



Arco Vara AS

Interim report 2 quarter and 6 months 2010

INTERIM REPORT
SECOND QUARTER AND SIX MONTHS
ENDED 30 JUNE 2010
(UNAUDITED)

Company name: Arco Vara AS

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

Core activities: Construction of buildings (EMTAK 41000)
Civil engineering (EMTAK 42000)
Specialised construction activities (EMTAK 43000)
Real estate activities (EMTAK 6800)

Financial year: 1 January 2010 – 31 December 2010

Reporting period: 1 January 2010 – 30 June 2010

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

Management board: Lembit Tampere

Auditor: KPMG Baltics AS

CONTENTS

DIRECTORS' REPORT	4
GROUP CHIEF EXECUTIVE'S REVIEW	8
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	20
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	20
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	22
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	24
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	25
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	26
1. SIGNIFICANT ACCOUNTING POLICIES	26
2. SEGMENT REPORTING BY BUSINESS SEGMENTS	29
3. COST OF SALES.....	31
4. OTHER INCOME AND OTHER EXPENSES	31
5. DISTRIBUTION EXPENSES	32
6. ADMINISTRATIVE EXPENSES	33
7. FINANCE INCOME AND FINANCE EXPENSES	33
8. BASIC AND DILUTED EARNINGS PER SHARE	34
9. RECEIVABLES.....	35
10. INVENTORIES	35
11. INVESTMENT PROPERTY.....	36
12. PROPERTY, PLANT AND EQUIPMENT.....	36
13. INTANGIBLE ASSETS.....	37
14. LOANS AND BORROWINGS.....	38
15. PAYABLES AND OTHER LIABILITIES	39
16. TRANSACTIONS WITH RELATED PARTIES	39
17. CONTINGENT LIABILITIES AND CONTINGENT ASSETS.....	40
18. SUBSEQUENT EVENTS	42
19. GROUP STRUCTURE	42
STATEMENT BY THE MANAGEMENT BOARD	43

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 comprehensive range of real estate services.

At the end of the second quarter of 2010, the Group comprised 28 subsidiaries (2009 Q2: 29), 6 jointly controlled entities (2009 Q2: 13) and no associates (2009 Q2: 1).

The performance of all divisions is subject to seasonal fluctuations. The transaction volumes of the Service division usually expand in autumn and spring whereas 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 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 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

GROUP STRUCTURE

Company	Domicile	Group's ownership interest	
		30 June 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
Group's ownership interest			
%			
Development segment			
Subsidiaries			
Arco Invest EOOD ¹	Bulgaria	100	100
Arco Facility Management EOOD ¹	Bulgaria	80	-
Arco Project EOOD ¹	Bulgaria	100	100
Alasniidu LA OÜ ¹	Estonia	100	-
Arco Bulgaaria OÜ ¹	Estonia	100	100
Arco Investeeringute AS	Estonia	100	100
Arco Vara Riia Valdused 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	Estonia	100	-
Waldrop Investments OÜ ¹	Estonia	100	100
Wilson Kinnisvara OÜ ¹	Estonia	100	100
Arco Development SIA ¹	Latvia	99.9	80
Ulmana Gatves Nami SIA ¹	Latvia	99.9	80
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 controlled entities			
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
Pärnu Elumaja OÜ	Estonia	50	50
Varamaad Kinnisvara OÜ ¹	Estonia	sold	33.4
AD Saulkrasti SIA ¹	Latvia	50	50.4
Bišumuižas Nami SIA ¹	Latvia	49.38	40
Sporting Riga SIA ¹	Latvia	49.38	40
Construction segment			
Subsidiaries			
Arco Ehitus OÜ	Estonia	100	100
AE Ehitusjuhtimine OÜ ¹	Estonia	100	100
Tempera Ehitus OÜ	Estonia	bankrupt	bankrupt

¹Interest through a subsidiary

CHANGES IN GROUP STRUCTURE

In the reporting period Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, divested its interest in Arco Vara Saare Kinnistute OÜ (a 50% associate of Arco Investeeringute AS with a share capital of 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 3.6 million kroons (0.2 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 Arenduse OÜ - a wholly-owned subsidiary with a share capital of 0.04 million kroons (0.003 million euros).

On 19 April 2010 Arco Ehituse 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% associate 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).

Changes in Group structure after the reporting date:

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 (0.2 million euros).

KEY PERFORMANCE INDICATORS

- In the first half-year, the Group generated revenue and other income of 139.1 million kroons (8.9 million euros), a 47% decrease year-over-year
- Operating loss amounted to 16.0 million kroons (1.0 million euros), a 74% improvement year-over-year
- Net loss was 17.8 million kroons (1.1 million euros), an 82% improvement year-over-year
- Equity to assets ratio was 37.1% (HY1 2009: 45.7%). Return on equity was negative (HY1 2009: negative). Return on invested capital was negative (HY1 2009: negative)
- At the end of the first half-year, our order backlog (in the construction business) stood at 94.0 million kroons (6.0 million euros) compared with 142.6 million kroons (9.1 million euros) at the end of the first half of 2009
- In the first half of 2010 we sold a total of 53 apartments and plots (HY1 2009: 25).

	EEK				EUR			
	HY1 2010	HY1 2009	Q2 2010	Q2 2009	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In millions								
Revenue and other income	139.1	263.5	71.1	173.3	8.9	16.8	4.5	11.1
Operating loss	-16.0	-62.6	-6.1	-45.4	-1.0	-4.0	-0.4	-2.9
<i>Incl. net loss from the revaluation of investment properties and inventories</i>	-5.6	-36.9	-2.3	-36.9	-0.4	-2.4	-0.1	-2.4
Loss before tax	-17.3	-96.3	-5.6	-78.7	-1.1	-6.2	-0.4	-5.0
<i>Incl. net gain/loss from the disposal of financial assets</i>	-2.4	0.0	1.3	0.0	-0.2	0.0	0.1	0.0
Net loss	-17.8	-97.1	-6.0	-79.5	-1.1	-6.2	-0.4	-5.1
EPS 1 (in kroons and euros)	-3.74	-20.34	-1.26	-16.65	-0.24	-1.30	-0.08	-1.06
Total assets at period end	1,166.1	1,600.7			74.5	102.3		
Invested capital at period end	974.2	1,363.9			62.3	87.2		
Net loans at period end	506.0	535.9			32.3	34.3		
Equity at period end	432.2	732.1			27.6	46.8		
Average loan term (in years)	1.5	1.5			1.5	1.5		
Average interest rate of loans (per year)	6.1%	6.6%			6.1%	6.6%		
ROIC (rolling, 4 quarters)	neg	neg			neg	neg		
ROE (rolling, 4 quarters)	neg	neg			neg	neg		
Number of staff at period end	153	244			153	244		

Group Chief Executive's review

In the first half of 2010, a total of 53 apartments and plots were sold in the projects of Arco Vara - 43 in Estonia and 10 in Latvia. Our largest ever completely self-developed project Boulevard Residence Madrid in Sofia was granted a use permit at the end of June. We can now start signing real right contracts and transferring rental premises to clients. Our Development division continues completing apartments in the Bishumuiza-1 project in Riga and the Manastirski project in Sofia.

Improving sales of the past quarters have reduced the inventory balance significantly and construction prices continue to be favourable. Therefore, we have launched new developments in order to be ready for meeting the emerging market demand. The Group's subsidiary AS Kolde and AS Merko Ehitus signed a contract for the construction and financing of the next phase of the Kodukolde development project. The new housing complex consists of four apartment buildings with 100 apartment units and 40 underground garage spaces with a gross enclosed area of 8,760 square metres. The first two buildings will be completed in spring 2011. We are pleased to report that construction has commenced and the number of pre-completion sales is exceeding all expectations

A detailed plan for the Paldiski mnt 80 property and its surrounding area was adopted in January. The plan foresees construction of a commercial building with a maximum gross enclosed area of 30,300 square metres.

The Service division has been able to cut its administrative expenses through carefully planned restructuring (47% down compared with the same period in 2009). Sales have also decreased but to a lesser extent (a 33% decline year-over-year). Six-month operating loss from current operations was 2.5 million kroons (0.2 million euros), a 68% improvement on the loss incurred in the same period last year. On the other hand, the number of staff has grown by 2% year-over-year, reflecting a slight recovery in the real estate market. We have reorganized work at some of the division's smaller offices outside the capital by replacing the classical corporate office system with a home office one while keeping the full service offering. At other offices, we have adopted more cost efficient work procedures. The Service division intends to apply the measures that have yielded positive results in Estonia also in its other markets. This should allow increasing the service offering in the face of limited resources. The main focus of the division will be on Estonia, Latvia and Bulgaria.

Within the six-month period, the Construction division secured new contracts of 95.5 million kroons (6.1 million euros). The order backlog as at the reporting date amounted to 94.0 million kroons (8.0 million euros). The main customers continue to be the public sector and local governments. In addition to environmental and infrastructure projects, funds are being allocated to the education sector. It is worth mentioning that in the first half-year most of the construction revenue was external – the proportion of internally generated sales was minimal.

The Group's gross profit for the first half-year, excluding inventory revaluations, amounted to 22.3 million kroons (1.4 million euros). Net loss excluding inventory revaluations and losses on the disposal of investments and other assets was 10.8 million kroons (0.7 million euros). The reduction of fixed costs in 2009 has had a positive effect on the Group's performance in 2010 – compared with the same period last year administrative expenses have decreased by 17%.

We will continue monitoring our fixed costs. In addition to cost-cutting, it is important to optimise the costs in a manner that would support sales growth in the present market situation. One example of this is increasing the number of staff at the Service division while sustaining cost-cutting. To cover future fixed costs, we have started building and selling new real estate projects. In addition to developing the last phase of the Kodukolde project, we have entered into negotiations with the banks and potential business partners with a view to launching phase I of the Tivoli project (approximately 150 apartments) and securing a favourable financing scheme for it.

In the first half-year we adopted various measures for improving liquidity. We disposed of a number of smaller investment properties that were not under our complete control or otherwise did not fit our corporate strategy.

In addition, we extended the loans taken from Piraeus Bank Bulgaria for the development of the Madrid project in Sofia and SEB Pank for the Navigator and Tivoli projects in Tallinn of 360.7 million kroons (23.1 million euros) in aggregate. As

a result, the maturity date of the loan taken for the Madrid project was deferred by three years from 2012 to 2015 and the one of the Navigator and Tivoli projects was changed for 15 October 2010.

In December 2009 the shareholders of Arco Vara AS decided to reduce the company's share capital. A corresponding Commercial Registry entry took effect on 16 March 2010. The reduction of share capital has curbed the volatility of the share price, has allowed more effective pricing of the share on the stock exchange (through a decrease in the difference between the bid and ask prices) and has created new opportunities for further strengthening the capital structure.

Change in accounting for jointly controlled entities

The Group's management has revised the policy for accounting for interests in jointly controlled entities. Previously, interests in jointly controlled entities were accounted for using proportionate consolidation. As from 1 January 2010, interests in jointly controlled entities are 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.

REVENUE AND PROFIT

	EEK				EUR			
	HY1 2010	HY1 2009	Q2 2010	Q2 2009	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In millions								
Revenue and other income								
Service	13.7	20.2	7.2	9.5	0.9	1.3	0.5	0.6
Development	75.4	137.5	36.5	112.8	4.8	8.8	2.3	7.2
Construction	52.8	129.9	28.6	71.0	3.4	8.3	1.8	4.5
Eliminations	-2.8	-24.1	-1.2	-19.9	-0.2	-1.5	-0.1	-1.3
Total revenue and other income	139.1	263.5	71.1	173.4	8.9	16.8	4.5	11.1
Operating profit/loss								
Service	-2.5	-7.8	-1.1	-2.6	-0.2	-0.5	-0.1	-0.2
Development	-3.4	-31.7	-0.7	-28.0	-0.2	-2.0	0.0	-1.8
Construction	0.3	-5.8	2.3	-2.4	0.0	-0.4	0.1	-0.2
Eliminations	-0.1	-1.6	-4.0	-1.6	0.0	-0.1	-0.3	-0.1
Unallocated expenses	-10.3	-15.7	-2.6	-10.8	-0.7	-1.0	-0.2	-0.7
Total operating loss	-16.0	-62.6	-6.1	-45.4	-1.1	-4.0	-0.5	-3.0
Interest income and expense	-4.2	-2.1	-2.2	-2.3	-0.3	-0.1	-0.1	-0.1
Other finance income and expense	2.8	-31.6	2.8	-31.0	0.3	-2.0	0.2	-2.0
Income tax expense	-0.4	-0.8	-0.4	-0.8	0.0	-0.1	0.0	-0.1
Net loss	-17.8	-97.1	-6.0	-79.5	-1.1	-6.2	-0.4	-5.2

In the first half of 2010, we did not perform any major asset revaluations. Most cuts have been made and managing and reducing costs has become a daily routine at all business units. For the time being, our main focus is on increasing sales, completing projects in progress and launching new ones, and improving liquidity by selling new projects and inventories. Finance income and expense for the period were strongly influenced by exchange gain of 5.9 million kroons (0.38 million kroons) recognised for a US dollar-based receivable from AS Ühendatud Kapital. Despite a decrease in revenue and other income across all divisions, the Group has succeeded in reducing its operating loss by 74%.

CASH FLOWS

	EEK				EUR			
	HY1 2010	HY1 2009	Q2 2010	Q2 2009	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In millions								
Cash flows from operating activities	1.7	-35.8	2.5	1.9	0.1	-2.3	0.2	0.1
Cash flows from investing activities	13.1	31.4	13.3	-3.3	0.8	2.0	0.8	-0.2
Cash flows from financing activities	-40.7	-54.6	-27.2	33.7	-2.6	-3.5	-1.7	2.2
Net cash flow	-25.9	-59.0	-11.4	32.3	-1.7	-3.8	-0.7	2.1
Cash and cash equivalents at beginning of period	64.7	156.1	50.5	64.7	4.1	10.0	3.2	4.1
Effect of movements in exchange rates	-2.8	-1.2	-3.1	-1.1	-0.1	-0.1	-0.2	-0.1
Cash and cash equivalents at end of period	36.0	95.9	36.0	95.9	2.3	6.1	2.3	6.1

In May 2010 Arco Vara AS redeemed commercial paper of 18.9 million kroons (1.2 million euros) before maturity.

There were no other exceptional loan settlements. Interest payments accounted for 16.7 million kroons (1.1 million euros) of the net outflow from financing activities. Scheduled principal payments and those related to inventory sales totalled 54.3 million kroons (3.5 million euros). The largest proportion of credit limits utilised during the period was related to the completion of the Madrid project which accounted for 37.1 million kroons (2.4 million euros) of the total.

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

- accrued loan principal of 158.7 million kroons (10.1 million euros) to be paid on the sale of reserved premises and in line with the settlement schedule of the Boulevard Residence Madrid project in Sofia;
- loans of 102.5 million kroons (6.6 million euros) related to the Tivoli and Laeva2 projects;
- a loan of 42.0 million kroons (2.7 million euros) related to the Bishumuiza-1 (BM-1) development project in Riga;
- a loan of 23.0 million kroons (1.5 million euros) related to the Kodukolde project;
- the scheduled current portion of a loan related to the Manastirski project of 15.8 million kroons (1.0 million euros).

We have been settling the loans related to the Kodukolde and Merivälja2 projects in Tallinn, the Bishumuiza-1 project in Riga and some cash flow generating projects (such as the entire loan of the Endpoint project) on a current basis. Most of the Group's liabilities are denominated in euros.

SERVICE DIVISION

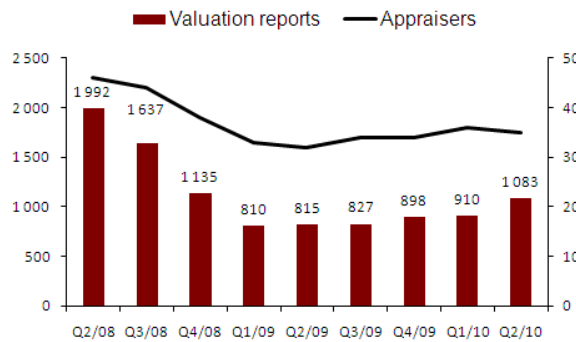
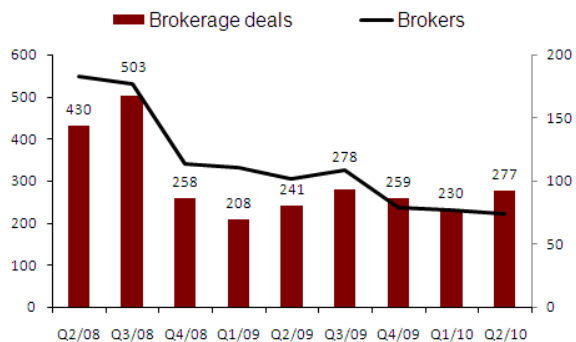
We are constantly monitoring the expenses so as to avoid a situation where expenses are growing faster than revenue. In line with this, we intend to terminate some contracts that are no longer beneficial for the division.

At the same time, we have signed a number of new contracts that have already shown their potential in both the second quarter and long-term perspective. In the first half of the year, one investment was sold and the sale of another was decided.

In connection with the revival of the housing market, we will step up our marketing campaign across Estonia until the end of the year. We will continue negotiations with a view to cooperating with other major housing and real estate developers and will hire new office managers and sales staff who would redouble our brokerage, valuation and marketing activities wherever we operate and would make our services and offices more visible for the customer.

In Estonia, we will put a lot of effort in helping the customers make decisions in the period preceding the adoption of the euro, i.e. in the current market situation, and offering a wide range of services and properties. In the first half-year, the number of properties brokered increased.

The division ended the reporting period with an operating loss of 2.5 million kroons (0.2 million euros). Compared with the first half of 2009, the number of brokerage transactions grew by 13% and the number of valuation reports issued rose by 23%. The number of transactions has increased also compared with the first quarter of 2010.



	HY1 2010	HY1 2009	Change, %
Number of brokerage transactions	507	449	13%
Number of projects on sale	177	60	195%
Number of valuation reports	1,993	1,625	23%
Number of appraisers*	35	32	9%
Number of brokers*	74	102	-27%
Number of staff at end of period	59	58	2%

* Includes people working under service contracts

DEVELOPMENT DIVISION

In the first six months, a total of 53 apartments and plots were sold in Arco Vara projects. In Latvia, 5 apartments were sold in the Bishumuiza project and 5 residential plots in a project near Lake Mazais Baltezers. In Estonia, 25 apartments were sold in the Kodukolde project and 18 residential plots in the Merivälja project.

For building and financing the next phase in the Kodukolde project (100 apartments), we signed a contract with AS Merko Ehitus. Construction works have commenced and are proceeding according to schedule. Two out of the four buildings will be completed in spring 2011.

The Development division has acquired a property for building a nursery school in Harku rural municipality. We have signed a lease agreement with the local government and a construction and financing contract with YIT Ehitus AS.

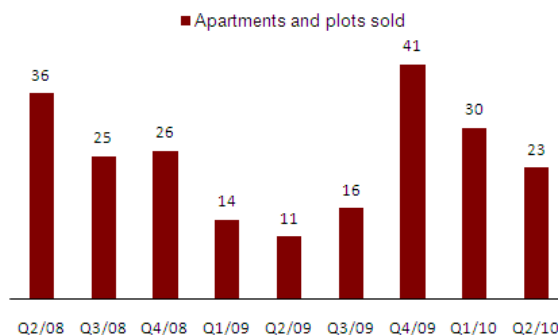
The Boulevard Residence Madrid commercial and residential building in Sofia was granted a use permit in June. The permit allows us to start signing real right contracts and transferring the premises to clients.

We have also started negotiations with potential business partners and banks for starting the construction and financing of the Tivoli project.

The greatest risk for the Development division continues to be refinancing of the loans taken in connection with unimproved plots in Estonia.

Thanks to the stabilisation of the real estate market, the discounts that used to be common for promoting sales have ceased and in the case of some projects prices have also risen. At the end of June 2010, the Development division employed 26 people (30 June 2009: 28).

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



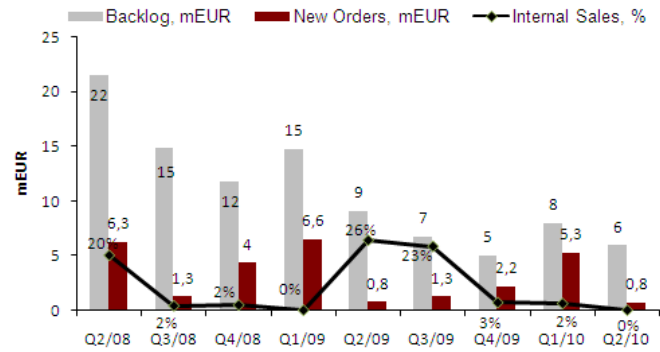
CONSTRUCTION DIVISION

In addition to successful bids for environmental and infrastructure projects, the Construction division has also won some civil engineering contracts (mostly for the construction of educational establishments).

The largest new construction contracts secured by the division in the first half of 2010 comprise the new building of the Estonian Aviation Academy of 43.9 million kroons (2.8 million euros), Block 4 of Tallinn University of Technology, and the Paide academic building of the Järvamaa Education Centre.

Within six months, the division secured new contracts of 95.5 million kroons (6.1 million euros). At the end of the reporting period, the order backlog of the Construction division stood at 94.0 million kroons (6.0 million euros) against 80.0 million kroons (5.1 million euros) at the end of June 2009.

At the reporting date, the division employed 47 people (30 June 2009: 143 people). The headcount has decreased primarily through the sale of the investment in Arco Construction SIA in December 2009.



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%	48,518 m 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 51,100 m ² .	Investment
Commercial	Alasniidu	Estonia, Harku rural municipality	100%	Overall area of the building being designed ca 1,600 – 1,700 m ²	The plan foresees building a nursery school for 144 children. A rental agreement has been signed with the local government. Design work is under way.	Investment property
Commercial	Laeva 2	Estonia, Tallinn	100%	7,776 m ²	A detailed plan has been adopted. A building permit has been obtained. Tenant search is under way.	Investment property
Commercial	Paldiski mnt 80	Estonia, Tallinn	100%	24,000 m ²	A detailed plan has been adopted.	Investment property
Project type	Name	Location	Ownership interest	Leased area	Current status	Classification in the statement of financial position
Cash flow	Kerberon	Estonia, Tallinn	100%	13,236 m ²	Building rights and the right to superficies have been obtained. Generates cash flow.	Investment property
Cash flow	Madrid	Bulgaria, Sofia	100%	7,265 m ²	Use permit was granted at the end of Q2 2010. Is going to start generating cash flow.	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	2,529 m ²	Building rights have been obtained. Generates cash flow.	Investment property
Project type	Name	Location	Ownership interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Apartments	Bishumuiza 1	Latvia, Riga	100%	Unsold/unreserved building rights 17,180 m ²	Building rights have been obtained. Sale of apartments is under way. In 2010 we started completing apartments of phase II.	Inventories
Apartments	Bishumuiza 2	Latvia, Riga	49%	87,737 m ²	Design work has been postponed.	Investment
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m ²	Building rights have been obtained. Sales have commenced.	Inventories
Apartments	Kolde	Estonia, Tallinn	100%	Unsold/unreserved building rights 10,526 m 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%	Unsold/unreserved building rights 3,307 m ² .	Building rights and use permit have been obtained. Sales are in progress.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Unsold/unreserved building rights 23,865 m ²	Building rights have been obtained. Sales are in progress.	Inventories
Apartments	Tehnika 53	Estonia, Tallinn	50%	1,515 m ²	A detailed plan is in the final phase of adoption.	Investment
Apartments	Tivoli	Estonia, Tallinn	100%	58,470 m ²	A detailed plan has been adopted. Preparations for the design of phase I are under way.	Inventories
Plots	Baltezers-3	Latvia, Riga	100%	172,380 m ² , total land of 861,900 m ²	The right to superficies has been obtained. 189 plots. Preparations for the construction of phase I infrastructure are under way (I phase comprises 33 plots).	Investment property
Plots	Baltezers-5	Latvia, Riga	100%	No of unsold plots 39	Building rights have been obtained. Construction has been completed, sales are under way.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold/unreserved 18,428 m ² , 16 plots	Roads, pipelines and networks have been completed. Sale of plots has commenced.	Inventories
Plots	Palusambla 1	Estonia, Nõmme	100%	55,466 m 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 1,500 m ²	No building rights. A detailed plan is being prepared. Is waiting for an improvement in the market situation.	Investment
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1,802 m ²	No building rights. A detailed plan is being prepared. Is waiting for an improvement in the market situation.	Investment
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3,363 m ²	Building rights have been obtained. Design documentation has been prepared. Is waiting for 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 30 June 2010	Carrying amount of projects presented in the above table at 30 June 2010	Balance of line item at 30 June 2010	Carrying amount of projects presented in the above table at 30 June 2010
In millions				
Total assets	1,166.1	925.7	74.5	59.2
Inventories	573.8	562.5	36.7	36.0
Investment property	377.6	363.2	24.1	23.2
Property, plant and equipment	10.0	0.0	0.6	0.0
Investments	17.8	0.0	1.1	0.0

SIGNIFICANT CHANGES IN DETAILED PLANS IN THE FIRST 6 MONTHS OF 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. It was put on public display from 21 October to 4 November 2009. A submission was made by AS Tallinna Sadam. The latter would like to agree a fee for using a parcel of approximately 600 square metres designated as street property in the plan in force. An agreement should be reached in 2010. Until the new detailed plan is adopted and takes effect, the building rights provided in the previous plan will remain in force.

PM80: A detailed plan was approved at a meeting of Tallinn City Government on 13 May 2009. The plan was put on public display from 2 June 2009 to 16 June 2009. No submissions or objections were lodged. The plan was approved by Harju County governor and was adopted by Tallinn City Council on 26 November 2009. The plan took effect on 26 January 2010. The new detailed plan changed the general plan of Tallinn in terms of the permitted number of floors.

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 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, 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 was reduced to 12 (the average size of a plot being approximately 1,700 square metres), a new topo-geodetic base plan was prepared and a dendrological survey conducted. The plan was adjusted to effective legislation. At the moment, the plan has been sent for approval to Tallinn Transport Department, Tallinn Environmental Department and the Administrative Council of Nõmme City District. After the approval of the plan by the above bodies, it will be put on public display.

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. Tallinn City Planning Department is drafting a resolution for the adoption of the detailed plan. When the draft has been approved by a meeting of Tallinn City Government, it will be sent for adoption to Tallinn City Council.

According to the detailed plan, 15% of the property will be 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 4 and the planned number of apartments is 12.

PEOPLE

At the end of the second quarter of 2010, the Group employed 153 people compared with 244 at the end of the second quarter of 2009 (including 70 employees of Arco Construction SIA that was divested at the end of 2009). Employee remuneration expenses for the first six months including associated taxes totalled 25.9 million kroons (1.7 million euros) against 39.9 million kroons (2.6 million euros) for the same period in 2009.

The remuneration of the members of the management board including associated taxes amounted to 0.8 million kroons (0.05 million euros) compared with 1.1 million kroons (0.07 million euros) for the same period in 2009.

From 5 September 2009, the Group's management board has one member - Lembit Tampere.

SHARE AND SHAREHOLDERS

Arco Vara AS has issued a total of 4,741,707 shares. At 30 June 2010, the company had 2,244 shareholders and the share price closed at 53.04 kroons (3.39 euros), a 1% decrease in half a year.

The following graphs reflect movements in the price and trading volume of the Arco Vara share in the first half of 2010:

In Estonian kroons (EEK)



In euros (EUR)



Movements in the share price compared with the benchmark index OMX Tallinn in the first 6 months of 2010



Index/Equity	1 Jan 2010	30 Jun 2010	+/-%
OMX Tallinn	404.58	519.95	28.52
ARC1T	EUR 3.42	EUR 3.39	-0.77

Major shareholders at 30 June 2010	No of shares	Interest %
FREIER PROJEKT OÜ	1,117,930	23.6%
HM INVESTEERINGUD OÜ	1,038,632	21.9%
TOLETUM OÜ	1,037,975	21.9%
GAMMA HOLDING OÜ	306,922	6.5%
Skandinaviska Enskilda Banken Ab Clients	229,753	4.8%
Central Securities Depository of Lithuania	131,342	2.8%
SEB PANK AS KAUPLEMINE	39,450	0.8%
THE ROYAL BANK OF SCOTLAND N.V. LONDON BRANCH	35,780	0.7%
LOKOTAR INVEST OÜ	27,250	0.6%
Other	776,673	16.4%
TOTAL	4,741,707	100.0%

Shares held by members of the management and supervisory boards at 30 June 2010

Members of the management and supervisory boards	Position	Number of shares	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, persons closely related to him)	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%

DESCRIPTION OF PRINCIPAL RISK EXPOSURES

Credit risk

Credit risk exposure is the greatest at our Construction division. Accordingly, counterparties' settlement behaviour is monitored on an ongoing basis.

Liquidity risk

The Group's free funds are placed in overnight or short-term fixed-interest term deposits with the largest banks operating in Estonia. The duration of a term deposit is generally one week. Owing to the high refinancing risk, cash flow management is taxing. The Group's cash and cash equivalents balance is constantly smaller than the balance of loans that require refinancing in the next 12 months. At 30 June 2010, the weighted average duration of interest-bearing liabilities was 1.5 years, which means that on average all loans have to be refinanced every one and a half years. Although at the end of the second quarter of 2010 the Group's cash and cash equivalents totalled 36.0 million kroons (2.3 million euros), 17.5 million kroons (1.1 million euros) of this was under our 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 us.

Interest rate risk

The base currency of most of the Group's loan agreements is the euro and the base interest rate is 3 or 6 month EURIBOR. As a result, the Group is exposed to developments in international capital markets. At the moment, the Group does not use hedging instruments to mitigate its long-term interest rate risk. In the first six months, the Group's interest-bearing liabilities decreased by 23.4 million kroons (1.5 million euros) to 534.8 million kroons (34.2 million euros) at 30 June 2010. Interest payments of the first half-year totalled 16.7 million kroons (1.1 million euros). Compared with the first half of 2009, the weighted average interest expense dropped from 6.6% to 6.1%.

Currency risk

Purchase and sales contracts are mostly made in local currencies: Estonian kroons (EEK), Latvian lats (LVL) and Bulgarian levs (LEV). One receivable of 38.3 million kroons (2.4 million euros; 3.0 million dollars) is denominated in US dollars. The currency risk of the receivable has not been hedged. The Group is not protected against currency devaluations. Most liquid funds are held in short-term deposits denominated in euros and Estonian kroons.

FORMULAS USED

Invested capital = current interest-bearing liabilities + non-current liabilities + equity

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

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

Average equity = past four quarters' closing equity / 4

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

Average invested capital = past four quarters' current interest-bearing liabilities, non-current liabilities and equity / 4

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

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

Lembit Tampere

Member of the Management Board

27 August 2010



Condensed consolidated interim financial statements

Condensed consolidated statement of comprehensive income

For the period ended 30 June 2010

	Note	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In EEK thousands					
Revenue from rendering of services		65,713	138,418	37,006	67,882
Revenue from sale of goods		70,521	33,034	33,058	14,628
Total revenue	2	136,234	171,452	70,064	82,510
Cost of sales	3	-119,497	-272,676	-60,900	-186,682
Gross profit / loss		16,737	-101,224	9,164	-104,172
Other income	4	2,869	92,095	1,033	90,824
Distribution expenses	5	-2,493	-1,852	-1,510	-976
Administrative expenses	6	-30,384	-36,842	-13,171	-16,779
Other expenses	4	-2,687	-14,740	-1,629	-14,311
Operating loss		-15,958	-62,563	-6,113	-45,414
Finance income	7	9,079	28,906	4,153	17,140
Finance expenses	7	-10,445	-62,632	-3,613	-50,428
Loss before tax		-17,324	-96,289	-5,573	-78,702
Income tax expense		-431	-809	-423	-809
Loss for the period		-17,755	-97,098	-5,996	-79,511
<i>Loss attributable to owners of the parent</i>	8	<i>-17,755</i>	<i>-96,448</i>	<i>-5,996</i>	<i>-79,721</i>
<i>Loss attributable to non-controlling interests</i>		<i>0</i>	<i>-650</i>	<i>0</i>	<i>210</i>
Other comprehensive income					
Exchange differences on translating foreign operations		182	762	21	749
Total other comprehensive income		182	762	21	749
Total comprehensive expense for the period		-17,573	-96,336	-5,975	-78,762
Total comprehensive expense attributable to:					
<i>Owners of the parent</i>		<i>-17,573</i>	<i>-95,686</i>	<i>-5,975</i>	<i>-78,972</i>
<i>Non-controlling interests</i>		<i>0</i>	<i>-650</i>	<i>0</i>	<i>210</i>
		-17,573	-96,336	-5,975	-78,762
Earnings per share (in EEK)					
- Basic		-3.74	-20.34	-1.26	-16.65
- Diluted		-3.74	-20.34	-1.26	-16.65

	Note	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In EUR thousands					
Revenue from rendering of services		4,200	8,847	2,365	4,338
Revenue from sale of goods		4,507	2,111	2,113	935
Total revenue	2	8,707	10,958	4,478	5,273
Cost of sales	3	-7,637	-17,427	-3,892	-11,931
Gross profit / loss		1,070	-6,469	586	-6,658
Other income	4	183	5,886	66	5,805
Distribution expenses	5	-159	-118	-97	-62
Administrative expenses	6	-1,942	-2,355	-842	-1,072
Other expenses	4	-172	-942	-104	-915
Operating loss		-1,020	-3,998	-391	-2,902
Finance income	7	580	1,847	265	1,095
Finance expenses	7	-668	-4,003	-231	-3,223
Loss before tax		-1,108	-6,154	-357	-5,030
Income tax expense		-28	-52	-27	-52
Loss for the period		-1,136	-6,206	-384	-5,082
<i>Loss attributable to owners of the parent</i>	8	-1,136	-5,556	-384	-5,292
<i>Loss attributable to non-controlling interests</i>		0	-650	0	210
Other comprehensive income					
Exchange differences on translating foreign operations		12	49	1	48
Total other comprehensive income		12	49	1	48
Total comprehensive expense for the period		-1,124	-6,157	-383	-5,034
Total comprehensive expense attributable to:					
<i>Equity holders of the parent</i>	8	-1,124	-6,115	-383	-5,047
<i>Non-controlling interests</i>		0	-42	0	13
		-1,124	-6,157	-383	-5,034
Earnings per share (in EUR)					
- Basic		-0.24	-1.30	-0.08	-1.06
- Diluted		-0.24	-1.30	-0.08	-1.06

Condensed consolidated statement of financial position

As at 30 June 2010

Note	30 June 2010	31 December 2009	31 December 2008
In EEK thousands			
Cash and cash equivalents	36,021	64,724	156,061
Investments	0	0	40,416
Receivables	9	146,280	150,939
Prepayments	1,284	2,999	6,077
Inventories	10	573,770	754,805
Biological assets	0	0	3,680
Total current assets	757,355	973,467	1,310,012
Investments	17,762	17,853	216,025
Receivables	2,639	2,635	921
Investment property	11	377,559	219,129
Property, plant and equipment	12	10,006	10,545
Intangible assets	13	819	812
Total non-current assets	408,785	250,974	428,452
TOTAL ASSETS	1,166,140	1,224,441	1,738,464
Loans and borrowings	14	367,238	371,615
Trade and other payables	15	60,023	83,621
Deferred income	89,980	81,902	64,172
Provisions	41,963	43,571	37,999
Total current liabilities	559,204	580,709	449,959
Loans and borrowings	14	167,596	186,578
Other liabilities	6,037	6,278	1,418
Provisions	1,100	1,100	3,191
Total non-current liabilities	174,733	193,956	458,657
TOTAL LIABILITIES	733,937	774,665	908,616
Share capital	8	47,417	952,841
Share premium	0	0	712,514
Statutory capital reserve	31,463	31,463	31,463
Retained earnings / accumulated losses	353,323	-530,536	-866,593
Own shares	0	-3,992	-3,992
Total equity attributable to equity holders of the parent	432,203	449,776	826,234
Non-controlling interests	0	0	3,614
Total equity	432,203	449,776	829,848
TOTAL LIABILITIES AND EQUITY	1,166,140	1,224,441	1,738,464

Note	30 June 2010	31 December 2009	31 December 2008
In EUR thousands			
Cash and cash equivalents	2,302	4,137	9,974
Investments	0	0	2,583
Receivables	9	9,647	17,674
Prepayments	82	192	388
Inventories	10	48,241	52,870
Biological assets	0	0	235
Total current assets	48,403	62,217	83,724
Investments	1,135	1,141	13,806
Receivables	169	168	59
Investment property	11	14,005	10,058
Property, plant and equipment	12	674	2,663
Intangible assets	13	52	798
Total non-current assets	26,125	16,040	27,384
TOTAL ASSETS	74,528	78,257	111,108
Loans and borrowings	14	23,471	14,290
Trade and other payables	15	3,836	7,937
Deferred income		5,751	5,234
Provisions		2,682	2,785
Total current liabilities	35,740	37,116	28,757
Loans and borrowings	14	10,711	11,924
Other liabilities	15	386	401
Provisions		70	70
Total non-current liabilities	11,167	12,395	29,314
TOTAL LIABILITIES	46,907	49,511	58,071
Share capital	8	3,030	60,897
Share premium		0	45,538
Statutory capital reserve		2,011	2,011
Retained earnings / accumulated losses		22,580	-33,907
Own shares		0	-255
Total equity attributable to equity holders of the parent	27,621	28,746	52,806
Non-controlling interests		0	231
Total equity	27,621	28,746	53,037
TOTAL LIABILITIES AND EQUITY	74,528	78,257	111,108

Condensed consolidated statement of cash flows

For the period ended 30 June 2010

	Note	EEK		EUR	
		HY1 2010	HY1 2009	HY1 2010	HY1 2009
In thousands					
Loss for the period		-17,755	-97,098	-1,135	-6,206
Interest income and interest expense	7	4,193	2,078	268	133
Gain/loss on sale of subsidiaries and interests in jointly controlled entities		1,377	0	88	0
Impairment losses on financial assets	7	134	2,526	9	161
Share of profits and losses of equity accounted investees		0	35,821	0	2,289
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3, 6	906	2,497	58	160
Gain/loss on the sale of property, plant and equipment and intangible assets		0	-38	0	-2
Gain/loss on the sale of investment property	4	329	0	21	0
Change in the fair value of investment property and biological assets	4	11	-72,800	1	-4,653
Gain/loss on the revaluation of inventories	3	5,559	109,707	355	7,012
Exchange gains and losses	7	-5,783	-4,020	-370	-257
Income tax expense		-15	0	-1	0
Operating cash flow before working capital changes		-11,044	-21,327	-706	-1,363
Change in receivables and prepayments		12,714	-17,177	813	-1,098
Change in inventories		2,831	-56,569	181	-3,615
Change in biological assets		0	24,307	0	1,554
Change in payables and deferred income		-2,785	34,967	-178	2,235
NET CASH FROM / USED IN OPERATING ACTIVITIES		1,716	-35,799	110	-2,287
Acquisition of property, plant and equipment and intangible assets		-346	-1,578	-22	-101
Proceeds from sale of property, plant and equipment and intangible assets		0	2,056	0	131
Acquisition of investment property		-167	-5,678	-11	-363
Proceeds from sale of investment property		23,778	4,981	1,520	318
Acquisition of subsidiaries and interests in jointly controlled entities		0	-251	0	-16
Proceeds from sale of investments in subsidiaries and jointly controlled entities		105	0	7	0
Proceeds from sale of other investments		0	40,416	0	2,583
Loans granted		-10,447	-26,940	-668	-1,722
Repayment of loans granted		0	15,810	0	1,010
Interest received		165	2,587	11	165
NET CASH FROM INVESTING ACTIVITIES		13,088	31,403	837	2,005
Proceeds from loans received		60,618	94,944	3,874	6,068
Settlement of loans and finance lease liabilities		-84,677	-126,514	-5,412	-8,086
Interest paid		-16,684	-23,035	-1,067	-1,471
NET CASH USED IN FINANCING ACTIVITIES		-40,743	-54,605	-2,605	-3,489
NET CASH FLOW		-25,939	-59,001	-1,658	-3,771
Cash and cash equivalents at beginning of period		64,724	156,061	4,137	9,974
Net decrease in cash and cash equivalents		-25,939	-59,001	-1,658	-3,771
Effect of exchange rate fluctuations on cash held		-2,764	-1,178	-177	-75
Cash and cash equivalents at end of period		36,021	95,882	2,303	6,127

Condensed consolidated statement of changes in equity

For the period ended 30 June 2010

	Equity attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Own shares	Retained earnings	Total		
In EEK thousands									
Balance at 31 December 2008	952,842	712,514	31,463	212	-3,992	-866,805	826,234	3,614	829,848
Change in non-controlling interests (through change in interests in subsidiaries)	0	0	0	0	0	0	0	-1,160	-1,160
Total comprehensive income/expense for the period	0	0	0	550	0	-96,448	-95,898	-650	-96,548
Transfer to retained earnings		-712,514	0	0	0	712,514	0	0	0
Balance at 30 June 2009	952,842	0	31,463	762	-3,992	-250,739	730,336	1,804	732,140
Balance at 31 December 2009	952,842	0	31,463	303	-3,992	-530,840	449,776	0	449,776
Reduction of share capital (note 8)	-905,425	0	0	0	3,992	901,433	0	0	0
Total comprehensive expense for the period	0	0	0	-121	0	-17,452	-17,573	0	-17,573
Balance at 30 June 2010	47,417	0	31,463	182	0	353,141	432,203	0	432,203

	Equity attributable to equity holders of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Own shares	Retained earnings	Total		
In EUR thousands									
Balance at 31 December 2008	60,898	45,538	2,011	14	-255	-55,399	52,807	231	53,038
Change in non-controlling interests (through change in interests in subsidiaries)	0	0	0	0	0	0	0	-74	-74
Total comprehensive income/expense for the period	0	0	0	35	0	-6,164	-6,129	-42	-6,171
Transfer to retained earnings	0	-45,538	0	0	0	45,538	0	0	0
Balance at 30 June 2009	60,898	0	2,011	49	-255	-16,025	46,678	115	46,793
Balance at 31 December 2009	60,898	0	2,011	19	-255	-33,927	28,746	0	28,746
Reduction of share capital (note 8)	-57,868	0	0	0	255	57,613	0	0	0
Total comprehensive expense for the period	0	0	0	-8	0	-1,115	-1,123	0	-1,123
Balance at 30 June 2010	3,030	0	2,011	11	0	22,571	27,623	0	27,623

Notes to the condensed consolidated financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the second quarter and six months ended 30 June 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 that were applied in preparing the consolidated financial statements as at and for the year ended 31 December 2009 except that the policy for accounting for interests in jointly controlled entities has been changed.

Change in accounting for interests in jointly controlled entities

The Group's management has revised the policy for accounting for interests in jointly controlled entities. Previously, interests in jointly controlled entities were accounted for using proportionate consolidation. As from 1 January 2010, interests in jointly controlled entities are 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 jointly controlled entity 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 income and expenses 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 for each prior period presented have been restated as if the new policy had always been applied. In addition, the Group has disclosed 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:

As at 31 December	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Cash and cash equivalents	71,392	212,990	4,563	13,613
Receivables and prepayments	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
Investments	15,613	255	998	16
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	557
Equity	384,050	711,773	24,545	45,491
Total liabilities and equity	1,379,219	1,970,592	88,148	125,944

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

As at 31 December	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Cash and cash equivalents	64,724	196,477	4,137	12,557
Receivables and prepayments	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
Investments	17,853	216,025	1,141	13,807
Property, plant and equipment and intangible 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
Payables and deferred income	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
Other liabilities and provisions	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

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 expense	868	-8,811	55	-563
Loss for the period	-324,412	-1,160,141	-20,734	-74,145
Loss for the period attributable to:				
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	-324,109	-1,154,996	-20,825	-73,816
Non-controlling interests	0	-5,182	110	-331
	-324,109	-1,160,178	-20,715	-74,147
Earnings per share (in EEK and EUR)				
- Basic	-3.42	-12.18	-0.22	-0.78
- Diluted	-3.42	-12.18	-0.22	-0.78

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	-280,419	-483,026	-17,922	-30,871
Loss before tax	-363,924	-1,002,786	-23,259	-64,088
Income tax expense	868	-8,524	55	-545
Loss for the period	-363,056	-1,011,310	-23,204	-64,633
Loss for the period attributable to:				
Equity holders of the parent	-363,056	-1,006,128	-23,204	-64,302
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:	-362,753	-1,011,347	-23,185	-64,635
Equity holders of the parent	-362,753	-1,006,165	-23,295	-64,304
Non-controlling interests	0	-5,182	110	-331
	-362,753	-1,011,347	-23,185	-64,635
Earnings per share (in EEK and EUR)				
- Basic	-2.45	-3.52	-0.16	-0.23
- Diluted	-2.45	-3.52	-0.16	-0.23

The financial statements are presented in Estonian kroons (EEK). All financial information has been rounded to the nearest thousand. The figures in the tables are in thousands of currency units. In compliance with the rules of NASDAQ OMX, the information in the primary financial statements and the notes is also presented in euros unless another currency has been indicated. The Estonian kroon is pegged to the euro at a fixed exchange rate of 1 euro = 15.6466 kroons. Therefore, presentation of the financial statements in euros does not give rise to exchange differences but rounding may give rise to arithmetic inaccuracies of up to 1 euro.

2. Segment reporting by business segments

Segment	Development		Service		Construction		Eliminations		Consolidated	
	HY1 2010	HY1 2009	HY1 2010	HY1 2009	HY1 2010	HY1 2009	HY1 2010	HY1 2009	HY1 2010	HY1 2009
In EEK thousands										
External revenue	73,007	44,973	11,148	16,697	52,079	109,782	0	0	136,234	171,452
<i>Change</i>	62%		-33%		-53%				-21%	
Other external income	2,322	91,650	282	157	265	288	0	0	2,869	92,095
Revenue and other income from other segments	53	894	2,302	3,355	489	19,851	-2,844	-24,100	0	0
Total revenue and other income	75,382	137,517	13,732	20,209	52,833	129,921	-2,844	-24,100	139,103	263,547
Segment result	-3,410	-31,719	-2,517	-7,812	298	-5,807	-61	-1,564	-5,690	-46,902
Unallocated expenses	0	0	0	0	0	0	0	0	-10,268	-15,661
Operating loss	0	0	0	0	0	0	0	0	-15,958	-62,563
Inventory write-down	-5,559	-109,707	0	0	0	0	0	0	-5,559	-109,707
Revaluation of investment property	-11	73,118	0	0	0	-318	0	0	-11	72,800
Depreciation, amortisation and impairment losses	-131	-1,479	-294	-602	-303	-899	0	0	-1,327	-3,700
Finance income	0	0	0	0	0	0	0	0	9,079	28,906
Finance expenses	0	0	0	0	0	0	0	0	-10,445	-62,632
Income tax expense	0	0	0	0	0	0	0	0	-431	-809
Net loss	0	0	0	0	0	0	0	0	-17,755	-97,098

Segment	Development		Service		Construction		Eliminations		Consolidated	
	HY1 2010	HY1 2009	HY1 2010	HY1 2009	HY1 2010	HY1 2009	HY1 2010	HY1 2009	HY1 2010	HY1 2009
In EUR thousands										
External revenue	4,666	2,874	712	1,067	3,328	7,016	0	0	8,707	10,958
<i>Change</i>	62%		-33%		-53%				-21%	
Other external income	148	5,858	18	10	17	18	0	0	183	5,886
Revenue and other income from other segments	3	57	147	214	31	1,269	-182	-1,540	0	0
Total revenue and other income	4,817	8,789	877	1,291	3,376	8,303	-182	-1,540	8,890	16,844
Segment result	-218	-2,027	-161	-499	19	-371	-4	-100	-364	-2,998
Unallocated expenses	0	0	0	0	0	0	0	0	-656	-1,001
Operating loss	0	0	0	0	0	0	0	0	-1,020	-3,999
Inventory write-down	-355	-7,012	0	0	0	0	0	0	-355	-7,012
Revaluation of investment property	-1	4,673	0	0	0	-20	0	0	-1	4,653
Depreciation, amortisation and impairment losses	-8	-95	-19	-38	-19	-57	0	0	-85	-236
Finance income	0	0	0	0	0	0	0	0	580	1,847
Finance expenses	0	0	0	0	0	0	0	0	-668	-4,003
Income tax expense	0	0	0	0	0	0	0	0	-28	-52
Net loss	0	0	0	0	0	0	0	0	-1,135	-6,206

Segment	Development		Service		Construction		Eliminations		Consolidated	
	Q2 2010	Q2 2009	Q2 2010	Q2 2009	Q2 2010	Q2 2009	Q2 2010	Q2 2009	Q2 2010	Q2 2009
In EEK thousands										
External revenue	35,691	22,530	5,747	8,537	28,626	51,443	0	0	70,064	82,510
<i>Change</i>	<i>58%</i>		<i>-33%</i>		<i>-44%</i>				<i>-15%</i>	
Other external income	812	90,950	218	95	3	-221	0	0	1,033	90,824
Revenue and other income from other segments	29	-643	1,198	826	2	19,769	-1,229	-19,952	0	0
Total revenue and other income	36,532	112,837	7,163	9,458	28,631	70,991	-1,229	-19,952	71,097	173,334
Segment result	-681	-28,051	-1,157	-2,595	2,325	-2,456	-3,963	-1,581	-3,476	-34,683
Unallocated expenses	0	0	0	0	0	0	0	0	-2,637	-10,731
Operating loss	0	0	0	0	0	0	0	0	-6,113	-45,414
Inventory write-down	-2,268	-109,707	0	0	0	0	0	0	-2,268	-109,707
Revaluation of investment property	-11	73,118	0	0	0	-318	0	0	-11	72,800
Depreciation, amortisation and impairment losses	-62	-1,207	-145	-366	-160	-423	0	0	-367	-1,996
Finance income	0	0	0	0	0	0	0	0	4,153	17,140
Finance expenses	0	0	0	0	0	0	0	0	-3,613	-50,428
Income tax expense	0	0	0	0	0	0	0	0	-423	-809
Net loss	0	0	0	0	0	0	0	0	-5,996	-79,511

Segment	Development		Service		Construction		Eliminations		Consolidated	
	Q2 2010	Q2 2009	Q2 2010	Q2 2009	Q2 2010	Q2 2009	Q2 2010	Q2 2009	Q2 2010	Q2 2009
In EUR thousands										
External revenue	2,281	1,440	367	546	1,830	3,288	0	0	4,478	5,273
<i>Change</i>	<i>58%</i>		<i>-33%</i>		<i>-44%</i>				<i>-15%</i>	
Other external income	52	5,813	14	6	0	-14	0	0	66	5,805
Revenue and other income from other segments	2	-41	77	53	0	1,263	-79	-1,275	0	0
Total revenue and other income	2,335	7,212	458	605	1,830	4,537	-79	-1,275	4,544	11,078
Segment result	-44	-1,793	-74	-166	149	-157	-253	-101	-222	-2,217
Unallocated expenses	0	0	0	0	0	0	0	0	-169	-686
Operating loss	0	0	0	0	0	0	0	0	-391	-2,902
Inventory write-down	-145	-7,012	0	0	0	0	0	0	-145	-7,012
Revaluation of investment property	-1	4,673	0	0	0	-20	0	0	-1	4,653
Depreciation, amortisation and impairment losses	-4	-77	-9	-23	-10	-27	0	0	-23	-128
Finance income	0	0	0	0	0	0	0	0	265	1,095
Finance expenses	0	0	0	0	0	0	0	0	-231	-3,223
Income tax expense	0	0	0	0	0	0	0	0	-27	-52
Net loss	0	0	0	0	0	0	0	0	-383	-5,082

3. Cost of sales

	EEK		EEK	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Cost of properties sold	-53,764	-31,964	-24,926	-17,237
Cost of construction services purchased	-41,617	-101,861	-24,489	-45,897
Management and administration costs	-5,793	-6,403	-2,928	-2,714
Personnel expenses	-10,326	-18,428	-5,663	-9,047
Vehicle expenses	-1,383	-1,405	-708	-298
Depreciation and amortisation (notes 12, 13)	-151	-1,011	-117	-469
Inventory write-down expenses ¹	-5,559	-109,707	-2,268	-109,707
Other costs	-904	-1,897	199	-1,313
Total cost of sales	-119,497	-272,676	-60,900	-186,682

	EUR		EUR	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Cost of properties sold	-3,436	-2,043	-1,593	-1,102
Cost of construction services purchased	-2,660	-6,510	-1,565	-2,933
Management and administration costs	-370	-409	-187	-173
Personnel expenses	-660	-1,178	-362	-578
Vehicle expenses	-88	-90	-45	-19
Depreciation and amortisation (notes 12, 13)	-10	-65	-7	-30
Inventory write-down expenses ¹	-355	-7,012	-145	-7,012
Other costs	-58	-120	13	-84
Total cost of sales	-7,637	-17,427	-3,891	-11,931

¹Write-downs performed on the realisation of the Group's unrealised construction contract profit. In 2010 the Group has not performed any additional inventory write-downs.

4. Other income and other expenses

Other income

	EEK		EEK	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Gains on fair value adjustments to investment property (note 11)	0	84,703	0	84,660
Gains on sale of investment property	761	1,761	761	1,761
Gains on sale of property, plant and equipment	0	247	0	-16
Miscellaneous income	2,108	5,384	272	4,419
Total other income	2,869	92,095	1,033	90,824

	EUR		EUR	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Gains on fair value adjustments to investment property (note 11)	0	5,414	0	5,411
Gains on sale of investment property	48	112	49	113
Gains on sale of property, plant and equipment	0	16	0	-1
Miscellaneous income	135	344	17	282
Total other income	183	5,886	66	5,805

Other expenses

	EEK		EEK	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Losses on fair value adjustments to investment property (note 11)	-11	-11,903	-6	-11,903
Losses on sale of investment property	-1,090	-81	-1,090	-81
Losses on the write-down, liquidation and sale of property, plant and equipment	-10	-1,304	-10	-1,016
Late payment interest and penalty charges	-1,069	-295	-1	-236
Miscellaneous expenses	-507	-1,157	-522	-1,075
Total other expenses	-2,687	-14,740	-1,629	-14,311

	EUR		EUR	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Losses on fair value adjustments to investment property (note 11)	-1	-761	0	-761
Losses on sale of investment property	-70	-5	-70	-5
Losses on the write-down, liquidation and sale of property, plant and equipment	-1	-83	-1	-65
Late payment interest and penalty charges	-68	-19	0	-15
Miscellaneous expenses	-32	-74	-33	-69
Total other expenses	-172	-942	-104	-915

5. Distribution expenses

	EEK		EEK	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Advertising expenses	-1,191	-1,033	-736	-486
Brokerage fees	-541	-513	-323	-400
Market research expenses	-38	-12	-13	-8
Personnel expenses	-628	-219	-372	-150
Other distribution expenses	-95	-75	-66	68
Total distribution expenses	-2,493	-1,852	-1,510	-976

	EUR		EUR	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Advertising expenses	-76	-66	-47	-30
Brokerage fees	-35	-33	-21	-26
Market research expenses	-2	-1	-1	-1
Personnel expenses	-40	-13	-24	-9
Other distribution expenses	-6	-5	-4	4
Total distribution expenses	-159	-118	-97	-62

6. Administrative expenses

	EEK		EEK	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Personnel expenses	-14,985	-21,251	-7,269	-10,689
Office expenses	-4,836	-7,267	-2,189	-2,763
Legal and consulting fees	-6,864	-3,269	-2,125	-1,004
Depreciation, amortisation and impairment losses (notes 12,13)	-705	-1,315	-342	-791
Allowance for doubtful receivables	-489	-3	118	-3
Vehicle expenses	-1,761	-2,746	-919	-1,304
Other expenses	-744	-991	-445	-225
Total administrative expenses	-30,384	-36,842	-13,171	-16,779

	EUR		EUR	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Personnel expenses	-958	-1,358	-465	-683
Office expenses	-309	-464	-140	-177
Legal and consulting fees	-439	-209	-136	-64
Depreciation, amortisation and impairment losses (notes 12,13)	-45	-84	-22	-51
Allowance for doubtful receivables	-31	0	8	0
Vehicle expenses	-113	-176	-59	-83
Other expenses	-47	-64	-28	-14
Total administrative expenses	-1,942	-2,355	-842	-1,072

7. Finance income and finance expenses

Finance income

	EEK		EEK	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Gains on sale of investments in subsidiaries	911	0	911	0
Gains on sale of interests in jointly controlled entities	105	0	105	0
Share of profit of equity-accounted investees (jointly controlled entities)	58	3,196	-1,325	1,748
Interest income	2,145	10,949	912	7,441
Foreign exchange gains	5,860	12,082	3,550	5,281
Income on other long-term investments	0	2,679	0	2,670
Total finance income	9,079	28,906	4,153	17,140

	EUR		EUR	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Gains on sale of shares in subsidiaries	58	0	58	0
Gains on sale of interests in jointly controlled entities	7	0	7	0
Share of profit of equity-accounted investees (jointly controlled entities)	4	204	-85	112
Interest income	137	700	58	476
Foreign exchange gains	374	772	227	338
Income on other long-term investments	0	171	0	169
Total finance income	580	1 847	265	1 095

Finance expenses

	EEK		EEK	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Losses on sale of shares in subsidiaries	-17	0	-17	0
Losses on sale of interests in jointly controlled entities	-2,376	0	1,214	0
Losses on equity-accounted investments (jointly controlled entities)	-1,503	-39,017	-1,376	-32,896
Interest expense	-6,338	-13,027	-3,126	-9,710
Foreign exchange losses	-77	-8,062	-222	-5,369
Impairment losses on financial assets	-134	-2,526	-86	-2,453
Total finance expenses	-10,445	-62,632	-3,613	-50,428

	EUR		EUR	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
In thousands				
Losses on sale of shares in subsidiaries	-1	0	-1	0
Losses on sale of interests in jointly controlled entities	-152	0	78	0
Losses on equity-accounted investments (jointly controlled entities)	-96	-2,494	-88	-2,102
Interest expense	-405	-833	-200	-621
Foreign exchange losses	-5	-515	-14	-343
Impairment losses on financial assets	-9	-161	-6	-157
Total finance expenses	-668	-4,003	-231	-3,223

8. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. 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		EEK	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
Weighted average number of ordinary shares outstanding	4,741,707	4,741,707	4,741,707	4,741,707
Net loss attributable to equity holders of the parent (In thousands)	-17,755	-96,448	-5,975	-78,972
Earnings per share (in kroons)	-3.74	-20.34	-1.26	-16.65

	EUR		EUR	
	HY1 2010	HY1 2009	Q2 2010	Q2 2009
Weighted average number of ordinary shares outstanding	4,741,707	4,741,707	4,741,707	4,741,707
Net loss attributable to equity holders of the parent (In thousands)	-1,135	-6,164	-382	-5,047
Earnings per share (in euros)	-0.24	-1.30	-0.08	-1.06

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 the reporting date the Group did not have any dilutive potential ordinary shares. Therefore, diluted earnings per share equalled basic earnings per share.

During the reporting period, the share capital of Arco Vara AS was reduced from 952,841 thousand kroons (60,898 thousand euros) to 47,417 thousand kroons (3,031 thousand euros) by cancelling 90,542,443 shares. After the reduction, the number of shares outstanding is 4,741,707. The list of shareholders whose shares were cancelled was determined as at 1 March 2010 at 23:59. The Commercial Registry entry concerning the reduction took effect as of 16 March 2010.

9. Receivables

Current receivables

	EEK		EUR	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
In thousands				
Trade receivables				
Trade receivables	44,837	55,950	2,866	3,576
Allowance for doubtful items	-2,854	-2,972	-182	-190
Total trade receivables	41,983	52,978	2,684	3,386
Other receivables				
Receivables from jointly controlled entities	0	8,384	0	536
Loans granted	70,609	60,553	4,513	3,870
Miscellaneous receivables	9,906	5,777	633	369
Total other receivables	80,515	74,714	5,146	4,775
Accrued income				
Interest receivable	4,463	3,681	285	235
Due from customers under long-term construction contracts	3,952	293	253	19
Prepaid and refundable VAT	7,526	11,471	481	733
Other accrued income	7,841	7,802	500	499
Total accrued income	23,782	23,247	1,519	1,486
Total current receivables	146,280	150,939	9,349	9,647

10. Inventories

	EEK		EUR	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
In thousands				
Properties purchased and developed for resale	566,559	739,742	36,209	47,278
Other goods purchased for resale	0	453	0	29
Materials and finished goods	665	298	43	19
Prepayments to suppliers for inventories	6,546	14,312	418	915
Total inventories	573,770	754,805	36,670	48,241

11. Investment property

	EEK	EUR
In thousands		
At 31 December 2008	157,367	10,058
Acquisitions	8,859	566
Transfer to inventories	0	0
Transfer from property, plant and equipment (note 12)	20,029	1,280
Net gain on changes in fair value (note 4)	72,800	4,653
At 30 June 2009	259,055	16,557
At 31 December 2009	219,129	14,005
Acquisitions	0	0
Disposals	-21,527	-1,376
Transfer from inventories	179,968	11,502
Net loss on changes in fair value	-11	-1
At 30 June 2010	377,559	24,130

12. Property, plant and equipment

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction, prepayments	Total
In EEK thousands					
Carrying amount at 31 December 2008	22,115	2,348	6,537	10,664	41,664
Additions	2,893	454	0	9,744	13,091
Capitalised borrowings costs	0	0	0	0	0
Disposals	0	-45	-742	0	-787
Transfer to assets held for sale	-1,701	0	0	0	-1,701
Transfer to investment property	0	0	0	-20,029	-20,029
Depreciation (notes 3, 6)	-542	-740	-1,050	0	-2,332
Carrying amount at 30 June 2009	22,765	2,017	4,745	379	29,906
Cost at 30 June 2009	35,142	7,934	13,854	379	57,309
Accumulated depreciation at 30 June 2009	-12,377	-5,917	-9,109	0	-27,403
Carrying amount at 31 December 2009	8,365	1,058	936	186	10,545
Additions	0	45	220	0	265
Disposals	0	0	0	0	0
Reclassification	0	-162	162	0	0
Depreciation (notes 3, 6)	-248	-224	-308	-24	-804
Carrying amount at 30 June 2010	8,117	717	1,010	162	10,006
Cost at 30 June 2010	14,711	4,547	7,718	186	27,162
Accumulated depreciation at 30 June 2010	-6,594	-3,830	-6,708	-24	-17,156

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction, prepayments	Total
In EUR thousands					
Carrying amount at 31 December 2008	1,413	150	418	682	2,663
Additions	185	29	0	622	836
Capitalised borrowings costs	0	0	0	-1	-1
Disposals	0	-3	-47	0	-50
Transfer to assets held for sale	-109	0	0	0	-109
Transfer to investment property	0	0	0	-1,280	-1,280
Depreciation (notes 3, 6)	-35	-47	-67	0	-149
Carrying amount at 30 June 2009	1,455	129	303	24	1,910
<i>Cost at 30 June 2009</i>	<i>2,246</i>	<i>507</i>	<i>885</i>	<i>24</i>	<i>3,662</i>
<i>Accumulated depreciation at 30 June 2009</i>	<i>-791</i>	<i>-378</i>	<i>-582</i>	<i>0</i>	<i>-1,751</i>
Carrying amount at 31 December 2009	535	68	59	12	674
Additions	0	3	14	0	17
Disposals	0	0	0	0	0
Reclassification	0	-10	10	0	0
Depreciation (notes 3, 6)	-16	-14	-20	-2	-52
Carrying amount at 30 June 2010	519	47	63	10	639
<i>Cost at 30 June 2010</i>	<i>940</i>	<i>292</i>	<i>492</i>	<i>12</i>	<i>1,736</i>
<i>Accumulated depreciation at 30 June 2010</i>	<i>-421</i>	<i>-245</i>	<i>-429</i>	<i>-2</i>	<i>-1,097</i>

13. Intangible assets

	Goodwill	Software	Total
In EEK thousands			
Carrying amount at 31 December 2008	11,855	620	12,475
Additions	0	27	27
Reclassification	-465	465	0
Amortisation	0	-165	-165
Carrying amount at 30 June 2009	11,390	947	12,337
<i>Cost at 30 June 2009</i>	<i>11,390</i>	<i>1,230</i>	<i>12,620</i>
<i>Accumulated amortisation at 30 June 2009</i>	<i>0</i>	<i>-283</i>	<i>-283</i>
Carrying amount at 31 December 2009	0	812	812
Additions	0	109	109
Amortisation	0	-102	-102
Carrying amount at 30 June 2010	0	819	819
<i>Cost at 30 June 2010</i>	<i>0</i>	<i>1,312</i>	<i>1,312</i>
<i>Accumulated amortisation at 30 June 2010</i>	<i>0</i>	<i>-493</i>	<i>-493</i>

	Goodwill	Software	Total
In EUR thousands			
Carrying amount at 31 December 2008	758	40	798
Additions	-30	30	0
Reclassification	0	-11	-11
Amortisation	728	61	789
Carrying amount at 30 June 2009	728	61	1,576
Cost at 30 June 2009	728	78	806
Accumulated amortisation at 30 June 2009	0	-18	-18
Carrying amount at 31 December 2009	0	52	52
Additions	0	7	7
Amortisation	0	-7	-7
Carrying amount at 30 June 2010	0	52	52
Cost at 30 June 2010	0	84	84
Accumulated amortisation at 30 June 2010	0	-32	-32

14. Loans and borrowings

	30 June 2010		31 December 2009	
	Total	Of which current portion	Total	Of which current portion
In EEK thousands				
Debt securities	0	0	18,870	18,870
Bank loans	519,035	352,457	523,756	338,378
Finance lease liabilities	833	307	954	247
Other loans	14,966	14,474	14,613	14,120
Total	534,834	367,238	558,193	371,615

	30 June 2010		31 December 2009	
	Total	Of which current portion	Total	Of which current portion
In EUR thousands				
Debt securities	0	0	1,206	1,206
Bank loans	33,172	22,526	33,474	21,626
Finance lease liabilities	53	20	61	16
Other loans	957	925	934	903
Total	34,182	23,471	35,675	23,751

15. Payables and other liabilities

Payables

	EEK		EUR	
	30 June 2009	31 December 2009	30 June 2009	31 December 2009
In thousands				
Trade payables	28,196	45,532	1,802	2,910
Other payables				
Payables to jointly controlled entities	0	53	0	3
Payables from securities transactions	40	0	3	0
Miscellaneous payables	16,983	15,798	1,085	1,010
Total other payables	17,023	15,851	1,088	1,013
Taxes payable				
Value added tax	1,034	2,315	66	148
Corporate income tax	1,050	2,968	67	190
Personal income tax	1,101	1,047	70	67
Social security tax	1,707	1,881	109	120
Other taxes	1,458	924	93	59
Total taxes payable	6,350	9,135	405	584
Accrued expenses				
Interest payable	742	2,627	47	168
Payables to employees	3,977	5,118	254	327
Other accruals	3,735	5,358	239	342
Total accrued expenses	8,454	13,103	540	837
Total payables	60,023	83,621	3,835	5,344

16. Transactions with related parties

	EEK		EUR	
	HY1 2010 or 30 June 2010	HY1 2009 or 31 Dec 2009	HY1 2010 or 30 June 2010	HY1 2009 or 31 Dec 2009
In thousands				
Transactions with jointly controlled entities				
Revenue	19	1,962	1	125
Cost of services purchased	0	-19	0	-1
Current loan receivables	9,696	0	620	0
Non-current loan receivables	0	5,750	0	367
Trade receivables	25	1,030	2	66
Current interest receivables	249	2,205	16	141
Current loan liabilities	1,300	1,300	83	83
Current interest liabilities	52	0	3	0

Transactions with companies having joint control over the Group or Group entities				
Cost of non-current assets purchased	0	10,190	0	651
Cost of services purchased	0	-334	0	-21
Current loan liabilities	5,879	8,623	376	551
Dividends payable	0	1,232	0	79
Trade payables	0	368	0	24
Transactions with key staff of the Group and the Group's management				
Other receivables	244	313	16	20
Interest payable	34	13	2	1
Transactions with other related parties				
Revenue	4	170	0	11
Cost of services purchased	-713	-2	-46	0
Trade receivables	99	0	6	0
Other receivables	2,849	2,849	182	182
Trade payables	372	0	24	0
Other payables	595	15,465	38	988
Current loan liabilities	10,008	10,008	640	640
Current interest liabilities	652	0	42	0
Long-term liabilities from non-current asset transactions	4,993	5,998	319	383

17. Contingent liabilities and contingent assets

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.

There were no developments in the above bankruptcy proceedings in the second 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 (approx. 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.

Because of 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 entered into force at the beginning of this year permit initiating bankruptcy proceedings in the jurisdiction of the debtor's former location.

On 12 April 2010, Celia Crowd AS challenged the ruling of Pärnu County Court of 8 April 2010 in Pärnu Circuit Court. To date, the circuit court has not ruled on the matter.

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.

The litigation is pending.

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 a preliminary 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.

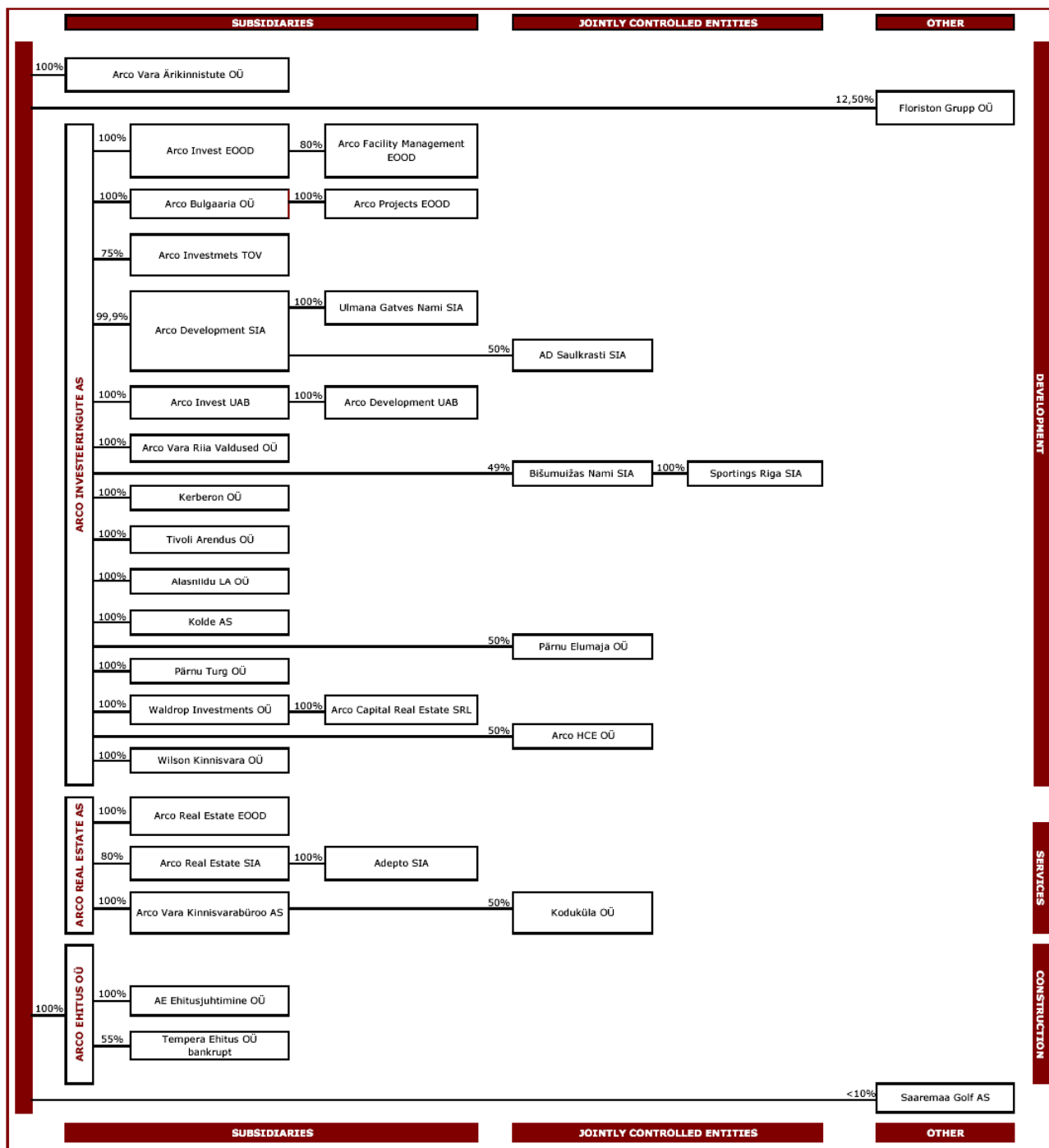
The litigation is pending.

18. Subsequent events

On 5 July 2010, Arco Investeeringute AS (a wholly-owned subsidiary of Arco Vara AS) raised its stake in Pärnu Elumaja OÜ from 50% to 100%. The purchase price of the additional investment was 2,200 thousand kroons (141 thousand euros).

19. Group structure

The Group's structure as at 30 June 2010:



Statement by the management board

The management board of Arco Vara AS has prepared the interim report for the second quarter and six months ended 30 June 2010 as set out on pages 2-43.

The interim report has been prepared in accordance with International Financial Reporting Standards (IFRS) and it gives a true and fair view of the financial position, financial performance and cash flows of Arco Vara AS. Arco Vara AS is a going concern.



Lembit Tampere

Member of the Management Board

27 August
.....2010