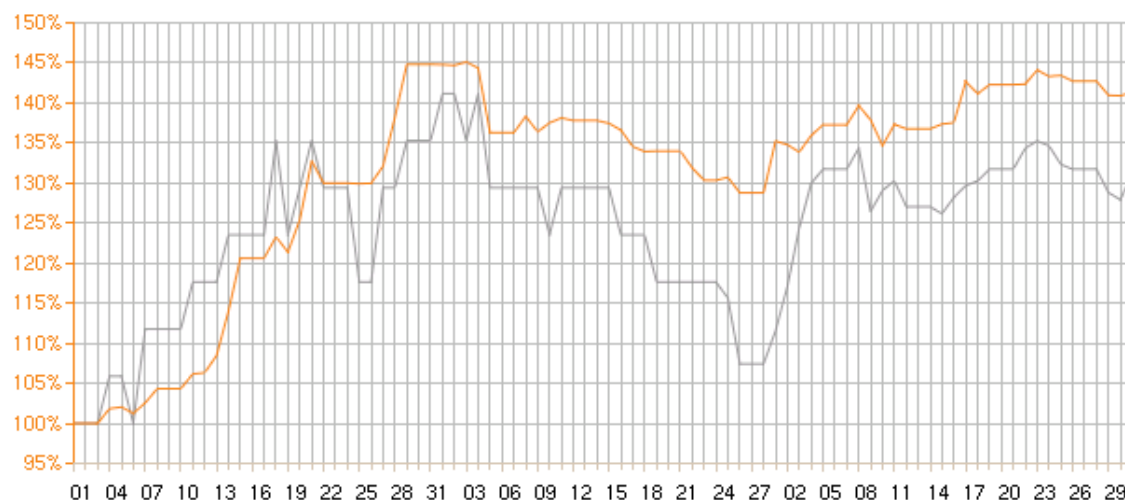
In Estonian kroons (EEK)



In euros (EUR)



Change in share price compared to the reference index OMX Tallinn within 2010 Q1:



Index/share	01.01.2010	31.03.2010	+/- %
—OMX Tallinn	404,58	571,81	41,33
—ARC1T	3.42 EUR	4.48 EUR	31,14

Bigger shareholders on 31.03.2010	Number of shares	Shareholding %
FREIER PROJEKT OÜ	1 117 930	23.6%
OÜ TOLETUM	1 037 975	21.9%
HM INVESTEERINGUD OÜ	1 035 531	21.8%
GAMMA HOLDING OÜ	262 252	5.5%
SEB Ab Clients	231 653	4.9%
Central Securities Depository of Lithuania	119 548	2.5%
SEB PANK AS KAUPLEMINE	40 950	0.9%
THE ROYAL BANK OF SCOTLAND N.V. LONDON BRANCH	35 780	0.8%
LOKOTAR INVEST OÜ	34 250	0.7%
Latvian Central Depository	24 134	0.5%
Other	801 704	16.9%
TOTAL	4 741 707	100.0%

Share positions of the members of the management board and the supervisory board

Share positions of the members of the	Position	Number of	Shareholdin
Lembit Tampere	Member of the Management Board	0	0%
Richard Tomingas (Toletum OÜ)	Chair of the Supervisory Board	1 037 975	21.9%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related person)	Member of the Supervisory Board	1 045 038	22.0%
Aare Tark	Member of the Supervisory Board	0	0%
Kalev Tanner	Member of the Supervisory Board	0	0%
Ragnar Meitern	Member of the Supervisory Board	0	0%
Total		2 083 013	43.9%

DESCRIPTION OF MAIN RISKS

Credit risks

Credit risk is most apparent in the construction division of the Group. The payment behaviour of our contract partners is monitored on a continuing basis.

Liquidity risks

Balance on hand is kept in biggest Estonian banks as overnight deposits or fixed rate short-term time deposits. The lengths of time deposits are usually one week. Management of cash flows is tense due to the high refunding risk. The cash and cash equivalents balance of the Group is permanently lower than the loan balances needing refunding within the next 12 months. The weighted average length of interest bearing liabilities is as of 31.03.2010 1.6 years, which means that on average, all loans need refunding every 18 months. Although the consolidated cash and cash equivalents balance of the Group at the end of 2009 is 50.5 million kroons (3.2 million euros), 22.7 million kroons (1.5 million euros) of it are under the direct control of the company, while the rest is on accounts where payments are limited, usually having a special purpose and requiring an approval by the relevant banks. The liquidity and refunding risk still remains the most important risk.

Interest risks

Most of the Group loan agreements have been concluded in euros and the base interest is the 3-month and 6-month EURIBOR. Thus, the Group is open to what is happening on international capital markets. At present, the long-term interest risk with options is to a considerable extent not managed. The interest bearing liabilities of the Group have decreased within the quarter by 4.7 million kroons (0.3 million euros). As of 31.03.2010, the interest bearing liabilities of the Group amount to 553.4 million kroons (35.4 million euros). Actually paid interest expenses in the 1st quarter 2010 was 8.0 million kroons (0.5 million euros), compared to 2009 Q1, the weighted average interest expenses have decreased from 6.7% to 6.0%.

Currency risks

Sales agreements are usually concluded in local currencies: Estonian kroons (EEK), Latvian lats (LVL) and Bulgarian levis (LEV). A claim with a book value of 34.9 million kroons (2.2 million euros; 3.0 million dollars) has been concluded in US dollars. The currency risk of this claim has not been managed. The Group is not protected against devaluation of currencies. Most of the liquid resources are kept in short-term deposits in Estonian kroons.

FORMULAE

Invested capital = current interest-bearing liabilities plus long-term liabilities plus equity

Net loans = current interest-bearing liabilities at the end of period plus long-term liabilities at the end of period less cash and cash equivalents at the end of period less short-term investments in securities

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

Average equity = the past 4 quarters' closing equity / 4

ROE = net profit for the period/ the period's average equity

Average invested capital = the sum of current interest-bearing liabilities, long-term liabilities and equity for the last four quarters / 4

ROIC = the sum of pre-tax profit and interest expenses for the last 4 quarters / average invested capital

EPS = net profit attributable to equity holders of the parent / (weighted average number of ordinary outstanding shares of the period – own shares)

Current Ratio (current ratio of current liabilities) = at the end of current assets period / current liabilities at the end of period

The management board warrants that the management report provides a true and fair overview of the development and results of the company and Group, their financial standing and contains the description of the main risks and uncertainties.



Lembit Tampere

Member of the Management Board

27.05.2010

Condensed consolidated interim financial statements

Condensed consolidated statement of comprehensive income

Note	EEK		EUR	
	2010 Q1	2009 Q1	2010 Q1	2009 Q1
In thousands EEK				
Revenue from rendering of services	28 707	70 536	1 835	4 508
Sale of goods	37 463	18 406	2 394	1 176
Total revenue	66 170	88 942	4 229	5 684
Cost of sales	-58 597	-85 994	-3 745	-5 496
Gross profit	7 573	2 948	484	188
Other income	1 836	1 271	117	81
Selling and distribution expenses	-983	-876	-63	-56
Administrative expenses	-17 213	-20 063	-1 100	-1 282
Other expenses	-1 058	-429	-68	-27
Operating profit	-9 845	-17 149	-630	-1 096
Finance income	4 926	11 766	315	752
Finance expenses	-6 832	-12 204	-437	-780
Profit before tax	-11 751	-17 587	-752	-1 124
Income tax expense	-8	0	-1	0
Profit / loss for the period	-11 759	-17 587	-753	-1 124
Profit distribution for the period:				
Parent company's participation in loss	-11 759	-16 727	-753	-1 069
Non-controlling interest in loss	0	-860	0	-55
Other comprehensive loss:				
Exchange rate differences in converting foreign company	161	13	11	1
Comprehensive profit / loss for the period	-11 598	-17 574	-742	-1 123
Parent company's participation in loss	-11 598	-16 714	-742	-1 068
Non-controlling interest in loss	0	-860	0	-55
	-11 598	-17 574	-742	-1 123
Earning per share				
- Basic	-2.45	-3.52	-0.16	-0.23
- Diluted	-2.45	-3.52	-0.16	-0.23

Consolidated statement of financial position

	Note	31.03.2010	31.12.2009	31.12.2008
in thousands EEK				
In thousands Cash and cash equivalents		50 505	64 724	156 061
Financial investments		0	0	40 416
Receivables	9	129 500	150 939	276 541
Prepayments		2 383	2 999	6 077
Inventories	10	749 155	754 805	827 237
Biological assets		0	0	3 680
Total current assets		931 543	973 467	1 310 012
Financial investments		17 883	17 853	216 025
Receivables		2 640	2 635	921
Investment property	11	217 051	219 129	157 367
Property, plant and equipment	12	10 245	10 545	41 664
Intangible assets	13	800	812	12 475
Total non-current assets		248 619	250 974	428 452
TOTAL ASSETS		1 180 162	1 224 441	1 738 464
Loans and borrowings	14	392 648	371 615	223 598
Payables	15	53 805	83 621	124 190
Deferred income		83 382	81 902	64 172
Provisions		45 161	43 571	37 999
Total current liabilities		574 996	580 709	449 959
Loans and borrowings	14	160 801	186 578	454 048
Payables		6 178	6 278	1 418
Provisions		0	1 100	3 191
Total non-current liabilities		166 979	193 956	458 657
TOTAL LIABILITIES		741 975	774 665	908 616
Share capital		47 417	952 841	952 842
Share premium		0	0	712 514
Statutory capital reserve		31 463	31 463	31 463
Retained earnings		359 298	-530 536	-866 593
Treasury shares		0	-3 992	-3 992
Total equity attributable to equity holders of the parent		438 178	449 776	826 234
Non-controlling interests		9	0	3 614
Total equity	8	438 187	449 776	829 848
TOTAL LIABILITIES AND EQUITY		1 180 162	1 224 441	1 738 464

	Note	31.03.2010	31.12.2009	31.12.2008
in thousands EUR				
In thousands Cash and cash equivalents		3 228	4 137	9 974
Financial investments		0	0	2 583
Receivables	9	8 277	9 647	17 674
Prepayments		152	192	388
Inventories	10	47 880	48 241	52 870
Biological assets		0	0	235
Total current assets		59 537	62 217	83 724
Financial investments		1 143	1 141	13 806
Receivables		169	168	59
Investment property	11	13 872	14 005	10 058
Property, plant and equipment	12	655	674	2 663
Intangible assets	13	51	52	798
Total non-current assets		15 890	16 040	27 384
TOTAL ASSETS		75 427	78 257	111 108
Loans and borrowings	14	25 095	23 750	14 290
Payables	15	3 439	5 344	7 937
Deferred income		5 329	5 234	4 101
Provisions		2 886	2 788	2 429
Total current liabilities		36 749	37 116	28 757
Loans and borrowings	14	10 277	11 924	29 019
Payables		395	401	91
Deferred income tax liability		0	70	204
Total non-current liabilities		10 672	12 395	29 314
TOTAL LIABILITIES		47 421	49 511	58 071
Share capital		3 030	60 897	60 897
Share premium		0	0	45 538
Statutory capital reserve		2 011	2 011	2 011
Retained earnings		22 963	-33 907	-55 385
Treasury shares		0	-255	-255
Total equity attributable to equity holders of the parent		28 004	28 746	52 806
Non-controlling interests		1	0	231
Total equity	8	28 005	28 746	53 037
TOTAL LIABILITIES AND EQUITY		75 426	78 257	111 108

Consolidated cash flow statement

		EEK		EUR	
	Note	2010 Q1	2009 Q1	2010 Q1	2009 Q1
In thousands					
Profit for the year		-11 759	-17 587	-752	-1 124
Interest income and expense	7	1 979	-191	126	-12
Gains and losses on disposal of subsidiaries and interests in jointly controlled entities		3 590	4 673	229	299
Gains and losses on other long-term financial assets	7	48	21	3	1
Impairment losses on financial assets	7	0	52	0	3
Profit and loss by equity method		-1 256	4 673	-80	299
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3,4,6	376	1 000	24	64
Gain / loss on the sale of property, plant and equipment and intangible assets	3,4,6	0	24	0	2
Gain / loss on the sale of investment property	4	0	-97	0	-6
Change in the fair value of investment property and biological assets	4	5	0	1	0
Loss on decrease of net realisable value of inventories	3	3 291	0	210	0
Exchange rate gains and losses	7	-2 455	-4 117	-157	-263
Corporate income tax expense		8	0	1	0
Operating cash flow before working capital changes		-6 173	-11 549	-395	-737
Change in receivables and prepayments		29 156	22 940	1 863	1 466
Change in inventories		14 661	-32 399	937	-2 071
Change in biological assets		0	447	0	29
Change in prepayments		-38 440	-17 144	-2 456	-1 096
NET CASH USED IN OPERATING ACTIVITIES		-796	-37 705	-51	-2 409
Acquisition of property, plant and equipment and intangible assets		-162	-7 747	-10	-495
Proceeds from sale of property, plant and equipment and intangible assets		0	341	0	22
Acquisition of investment property		-111	-15	-7	-1
Proceeds from sale of investment property		0	250	0	16
Proceeds from disposal of other financial investments		0	40 416	0	2 583
Loans granted		-182	-4 246	-12	-271
Repayment of loans granted		28	3 395	2	217
Interest received		364	2 301	23	147
NET CASH USED IN INVESTING ACTIVITIES		-63	34 695	-4	2 218
Proceeds from loans received		26 113	21 754	1 669	1 390
Repayment of loans and payment of finance lease liabilities		-31 599	-100 119	-2 020	-6 399
Interest paid		-8 015	-9 974	-512	-637
NET CASH FROM FINANCING ACTIVITIES		-13 501	-88 339	-863	-5 646
NET CASH FLOW		-14 360	-91 349	-918	-5 837
Cash and cash equivalents at beginning of period		64 724	156 061	4 137	9 974
Increase / decrease		-14 360	-91 349	-918	-5 837
Effect of exchange rate fluctuations		141	12	8	1
Cash and cash equivalents at end of period		50 505	64 724	3 228	4 137

Condensed consolidated interim statement of change in equity

	Equity attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Own shares (minus)	Retained earnings	Total		
In thousands EEK									
At 31 December 2008	952 842	712 514	31 463	212	-3 992	-866 805	826 234	3 614	829 848
Comprehensive profit / loss for the period	0	0	0	-199	0	-16 515	-16 714	-860	-17 574
At 31.03.2009	952 842	712 514	31 463	13	-3 992	-883 320	809 520	2 754	812 274
At 31.12.2009	952 842	0	31 463	303	-3 992	-530 840	449 776	0	449 776
Change in non-controlling interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	9	9
Reduction of share capital (note 8)	-905 425	0	0	0	3 992	901 433	0	0	0
Comprehensive profit / loss for the period	0	0	0	-142	0	-11 456	-11 598	0	-11 598
At 31.10.2010	47 417	0	31 463	161	0	359 137	438 178	9	438 187

	Equity attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves		Retained earnings	Total		
In thousands EUR									
At 31 December 2008	60 898	45 538	2 011	14	-255	-55 399	52 807	231	53 038
Comprehensive profit / loss for the period	0	0	0	-13	0	-1 056	-1 069	-55	-1 124
At 31.03.2009	60 898	45 538	2 011	1	-255	-56 454	51 739	176	51 915
At 31.12.2009	60 898	0	2 011	19	-255	-33 927	28 746	0	28 746
Change in non-controlling interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	1	1
Reduction of share capital (note 8)	-57 867	0	0	0	255	57 612	0	0	0
Comprehensive profit / loss for the period	0	0	0	-9	0	-732	-741	0	-741
At 31.10.2010	3 031	0	2 011	10	0	22 953	28 005	1	28 006

Notes to the condensed consolidated financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the first quarter and three months of 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, using the same accounting policies and measurement bases which were applied in preparing the consolidated financial statements for the year ending of 2009, except for recognition of jointly controlled entities.

Change in accounting policies for recognising jointly controlled entities.

The Group's management has reviewed the accounting principles for reflecting the joint ventures. Previously, jointly controlled entities were recognised using proportionate consolidation. Starting from January 2010, jointly controlled entities are recognised by equity method. In management's opinion, the equity method reflects the assets, liabilities and equity of the group on a more adequate basis than before.

According to a new principle investments are initially reflected at cost. The group investments include the goodwill determined upon acquisition less impairments caused by the decrease in value of assets. In the financial statements of the group, the proportional share of the group is recognised based on the investment revenue recognised by equity method, cost, and equity capital changes after their adjustment to the Group's accounting policies starting from the date of significant influence until its end. Should the group's portion in loss exceed the book value of the investment, it will be reduced to zero and recognition of further losses will be stopped. In the event that the group has binding obligations with regard to relevant investments, allocations for their correctness will be established

Any comparable information meet the requirements of the new accounting policies; additionally, the source balances for the relevant previous period financial status as at are added.

The statements on financial position of 31.12.2009 and 31.12.2008 (condensed version) before amending the accounting policies:

as at 31 December	EEK		EUR	
	2009	2008	2009	2008
in thousands kroons				
In thousands Cash and cash equivalents	71 392	212 990	4 563	13 613
Receivables	175 268	307 188	11 202	19 633
Inventories	776 601	853 119	49 634	54 524
Investment property	328 988	542 753	21 026	34 688
Financial investments	15 613	255	998	16
Non-current 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
Current liabilities	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
Non-current items	7 379	8 715	472	557
Equity	384 050	711 773	24 545	45 491
TOTAL liabilities and equity	1 379 219	1 970 592	88 148	125 944

The statements on financial position of 31.12.2009 and 31.12.2008 (condensed version) after amending the accounting policies:

as at 31 December	EEK		EUR	
	2009	2008	2009	2008
In thousands				
In thousands Cash and cash equivalents	64 724	196 477	4 137	12 557
Receivables	156 573	283 539	10 007	18 121
Inventories	754 805	830 917	48 241	53 105
Investment property	219 129	157 367	14 005	10 058
Financial investments	17 853	216 025	1 141	13 807
Non-current assets	11 357	54 139	726	3 460
Total assets	1 224 441	1 738 464	78 257	111 108
Current loans and borrowings	371 615	223 598	23 751	14 291
Current liabilities	165 523	188 362	10 579	12 039
Provisions	43 571	37 999	2 785	2 429
Non-current loans and borrowings	186 578	454 048	11 925	29 019
Non-current items	7 378	4 609	472	295
Equity	449 776	829 848	28 746	53 035
TOTAL liabilities and equity	1 224 441	1 738 464	78 258	111 108

Statement of Comprehensive income 2009 and 2008 before changing the accounting policies:

	EEK		EUR	
	2009	2008	2009	2008
In thousands EEK				
Revenue from rendering of services	309 449	487 478	19 777	31 156
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 profit	-92 403	-351 031	-5 906	-22 435
Other income	136 865	30 644	8 747	1 959
Selling and 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 profit	-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
Profit before tax	-325 280	-1 151 330	-20 789	-73 582
Income tax expense	868	-8 811	55	-563
Profit / loss for the period	-324 412	-1 160 141	-20 734	-74 145
Profit distribution for the period:				
Parent company's participation in loss	-324 412	-1 154 959	-20 734	-73 814
Non-controlling interest in loss	0	-5 182	0	-331
Other comprehensive loss:				

Exchange rate differences in converting foreign company	303	-37	19	-2
Comprehensive profit / loss for the period	-324 109	-1 160 178	-20 715	-74 147
<i>Parent company's participation in loss</i>	-324 109	-1 154 996	-20 825	-73 816
<i>Non-controlling interest in loss</i>	0	-5 182	110	-331
	-324 109	-1 160 178	-20 715	-74 147
Earning per share				
- Basic	-3.42	-12.18	-0.22	-0.78
- Diluted	-3.42	-12.18	-0.22	-0.78

Statement of Comprehensive income 2009 and 2008 after changing the accounting policies:

	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Revenue from rendering of services	293 316	461 150	18 746	29 473
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 profit	-28 596	-346 358	-1 828	-22 136
Other income	107 502	35 968	6 871	2 299
Selling and 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 profit	-91 657	-636 603	-5 858	-40 685
Finance income	8 152	116 843	521	7 468
Finance expenses	-280 419	-483 026	-17 922	-30 871
Profit before tax	-363 924	-1 002 786	-23 259	-64 088
Income tax expense	868	-8 524	55	-545
Profit / loss for the period	-363 056	-1 011 310	-23 204	-64 633
Profit distribution for the period:				
<i>Parent company's participation in loss</i>	-363 056	-1 006 128	-23 204	-64 302
<i>Non-controlling interest in loss</i>	0	-5 182	0	-331
Other comprehensive loss:				
Exchange rate differences in converting foreign company	303	-37	19	-2
Comprehensive profit / loss for the period	-362 753	-1 011 347	-23 185	-64 635
<i>Parent company's participation in loss</i>	-362 753	-1 006 165	-23 295	-64 304
<i>Non-controlling interest in loss</i>	0	-5 182	110	-331
	-362 753	-1 011 347	-23 185	-64 635
Earning per share				
- Basic	-2.45	-3.52	-0.16	-0.23
- Diluted	-2.45	-3.52	-0.16	-0.23

The financial statements have been prepared in thousands Estonian kroons (EEK). Based on NASDAQ OMX requirements, the main statements and notes have also prepared in thousands euros, unless another currency is referenced to. As the Estonian kroon is bound to the euro at a rate of 1 euro = 15.6466 Estonian kroons, no currency exchange differences are created, however, arithmetical inaccuracies up to 1 euro may occur due to approximation.

2. Segment reporting by business segments

Segment	Development		Service		Construction		Eliminations		Consolidated	
	Q1 2010	2009 Q1	Q1 2010	2009 Q1	Q1 2010	2009 Q1	Q1 2010	2009 Q1	Q1 2010	2009 Q1
In thousands EEK										
External revenue	37 315	22 458	5 401	8 160	23 453	58 339	0	0	66 169	88 957
Change	66%		-34%		-60%				-26%	
Other external income	1 511	700	64	62	262	509	0	0	1 837	1 271
Inter-segment revenue and other income	24	1 537	1 104	2 529	487	82	-1 615	-4 163	0	-15
Total revenue and other income	38 850	24 695	6 569	10 751	24 202	58 930	-1 615	-4 163	68 006	90 213
Segment result	-2 729	-3 668	-1 360	-5 217	-2 027	-3 351	3 902	17	-2 214	-12 219
Unallocated expenses	0	0	0	0	0	0	0	0	-7 630	-4 930
Operating profit	0	0	0	0	0	0	0	0	-9 844	-17 149
Net write down of inventory	-3 291	0	0	0	0	0	0	0	-3 291	0
Depreciation of fixed assets	-69	-272	-149	-236	-143	-476	0	0	-397	-1 065
Finance income	0	0	0	0	0	0	0	0	4 926	11 766
Finance expenses	0	0	0	0	0	0	0	0	-6 832	-12 204
Income tax expense	0	0	0	0	0	0	0	0	-8	0
Profit for the year	0	0	0	0	0	0	0	0	-11 759	-17 587

Segment	Development		Service		Construction		Eliminations		Consolidated	
	Q1 2010	2009 Q1	Q1 2010	2009 Q1	Q1 2010	2009 Q1	Q1 2010	2009 Q1	Q1 2010	2009 Q1
In thousands EUR										
External revenue	2 385	1 435	345	522	1 499	3 729	0	0	4 229	5 685
Change	66%		-34%		-60%				-26%	
Other external income	97	45	4	4	17	33	0	0	117	81
Inter-segment revenue and other income	2	98	71	162	31	5	-103	-266	0	-1
Total revenue and other income	2 484	1 578	420	688	1 547	3 767	-103	-266	4 346	5 765
Segment result	-174	-234	-87	-333	-130	-214	249	1	-142	-781
Unallocated expenses	0	0	0	0	0	0	0	0	-488	-315
Operating profit	0	0	0	0	0	0	0	0	-629	-1 096
Net write down of inventory	-210	0	0	0	0	0	0	0	-210	0
Depreciation of fixed assets	-4	-17	-10	-15	-9	-30	0	0	-25	-68
Finance income	0	0	0	0	0	0	0	0	315	752
Finance expenses	0	0	0	0	0	0	0	0	-437	-780
Income tax expense	0	0	0	0	0	0	0	0	-1	0
Profit for the year	0	0	0	0	0	0	0	0	-752	-1 124

3. Cost of sales

	EEK		EUR	
	2010 Q1	2009 Q1	2010 Q1	2009 Q1
In thousands				
Cost of properties sold	-28 838	-14 727	-1 844	-940
Cost of construction services purchased	-17 128	-55 964	-1 095	-3 577
Management and administration costs	-2 865	-3 689	-183	-236
Personnel expenses	-4 663	-9 381	-298	-600
Vehicle expenses	-675	-1 107	-43	-71
Depreciation and amortisation (notes 24, 25)	-34	-542	-2	-35
Write down of inventory ¹	-3 291	0	-210	0
Other expenses	-1 103	-584	-70	-37
Total cost of sales	-58 597	-85 994	-3 745	-5 496

¹Value decrease of inventories from realising the group's unrealised construction profit. The group has not additionally discounted inventories in 2010.

4. Other operating items

Other income

	EEK		EUR	
	2010 Q1	2009 Q1	2010 Q1	2009 Q1
In thousands				
Gain or loss from change in fair value of property investment (Note 11)	0	43	0	3
Gain from the sales of property, plant and equipment	0	263	0	17
Miscellaneous income	1 836	965	117	61
Total other income	1 836	1 271	117	81

Other expenses

	EEK		EUR	
	2010 Q1	2009 Q1	2010 Q1	2009 Q1
In thousands				
Gain or loss from change in fair value of property investment (Note 11)	-5	0	-1	0
Eliminations	0	-288	0	-18
Fines and penalties	-1 068	-59	-68	-4
Other expenses	15	-82	1	-5
Total other expenses	-1 058	-429	-68	-27

5. Selling and distribution expenses

	EEK		EUR	
	2010 Q1	2009 Q1	2010 Q1	2009 Q1
In thousands				
Advertising expenses	-455	-547	-29	-35
Brokerage and intermediation fees	-218	-113	-14	-7
Market research expenses	-25	-4	-2	0
Personnel expenses	-256	-69	-16	-4
Other selling and distribution expenses	-29	-143	-2	-10
Total selling and distribution expenses	-983	-876	-63	-56

6. Administrative expenses

	EEK		EEK	
	2010 Q1	2009 Q1	Q2 2010	Q2 2009
In thousands				
Personnel expenses	-7 716	-10 562	-493	-675
Office expenses	-2 647	-4 504	-169	-288
Legal and consulting fees	-4 739	-2 265	-303	-145
Depreciation, amortisation and impairment losses (Notes 11)	-363	-524	-23	-33
Allowance for doubtful receivables	-607	0	-39	0
Vehicle expenses	-842	-1 442	-54	-92
Other expenses	-299	-766	-19	-49
Total administrative expenses	-17 213	-20 063	-1 100	-1 282

7. Financial items

Finance income

	EEK		EUR	
	2010 Q1	2009 Q1	2010 Q1	2009 Q1
In thousands				
Profit from associated company by equity method	1 383	1 448	88	93
Interest income	1 233	3 508	79	224
Foreign exchange gains	2 310	6 810	148	435
Total finance income	4 926	11 766	315	752

Finance expenses

	EEK		EEK	
	2010 Q1	2009 Q1	2010 Q1	2009 Q1
In thousands				
Losses on sale of shares in associates	-3 590	0	-229	0
Loss from associated company by equity method	-127	-6 121	-8	-391
Interest expenses	-3 212	-3 317	-205	-212
Expenses on other non-current financial assets	-48	-21	-4	-2
Foreign exchange losses	145	-2 693	9	-172
Impairment losses on financial assets	0	-52	0	-3
Total finance expenses	-6 832	-12 204	-437	-780

8. Basic and diluted earnings per share

Basic net profit (loss) per share has been calculated by dividing the net profit (loss) of the period with the weighted average of outstanding shares. According to clause 283 of the Commercial Code, own shares do not grant to a public limited company any shareholder's rights, thus, they are not included in calculating the weighted average of ordinary shares.

	EEK		EUR	
	2010 Q1	2009 Q1	2010 Q1	2009 Q1
Weighted average number of ordinary shares outstanding (pc)	4 741 707	4 741 707	4 741 707	4 741 707
Profit attributable to equity holders of the parent (in thousands)	-13 891	-16 714	-889	-1 068
Earnings per share (in kroons)	-2.93	-3.52	-0.19	-0.23

Diluted net profit (loss) is calculated by taking into account potentially issued shares. As of the balance sheet date, the Group had no potentially issued ordinary shares, therefore the diluted net profit (loss) of the quarter was equal to the regular net profit (loss).

On 16 March 2010 the reduction of the share capital came into force in the commercial register. Share capital was reduced from 952,841 thousand kroons (60,898 thousand euros) to 47,417 thousand kroons (3,031 thousand euros). During the share capital reduction 90 542 443 shares were cancelled and 4 741 707 shares remained

9. Receivables

	EEK		EUR	
	31.03.2010	31.12.2009	31.03.2010	31.12.2009
In thousands				
Trade receivables				
Receivables from customers	32 183	55 950	2 057	3 576
Allowance for doubtful receivables	-2 854	-2 972	-182	-190
Total trade receivables	29 329	52 978	1 875	3 386
Other short-term receivables				
Receivables from jointly controlled entities	106	8 384	7	536
Loans granted	62 849	60 553	4 017	3 870
Other short-term receivables	12 427	5 777	794	369
Total other receivables	75 382	74 714	4 818	4 775
Accrued income				
Interest receivable	3 985	3 681	255	235
Due from customers under long-term construction contracts	5 450	293	348	19
VAT prepayments and reclaims	7 785	11 471	498	733
Other accrued income	7 569	7 802	483	499
Total accrued income	24 789	23 247	1 584	1 486
Total current receivables	129 500	150 939	8 277	9 647

10. Inventories

	EEK		EUR	
	31.03.2010	31.12.2009	31.03.2010	31.12.2009
In thousands				
Properties purchased and developed for resale	735 961	739 742	47 036	47 278
Other goods purchased for resale	453	453	29	29
Materials and finished goods	3 238	298	207	19
Prepayments to suppliers	9 503	14 312	608	915
Total inventories	749 155	754 805	47 880	48 241

11. Investment property

In thousands	EEK	EUR
At 31.12.2008	157 367	10 058
Acquisitions	5 100	326
Disposals	-739	-47
At 31.03.2009	161 728	10 337
At 31.12.2009	219 129	14 005
Disposals	-2 073	-133
Gain or loss on change in fair value (Note 4)	-5	0
At 31.03.2010	217 051	13 872

12. Property, plant and equipment

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total
In thousands EEK					
Carrying amount at 31.12.2008	22 115	2 348	6 537	10 664	41 664
Additions	10 190	28	0	3 483	13 701
Disposals	0	-45	-532	0	-577
Depreciation charge (Note 3,6)	-271	-370	-359	0	-1 000
Carrying amount at 31.03.2009	32 034	1 961	5 646	14 147	53 788
<i>incl. cost</i>	<i>44 140</i>	<i>7 569</i>	<i>14 522</i>	<i>14 147</i>	<i>80 378</i>
<i>incl. accumulated amortisation</i>	<i>-12 106</i>	<i>-5 608</i>	<i>-8 876</i>	<i>0</i>	<i>-26 590</i>
Carrying amount at 31.12.2009	8 365	1 058	936	186	10 545
Additions	0	45	31	0	76
Depreciation charge (Note 3,6)	-124	-112	-129	-11	-376
Carrying amount at 31.03.2010	8 241	991	838	175	10 245
<i>incl. cost</i>	<i>14 711</i>	<i>4 709</i>	<i>7 400</i>	<i>175</i>	<i>26 995</i>
<i>incl. accumulated amortisation</i>	<i>-6 470</i>	<i>-3 718</i>	<i>-6 562</i>	<i>0</i>	<i>-16 750</i>
In thousands EUR					
Carrying amount at 31.12.2008	1 413	150	418	682	2 663
Additions	651	2	0	222	875
Disposals	0	-3	-34	0	-37
Depreciation charge (Note 3,6)	-17	-24	-23	0	-64
Carrying amount at 31.03.2009	2 047	125	361	904	3 437
<i>incl. cost</i>	<i>2 821</i>	<i>484</i>	<i>928</i>	<i>904</i>	<i>5 137</i>
<i>incl. accumulated amortisation</i>	<i>-774</i>	<i>-358</i>	<i>-567</i>	<i>0</i>	<i>-1 699</i>
Carrying amount at 31.12.2009	535	68	60	12	675
Additions	0	3	2	0	5
Depreciation charge (Note 3,6)	-8	-7	-8	-1	-24
Carrying amount at 31.03.2010	527	64	54	11	656
<i>incl. cost</i>	<i>941</i>	<i>302</i>	<i>473</i>	<i>11</i>	<i>1 727</i>
<i>incl. accumulated amortisation</i>	<i>-414</i>	<i>-238</i>	<i>-419</i>	<i>0</i>	<i>-1 071</i>

13. Intangible assets

	Goodwill	Software	Total
In thousands EEK			
Carrying amount at 31.12. 2008	11 855	620	12 475
Transfers	-465	465	0
Depreciation charge	0	-94	-94
Carrying amount at 31.03.2009	11 390	991	12 381
<i>incl. cost</i>	<i>11 390</i>	<i>1 203</i>	<i>12 593</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-212</i>	<i>-212</i>
Carrying amount at 31.12.2009	0	812	812
Additions	0	39	39
Depreciation charge	0	-51	-51
Carrying amount at 31.03.2010	0	800	800
<i>incl. cost</i>	<i>0</i>	<i>1 242</i>	<i>1 242</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-442</i>	<i>-442</i>

	Goodwill	Software	Total
In thousands of euros			
Carrying amount at 31.12.2008	758	40	798
Transfers	-30	30	0
Depreciation charge	0	-6	-6
Carrying amount at 31.03.2009	728	63	792
<i>incl. cost</i>	<i>728</i>	<i>76</i>	<i>804</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-14</i>	<i>-14</i>
Carrying amount at 31.12.2009	0	51	51
Additions	0	2	2
Depreciation charge	0	-3	-3
Carrying amount at 31.03.2010	0	51	50
<i>incl. cost</i>	<i>0</i>	<i>79</i>	<i>79</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-28</i>	<i>-28</i>

14. Loans and borrowings

	31.03.2010		31.12.2009	
	Total	Including current portion	Total	Including current portion
In thousands EEK				
Debt securities	18 870	18 870	18 870	18 870
Bank loan	518 331	358 718	523 756	338 378
Finance lease liabilities	893	198	954	247
Other loans	15 355	14 862	14 613	14 120
Total	553 449	392 648	558 193	371 615

	31.03.2010		31.12.2009	
	Total	Including current portion	Total	Including current portion
In thousands EUR				
Debt securities	1 206	1 206	1 206	1 206
Bank loan	33 127	22 926	33 474	21 626
Finance lease liabilities	57	13	61	16
Other loans ¹	982	951	934	902
Total	35 372	25 096	35 675	23 750

15. Payables and other liabilities

	EEK		EUR	
	31.03.2010	31.12.2009	31.03.2010	31.12.2009
In thousands				
Trade payables	17 173	45 532	1 098	2 910
Other payables				
Payables to jointly controlled entities (note)	53	53	3	3
Other payables	19 321	15 798	1 235	1 010
Total other payables	19 374	15 851	1 238	1 013
Taxes payable				
Value added tax	1 180	2 315	75	148
Corporation tax	2 229	2 968	142	190
Personal income tax	957	1 047	61	67
Social tax	1 693	1 881	108	120
Other taxes	327	924	21	59
Total taxes payable	6 386	9 135	407	584
Accrued expenses				
Interest payable	2 653	2 627	170	168
Payables to employees	4 395	5 118	281	327
Dividends payable	0	0	0	0
Other accrued expenses	3 824	5 358	244	342
Total accrued expenses	10 872	13 103	695	837
Total payables	53 805	83 621	3 438	5 344

16. Transactions with related parties

	EEK		EUR	
	For 3 months of 2010 or as at 31.03.10	For 3 months of 2009 or as at 31.03.09	For 3 months of 2010 or as at 31.03.10	For 3 months of 2009 or as at 31.03.09
In thousands				
Transactions with joint ventures				
Short-term loan receivables	13 893	13 893	888	888
Accounts receivable	918	918	59	59
Transactions with companies having joint control over Group companies				
Other short-term receivables	8 728	8 728	558	558
Short-term interests receivables	2 235	2 114		
Short-term loan liabilities	544	0	35	0
Interests payable	259	488	17	31
Long-term loan liabilities	5 063	5 201	324	332
Transaction with key staff of the Group and Group's management				
Short-term loan liabilities	10 491	10 491	670	670
Interests payable	850	748	54	48

17. Contingent liabilities and potential assets

Arco Vara AS and Arco Ehitus OÜ creditors claims towards OÜ Tempera Ehitus.

On 26.02.2009 OÜ Tempera Ehitus OÜ was declared bankrupt by a decision of the Harju County Court.

On 04.03.2009 Arco Vara AS submitted its statement of claim. The amount of Arco Vara AS claim is 2,343 thousand kroons (150 thousand euros), based on the credit agreement of 07.08.2008.

On 09.03.2009 Arco Ehitus OÜ submitted its statement of claim. The total amount of Arco Ehituse OÜ claim is 2,371 thousand kroons (152 thousand euros), based on the loan agreement and the site management and construction service agreement.

On 25.03.2009 the first creditors meeting was held. The general meeting decided to not appoint Maire Arm as official liquidator. On 03.04.2009 the creditors submitted a joint list of preferred liquidators. On 09.04.2009 the court appointed Katrin Prükk as new official liquidator.

On 05.11.2009, Katrin Prükk, the liquidator, submitted a precept for removing the deficiencies. Arco Ehitus OÜ and Arco Vara AS removed the deficiencies described in the precept on 13.12.2009.

On 19.11.2009, Arco Vara partly assigned the claim in the amount of 500 thousand kroons (32 thousand euros) to Leising Grupp OÜ).

On 20.11.2009 a meeting for securing claims of OÜ Tempera Ehitus (bankrupted) was held and the claim of Arco Ehitus was secured in the whole amount presented in the proof of claim. With regard to the claim by Arco Vara AS, the liquidator objected the interest rates for 2009 in the amount of 42 thousand kroons (3 thousand euros); therefore the defended was the claim in the amount of 2,301 thousand kroons (147 thousand euros).

Based on the liquidator's report, the total liabilities of the debtor amount to 13,588 thousand kroons (868 thousand euros), but there is no tangibles. Therefore, the management board considers it unlikely that Arco Vara AS and Arco Ehitus OÜ are paid the debts of OÜ Tempera Ehitus (bankrupt).

During the 1st quarter 2010 there have been no changes within proceedings

At present, the bankruptcy proceedings are going on.

Arco Investeeringute AS bankruptcy petition against Celia Crowd AS (formerly named as Ühendatud Kapital AS)

On 11.12.2009 Arco Investeeringute AS filed bankruptcy petition against Ühendatud Kapital AS. Petition was forwarded to the Pärnu Country Court Haapsalu Courthouse located in Kärkla, as Ühendatud Kapital AS moved its legal place of domicile to Kärkla, just after receiving bankruptcy caution from Arco Investeeringute AS, and changed its business name to Celia Crowd AS. Arco Investeeringute AS has requested Celia Crowd AS to pay approx 128.710 thousand kroons (approx. 8.226 thousand euros) based on the court judgment form 21.12.2009 of The Arbitration Court of the Estonian Chamber of Commerce.

On 18.01.2010 Arco Investeeringute AS filed an application, based on the recent changes within the Bankruptcy Act, to Pärnu Country Court for changing court jurisdiction, which was satisfied by the court on 19.01.2010. Celia Crowd AS appealed the court ruling about the change of jurisdiction, on 25.02.2010 with its ruling Pärnu Country Court considered appeal against court ruling to be without basis and forwarded it for adjudication to Tallinn District Court. District court with its ruling from 24.03.2010 vitiated Pärnu Country Court ruling about changing the jurisdiction and forwarded Arco Investeeringute AS bankruptcy petition against Celia Crowd AS back to Pärnu Country Court Haapsalu Courthouse located in Kärkla.

On 29.03.2010 Arco Investeeringute AS filed an application to Pärnu Country Court Haapsalu Courthouse located in Kärkla to abolish consideration of bankruptcy petition, which was satisfied with court ruling from 08.04.2010. On the same date 08.04.2010 Arco Investeeringute AS filed bankruptcy petition against Celia Crowd AS to Harju Country Court. Changes within the Bankruptcy Act coming into force from the beginning of current year allow to held bankruptcy proceedings in the previous place of domicile on debtor. Celia Crowd AS has disputed the on Pärnu Country Court 08.04.2010 ruling.

Currently judicial proceedings are pending.

18. Events after the reporting period

Prolongation of „Navigator” and „Tivoli” projects loans

Arco Investeeringute AS prolonged under the same conditions SEB Bank's loans for „Navigator” (Laeva 2) and „Tivoli” (Narva road 67) projects in Tallinn till 30th of June 2010. Remained loan for “Navigator” project is 200.000 thousand kroons (1.300 thousand euros) and for “Tivoli” project 82.500 thousand kroons (5.300 thousand euros). Interest rate is 6-month Euribor plus margin 2.75%.

Early redemption of commercial papers

Arco Vara AS redeemed commercial papers in the amount of 18.900 thousand kroons (approx. 1.700 thousand euros) prior to initial term. As a result Arco Vara AS commercial paper program launched in July 2008 in the amount of 66.500 thousand kroons (approx. 4.300 thousand euros) is fully redeemed.

Indrek Porila's action against Arco Vara AS

Arco Vara AS former employee Indrek Porila filed an action to the Harju County Court against Arco Vara AS (Arco Vara). In his application Indrek Porila demands Arco Vara to pay principal claim in amount of 21.000 thousand kroons (1.342 thousand euros) and compensatory interest in amount of 6.287 thousand kroons (401 thousand euros), all in total in amount of 27.287 thousand kroons (1.745 thousand euros). Additional on that Indrek Porila demands to transfer into his possession 12.5% of the shares of Floriston Grupp OÜ belonging to Arco Vara.

Indrek Porila filed earlier this year a bankruptcy petition against Arco Vara and demanded to pay 37.943 thousand kroons (2.425 thousand euros). Court dismissed Indrek Porila's bankruptcy petition, finding the petition to be entirely unfounded.

The Management Board of Arco Vara AS stipulated on year 2007 in Initial Public Offering prospectus (IPO prospectus) that Indrek Porila has right for the bonus in amount of 12.5% from the equity capital of the Floriston Group, which is subject of payment after realization of Floriston Group's real estate projects. In IPO prospectus at 2007 the partial equity capital value at that time, calculated from the company's goodwill was 37.943 thousand kroons (2.425 thousand euros). Since last autumn Indrek Porila didn't wanted to obtain 12.5% equity of the Floriston Grupp OÜ which was agreed by oral agreement in year 2001, instead demanded Arco Vara to pay a sum mentioned in prior.

On his current actions Indrek Porila has come up with entirely new position and contrary to his previous demands, started to demand both: money and transfer of the 12.5% of the shares of Floriston Grupp OÜ. Arco Vara does not acknowledged Indrek Porila's such kind of claim contrary with the agreement, because none of the real estate projects on the basis of which the equity considered to be divided, has been unrealized.

Since Arco Vara has filed on April 30th, 2010 an action against Indrek Porila to claim the damage, which Indrek Porila has caused to the company with his malicious bankruptcy petition. The Arco Vara believes that Indrek Porila's current action is counterattack to pressurize Arco Vara to withdraw its action and other legal remedies.

As at 31.03.2010.



Statement by the management board

The management board of Arco Vara AS has prepared the condensed consolidated interim financial statements for the first quarter of 2010 presented on pages 2-39.

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and they give a true and fair view of the financial position, financial performance and cash flows of Arco Vara AS. Arco Vara AS is a going concern.



Lembit Tarpere
Manager

21.08.2010