



Arco Vara AS

Interim report 3 quarter and 9 months 2010



ARCO REAL ESTATE

INTERIM REPORT
THIRD QUARTER AND NINE MONTHS
ENDED 30 SEPTEMBER 2010
(UNAUDITED)

Company name: Arco Vara AS

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

Financial year: 1 January 2010 – 31 December 2010

Reporting period: 1 January 2010 – 30 September 2010

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

Management board: Lembit Tampere

Auditor: KPMG Baltics AS

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Directors' report

Arco Vara group

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

At the end of the third quarter of 2010, the Group comprised 29 subsidiaries (2009 Q3: 28), 5 jointly controlled entities (2009 Q3: 13) and no associates (2009 Q3: 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 currently holding some income-yielding commercial properties because they have not been developed to their full potential.

The Construction division provides general construction and environmental engineering services, operating as a general contractor 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 September 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			
Company	Domicile	30 September 2010	31 December 2009
%			
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 ¹	Estonia	100	-
T53 Maja OÜ ¹	Estonia	100	50
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
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 ¹	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).

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).

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

KEY PERFORMANCE INDICATORS

- In the first nine months of 2010 the Group generated revenue and other income of 229.2 million kroons (14.6 million euros), a 37% decrease year-over-year
- Operating loss amounted to 10.5 million kroons (0.7 million euros), a 92% improvement year-over-year
- Net loss was 19.8 million kroons (1.3 million euros), a 95% improvement year-over-year
- Equity to assets ratio at period-end was 36.6% (9M 2009: 36.4%). Return on equity was negative (9M 2009: negative). Return on invested capital was negative (9M 2009: negative)
- At the end of the first nine months, our order backlog (in the construction business) stood at 98.8 million kroons (6.3 million euros) compared with 105.8 million kroons (6.8 million euros) at the end of nine months of 2009
- In the first nine months of 2010 we sold a total of 80 apartments and plots (9M 2009: 41)

	EEK				EUR			
	9M 2010	9M 2009	Q3 2010	Q3 2009	9M 2010	9M 2009	Q3 2010	Q3 2009
In millions								
Revenue and other income	229.2	361.4	90.1	97.8	14.7	23.1	5.8	6.3
Operating profit/loss	-10.5	-128.6	5.4	-66.0	-0.7	-8.2	0.3	-4.2
<i>Incl. net loss from the revaluation of investment properties and inventories</i>	-5.5	-95.5	0.1	-95.5	-0.3	-6.1	-0.1	-6.1
Loss before tax	-19.4	-367.4	-2.1	-271.1	-1.2	-23.5	-0.1	-17.3
<i>Incl. net gain/loss from the disposal of financial assets</i>	-2.4	-4.8	0.0	0.0	-0.2	-0.3	0.1	0.0
Net loss	-19.8	-368.6	-2.1	-271.5	-1.3	-23.6	-0.1	-17.4
EPS 1 (in kroons and euros)	-4.18	-77.72	-0.44	-57.38	-0.27	-4.97	-0.03	-3.67
Total assets at period end	1,173.7	1,265.5			75.0	80.9		
Invested capital at period end	959.3	1,078.4			61.3	68.9		
Net loans at period end	490.8	580.2			31.4	37.1		
Equity at period end	430.1	460.1			27.5	29.4		
Average loan term (in years)	2.0	1.5			2.0	1.5		
Average interest rate of loans (per year)	6.1%	6.1%			6.1%	6.1%		
ROIC (rolling, 4 quarters)	neg	neg			neg	neg		
ROE (rolling, 4 quarters)	neg	neg			neg	neg		
Number of staff at period end	142	246			142	246		

Group Chief Executive's review

In the first nine months of 2010, a total of 80 apartments and plots were sold in the projects of Arco Vara - 60 in Estonia and 20 in Latvia. Our largest ever completely self-developed project Boulevard Residence Madrid in Sofia was granted a use permit at the end of June. Most of the commercial rental premises that were covered with preliminary contracts have already been transferred to customers and tenants have moved in. Since the reporting date we have also signed the first real right contracts on the apartments and have transferred the apartments to the customers. Our Development division continues completing apartments in the Bishumuiza-1 project in Riga and developing the Manastirski project in Sofia.

The increasing sales of the past few 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 to satisfy the emerging market demand. The Group's subsidiary Kolde AS joined forces with AS Merko Ehitus for building and financing the next phase of the Kodukolde development project. The new housing complex will consist 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 is on schedule and pre-completion sales exceed all expectations. In addition, we are holding negotiations with potential business partners and banks with a view to starting the construction of the Tivoli project. Preparatory site work is underway and construction should commence in spring 2011.

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 continues to benefit from administrative cost savings yielded by effective restructuring. Although sales have contracted too, this has happened at a slower pace. As a result, the division has been able to post its first post-crisis quarterly operating profit of 1.3 million kroons (0.08 million euros). The number of brokerage transactions has grown by 5% year-over-year and the number of valuation reports issued has increased by 23% although the number of brokers and appraisers has decreased by 18%.

The Service division intends to apply the measures that have yielded positive results and have justified themselves in Estonia also in other markets. This should allow increasing the service offering in the face of limited resources. The division will continue to focus its efforts on Estonia, Latvia and Bulgaria.

Within the nine-month period, the Construction division secured new contracts of 145 million kroons (9.3 million euros). At the reporting date, the order backlog amounted to 98.8 million kroons (6.3 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 most of the construction revenue for the first nine months was external – the proportion of internally generated sales was negligible.

The year has seen significant quarterly improvement in most of the Group's financial performance indicators - both revenue and gross profit have been growing steadily. All the divisions ended the third quarter with an operating profit. The Group's third quarter operating profit was 5.4 million kroons (0.35 million euros). The reduction of fixed costs that began at the beginning of 2009 has had a positive impact also on the Group's results for 2010. Management will continue monitoring fixed costs. Compared with the same period last year administrative expenses have shrunk by 24%. It has again become important to optimise costs in a manner that would support sales growth in the present market situation. For this, we have started building and selling new real estate projects.

In the reporting period 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 the 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 term of the Navigator and Tivoli projects was extended until 31 January 2011.

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.

After the reporting date, Arco Vara AS' wholly-held subsidiary Arco Investeeringute AS transferred its claim against Celia Crowd AS (formerly Ühendatud Kapital AS) to AS EMF Invest for 52 million kroons (3.3 million euros). The transaction will improve the Group's fourth quarter results with exceptional sales gain of 18.9 million kroons (1.2 million euros).

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			
	9M 2010	9M 2009	Q3 2010	Q3 2009	9M 2010	9M 2009	Q3 2010	Q3 2009
In millions								
Revenue and other income								
Service	21.7	28.7	7.9	8.5	1.4	1.8	0.5	0.5
Development	113.9	168.3	38.5	30.7	7.3	10.8	2.5	2.0
Construction	99.9	201.5	47.1	71.5	6.4	12.9	3.0	4.6
Eliminations	-6.2	-37.0	-3.4	-12.8	-0.4	-2.4	-0.2	-0.8
Total revenue and other income	229.3	361.5	90.1	97.9	14.7	23.1	5.8	6.3
Operating profit/loss								
Service	-1.2	-9.1	1.3	-1.3	-0.1	-0.6	0.1	-0.1
Development	5.3	-93.4	8.7	-61.7	0.3	-6.0	0.6	-3.9
Construction	1.1	-2.9	0.8	2.9	0.1	-0.2	0.1	0.2
Eliminations	0.6	0.2	0.7	1.8	0.0	0.0	0.0	0.1
Unallocated expenses	-16.3	-23.4	-6.1	-7.7	-1.0	-1.4	-0.5	-0.5
Total operating profit/loss	-10.5	-128.6	5.4	-66.0	-0.7	-8.2	0.3	-4.2
Interest income and expense	-7.6	-11.9	-3.4	-7.5	-0.5	-0.8	-0.2	-0.5
Other finance income and expense	-1.3	-227.0	-4.1	-197.6	-0.1	-14.5	-0.3	-12.6
Income tax expense	-0.4	-1.2	0.0	-0.4	0.0	-0.1	0.0	0.0
Net loss	-19.8	-368.7	-2.1	-271.6	-1.3	-23.6	-0.2	-17.4

In the first nine months of 2010, we did not perform any major asset revaluations. Most cost cuts have been made and managing and reducing expenses is a daily routine at all 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 influenced the most by an exchange loss of 4.0 million kroons (0.26 million euros) incurred on a US dollar-based receivable from Ühendatud Kapital AS. Despite a decrease in revenue and other income across all divisions, all the divisions ended the third quarter with an operating profit and the Group's nine month operating loss decreased by 92% year-over-year.

CASH FLOWS

	EEK				EUR			
	9M 2010	9M 2009	Q3 2010	Q3 2009	9M 2010	9M 2009	Q3 2010	Q3 2009
In millions								
Cash flows from operating activities	13.9	41.9	12.2	77.7	0.8	2.7	0.8	5.0
Cash flows from investing activities	21.2	-11.8	8.1	-43.3	1.4	-0.8	0.5	-2.7
Cash flows from financing activities	-61.5	-147.7	-20.8	-93.1	-3.9	-9.4	-1.3	-6.1
Net cash flow	-26.4	-117.6	-0.5	-58.7	-1.7	-7.5	0.0	-3.8
Cash and cash equivalents at beginning of period	64.7	156.1	0.0	0.0	4.1	10.0	0.0	0.0
Effect of movements in exchange rates	0.0	-0.4	2.8	0.8	0.1	0.0	0.2	0.0
Cash and cash equivalents at end of period	38.3	38.0	2.3	-57.9	2.5	2.5	0.2	-3.8

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 in the first nine months of 2010. Interest payments accounted for 25.3 million kroons (1.6 million euros) of the net outflow from financing activities. Scheduled principal payments and those related to inventory sales totalled 78.2 million kroons (5.0 million euros). The largest proportion of credit limits utilised during the period was related to the completion of the Madrid project that 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 92.1 million kroons (5.9 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 37.5 million kroons (2.4 million euros) related to the Bishumuiza project;
- the scheduled current portion of a loan related to the Manastirski project of 23.8 million kroons (1.5 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 Enerpoint project) on a current basis. Most of the Group's liabilities are denominated in euros.

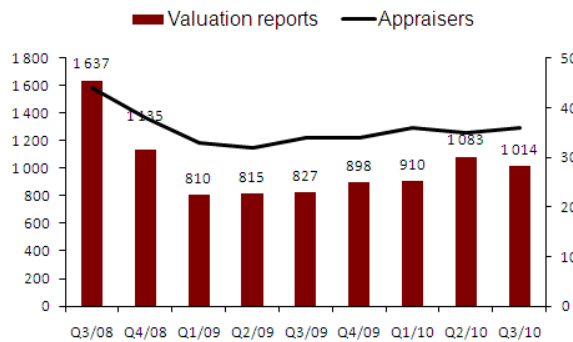
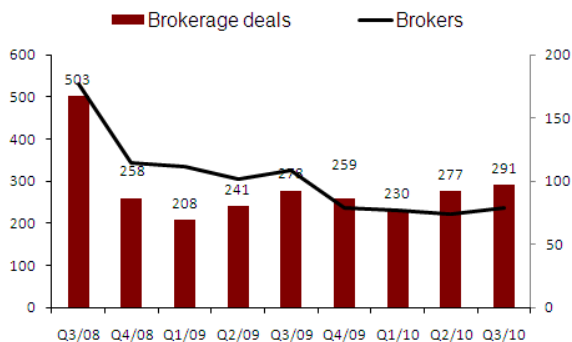
SERVICE DIVISION

We are constantly monitoring expenses so as to avoid a situation where expenses are growing faster than revenue.

In connection with the revival of the housing market, we will sustain an active marketing campaign in Estonia. In addition, we will continue partnering negotiations with other major housing and commercial real estate developers. Through effective cooperation during the first nine months of the year, the number of properties being brokered has increased.

In Estonia, we will focus on 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.

Although the division ended the first nine months with an operating loss of 1.2 million kroons (0.08 million euros), the third quarter ended in an operating profit of 1.3 million kroons (0.08 million euros). The division last earned an operating profit in the third quarter of 2006. Compared with the same period in 2009, the number of brokerage transactions has grown by 5% and the number of valuation reports issued has increased by 23%.

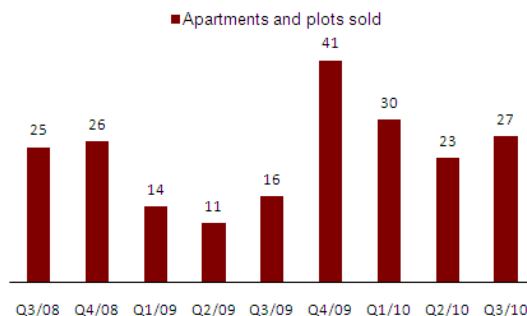


	9M 2010	9M 2009	Change, %
Number of brokerage transactions	798	727	10%
Number of projects on sale	176	186	-5%
Number of valuation reports	3,007	2,452	23%
Number of appraisers*	36	34	6%
Number of brokers*	79	109	-28%
Number of staff at end of period	51	62	-18%

* Includes people working under service contracts

DEVELOPMENT DIVISION

In the first nine months, a total of 80 apartments and plots were sold in Arco Vara projects. In Latvia, 14 apartments were sold in the Bishumuiza project and 6 residential plots in a project near Lake Mazais Baltezers. In Estonia, 35 apartments were sold in the Kodukolde project and 25 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 work has commenced and is on 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. There is 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. Most of the commercial rental premises that were covered with preliminary contracts have already been transferred to customers and tenants have moved in. Since the reporting date we have also signed the first real right contracts on the apartments and have transferred the apartments to the customers. In addition, we are holding negotiations with potential business partners and banks for starting the construction and financing of the Tivoli project. Preparatory site work is underway and construction should commence in spring 2011.

The greatest risk for the Development division continues to be the refinancing of loans related to unimproved plots in Estonia although it seems that the local financing scene is also on its way to recovery.

The real estate market has stabilised, we no longer have to promote sales by lowering prices and in some projects prices have even seen a moderate increase. At the end of September 2010, the Development division employed 26 people (30 September 2009: 24).

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

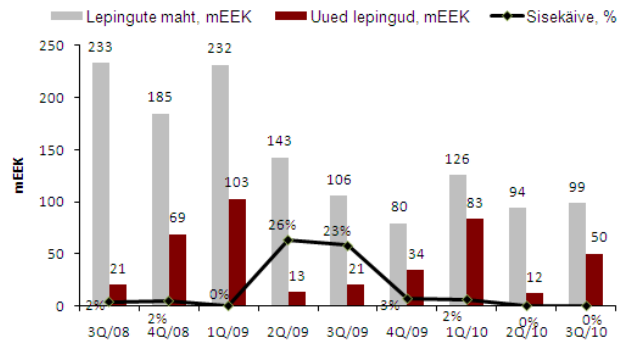
CONSTRUCTION DIVISION

The Construction division is typically actively involved in environmental, infrastructure and civil engineering (mostly educational establishments related) projects.

The largest new construction contracts won by the division in the first nine months 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 nine months, the division secured new contracts of 145 million kroons (9.3 million euros). At the end of the reporting period, the order backlog of the Construction division stood at 98.8 million kroons (6.3 million euros) against 80.0 million kroons (5.1 million euros) at the end of 2009.

At the reporting date, the division employed 44 people (30 September 2009: 145 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%	48,518m ²	The old plan is in force. A new detailed plan for more extensive building rights is in the final stages of adoption. In the new plan, above-ground building rights extend to 51,100 m ² .	Investment
Commercial	Alasniidu	Estonia, Harku rural municipality	100%	Usable floor space of the building 1.612 m ²	The plan foresees building a nursery school for 144 children. A rental agreement has been signed with the local government. Construction began in the third quarter.	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	Building rights have been obtained. Generates cash flow.	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	2,529 m ²	Building rights have been obtained. Generates cash flow.	Investment property
Project type	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 building rights 15,285 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 8,501 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 23,942 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.	Inventories
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 (phase I comprises 33 plots).	Investment property
Plots	Baltezers-5	Latvia, Riga	100%	No of unsold plots 38	Building rights have been obtained. Construction has been completed, sales are under way.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold/unreserved 10,628 m ² , 9 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. The detailed plan process underway. 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. The detailed plan process underway. 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 September 2010	Carrying amount of projects presented in the table of major projects at 30 September 2010	Balance of line item at 30 September 2010	Carrying amount of projects presented in the table of major projects at 30 September 2010
In millions				
Total assets	1,173.7	927.6	75.0	59.3
Inventories	571.3	563.6	36.5	36.0
Investment property	378.4	364.0	24.2	23.3
Property, plant and equipment	9.8	0.0	0.6	0.0
Investments	15.6	0.0	1.0	0.0

SIGNIFICANT CHANGES IN DETAILED PLANS IN THE FIRST NINE 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 lodged by

AS Tallinna Sadam that wanted to agree a fee for using a parcel of approximately 600 square metres designated as street property in the plan in force. An agreement should be reached in 2010. Until the new detailed plan is adopted and takes effect, the building rights of the previous plan will apply.

PM80: A detailed plan was approved at a meeting of the 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 the Harju County Governor and was adopted by the 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 the Tallinn City Government on 9 June 2004 and was put on public display. In connection with the submissions and objections lodged, adoption proceedings halted. On 22 December 2009, the Tallinn City Planning Department decided that after the adjustment of the plan in light of submissions made, adoption proceedings could resume. In response to the submissions, the number of residential plots was reduced to 12 (the average size of a plot is approximately 1,700 square metres), a new topo-geodetic base plan was prepared and a dendrological survey was conducted. The plan was adjusted to effective legislation. To date, the plan has been approved by the Tallinn Transport Department and the Tallinn Environmental Department. The Administrative Council of Nõmme City District has not adopted a decision despite repeated requests. Proceedings will resume in spring 2011.

Tehnika 53: A detailed plan for the property was initiated on 30 January 2002 for determining building rights. On 7 January 2004, Tallinn City Government approved the detailed plan and put it on public display. Owing to an objection lodged during public display, the adoption proceedings halted until 2009. To date, an updated version of the plan has been adjusted to effective legislation and has been approved by all relevant authorities. The detailed plan has also passed a new public hearing during which three submissions/objections were lodged, all of which have been removed. On 10 November 2010 the Tallinn City Government sent the plan for official adoption to the Tallinn City Council. The City Management Commission of the City Government approved a draft resolution for the adoption of the detailed plan on 23 November 2010 and sent it for adoption to the session of the City Council that convenes on 2 December 2012.

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 third quarter of 2010, the Group employed 142 people compared with 246 at the end of the third quarter of 2009 (the latter figure includes the 88 employees of Arco Construction SIA that was divested at the end of 2009). Employee remuneration expenses for the first nine months including associated taxes totalled 39.1 million kroons (2.5 million euros) against 56.6 million kroons (3.6 million euros) for the same period in 2009.

The remuneration of the members of the management board including associated taxes amounted to 1.3 million kroons (0.8 million euros) compared with 2.6 million kroons (0.2 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 September 2010, the company had 2,119 shareholders and the share price closed at 71.35 kroons (4.56 euros), a 33% increase within nine months.

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

In Estonian kroons (EEK)



In euros (EUR)



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



Index/Equity	1 Jan 2010	30 Sep 2010	+/-%
—OMX Tallinn	404.58	603.07	49.06
—ARC1T	EUR 3.42	EUR 4.56	33.48

Major shareholders at 30 September 2010	Number of shares	Interest, %
Baltplast OÜ	1,117,930	23.6%
HM INVESTEERINGUD OÜ	1,038,632	21.9%
TOLETUM OÜ	1,037,975	21.9%
GAMMA HOLDING OÜ	406,401	8.6%
Skandinaviska Enskilda Banken Ab Clients	229,653	4.8%
Central Securities Depository of Lithuania	128,786	2.7%
FIREBIRD REPUBLICS FUND LTD	33,945	0.7%
LOKOTAR INVEST OÜ	25,750	0.6%
Other	722,635	15.2%
TOTAL	4,741,707	100.0%

Shares held by members of the management and supervisory boards	Position	Number of shares	Interest %
Lembit Tampere	Member of Management	0	0%
Richard Tomingas (Toletum OÜ)	Chairman of Supervisory Board	1,037,975	21.9%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, 1 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 RISKS

Credit risk

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

Liquidity risk

The Group's free funds are placed in overnight or short-term fixed-interest term deposits with the largest banks operating in Estonia. The duration of a term deposit is generally one week. Owing to 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 September 2010, the weighted average duration of interest-bearing liabilities was 2.0 years, which means that on average all loans have to be refinanced every two years. Although at the end of the third quarter of 2010 the Group's cash and cash equivalents totalled 38.3 million kroons (2.4 million euros), 16.5 million kroons (1.1 million euros) of this was under the Group's own control but the rest was in accounts with restricted withdrawal opportunities (mostly accounts of designated purpose where withdrawals require the bank's consent). Liquidity and refinancing risks continue to be the most significant risks for the Group.

Interest rate risk

The base currency of most of the Group's loan agreements is the euro and the base interest rate is 3 or 6 month EURIBOR. As a result, the Group is exposed to developments in international capital markets. At the moment, the Group does not use hedging instruments to mitigate its long-term interest rate risk. In the first nine months, the Group's interest-bearing liabilities decreased by 36.2 million kroons (2.3 million euros) to 521.9 million kroons (33.4 million euros) at 30 September 2010. Interest payments of the first nine months totalled 25.3 million kroons (1.6 million euros). Compared with the end of the third quarter of 2009, the weighted average interest rate has remained stable at 6.1%.

Currency risk

Purchase and sales contracts are mostly signed in local currencies: Estonian kroons (EEK), Latvian lats (LVL) and Bulgarian levs (LEV). One receivable with the carrying value of 34.4 million kroons (2.2 million euros, i.e. 3.0 million US 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

Juhatus kinnitab, et tegevusaruanne annab õige ja õiglase ülevaate Arco Vara äritegevuse arengust ja tulemustest ning finantsseisundist ning sisaldab peamiste riskide ja ebakindluste kirjeldust.

Lembit Tampere

Juhataja

26.11.2010



Condensed consolidated interim financial statements

Condensed consolidated statement of comprehensive income

For the period ended 30 September 2010	Note	9M 2010	9M 2009	Q3 2010	Q3 2009
In EEK thousands					
Revenue from rendering of services		133,505	206,502	59,984	68,084
Revenue from sale of goods		90,837	51,366	28,124	18,332
Total revenue	2	224,342	257,868	88,108	86,416
Cost of sales	3	-191,071	-370,544	-71,574	-97,868
Gross profit/loss		33,271	-112,676	16,534	-11,452
Other income	4	4,896	103,511	2,027	11,416
Distribution expenses	5	-3,395	-3,315	-902	-1,463
Administrative expenses	6	-42,422	-55,601	-12,038	-18,759
Other expenses	4	-2,867	-60,472	-180	-45,732
Operating profit/loss		-10,517	-128,553	5,441	-65,990
Finance income	7	9,907	15,751	827	238
Finance expenses	7	-18,765	-254,601	-8,329	-205,362
Loss before tax		-19,375	-367,403	-2,061	-271,114
Income tax expense		-465	-1,235	-34	-426
Loss for the period		-19,840	-368,638	-2,095	-271,540
<i>Loss attributable to owners of the parent</i>	8	<i>-19,840</i>	<i>-368,528</i>	<i>-2,095</i>	<i>-272,080</i>
<i>Loss attributable to non-controlling interests</i>		<i>0</i>	<i>-110</i>	<i>0</i>	<i>540</i>
Other comprehensive income/expense					
Exchange differences on translating foreign operations		178	263	-5	-499
Total other comprehensive income/expense		178	263	-5	-499
Total comprehensive expense for the period		-19,662	-368,375	-2,100	-272,039
Total comprehensive expense attributable to:					
<i>Owners of the parent</i>		<i>-19,662</i>	<i>-368,265</i>	<i>-2,100</i>	<i>-272,579</i>
<i>Non-controlling interests</i>		<i>0</i>	<i>-110</i>	<i>0</i>	<i>540</i>
		-19,662	-368,375	-2,100	-272,039
Earnings per share (in EEK)					
- Basic		-4.18	-77.72	-0.44	-57.38
- Diluted		-4.18	-77.72	-0.44	-57.38

For the period ended 30 September 2010	Note	9M 2010	9M 2009	Q3 2010	Q3 2009
In EUR thousands					
Revenue from rendering of services		8,533	13,198	3,834	4,351
Revenue from sale of goods		5,806	3,283	1,797	1,172
Total revenue	2	14,339	16,481	5,631	5,523
Cost of sales	3	-12,212	-23,682	-4,574	-6,255
Gross profit/loss		2,127	-7,201	1,057	-732
Other income	4	313	6,616	130	730
Distribution expenses	5	-217	-212	-58	-94
Administrative expenses	6	-2,711	-3,554	-769	-1,199
Other expenses	4	-183	-3,865	-12	-2,923
Operating profit/loss		-671	-8,216	348	-4,218
Finance income	7	633	1,007	53	15
Finance expenses	7	-1,199	-16,272	-532	-13,125
Loss before tax		-1,237	-23,481	-131	-17,328
Income tax expense		-30	-79	-2	-27
Loss for the period		-1,267	-23,560	-133	-17,355
<i>Loss attributable to owners of the parent</i>	8	-1,267	-23,553	-133	-17,390
<i>Loss attributable to non-controlling interests</i>		0	-7	0	35
Other comprehensive income/expense					
Exchange differences on translating foreign operations		11	17	0	-32
Total other comprehensive income/expense		11	17	0	-32
Total comprehensive expense for the period		-1,256	-23,543	-133	-17,387
Total comprehensive expense attributable to:					
<i>Equity holders of the parent</i>		-1,258	-23,536	-135	-17,422
<i>Non-controlling interests</i>		0	-7	0	35
		-1,258	-23,543	-135	-17,387
Earnings per share (in EUR)					
- Basic		-0.27	-4.97	-0.03	-3.67
- Diluted		-0.27	-4.97	-0.03	-3.67

Condensed consolidated statement of financial position

As at 30 September 2010	Note	30 September 2010	31 December 2009	31 December 2008
In EEK thousands				
Cash and cash equivalents		38,321	64,724	156,061
Investments		0	0	40,416
Receivables	9	155,440	150,939	276,541
Prepayments		1,370	2,999	6,077
Inventories	10	571,300	754,805	827,237
Biological assets		0	0	3,680
Total current assets		766,431	973,467	1,310,012
Investments		15,612	17,853	216,025
Receivables		2,870	2,635	921
Investment property	11	378,395	219,129	157,367
Property, plant and equipment		9,780	10,545	41,664
Intangible assets		575	812	12,475
Total non-current assets		407,232	250,974	428,452
TOTAL ASSETS		1,173,663	1,224,441	1,738,464
Loans and borrowings	12	299,004	371,615	223,598
Trade and other payables	13	74,370	83,621	124,190
Deferred income		97,077	81,902	64,172
Provisions		42,958	43,571	37,999
Total current liabilities		513,409	580,709	449,959
Loans and borrowings	12	222,970	186,578	454,048
Other liabilities		6,070	6,278	1,418
Provisions		1,100	1,100	3,191
Total non-current liabilities		230,140	193,956	458,657
TOTAL LIABILITIES		743,549	774,665	908,616
Share capital		47,417	952,842	952,842
Share premium		0	0	712,514
Statutory capital reserve		31,463	31,463	31,463
Retained earnings / accumulated losses		351,234	-530,537	-866,593
Own shares		0	-3,992	-3,992
Total equity attributable to equity holders of the parent		430,114	449,776	826,234
Non-controlling interests		0	0	3,614
Total equity		430,114	449,776	829,848
TOTAL LIABILITIES AND EQUITY		1,173,663	1,224,441	1,738,464

As at 30 September 2010	Note	30 September 2010	31 December 2009	31 December 2008
In EUR thousands				
Cash and cash equivalents		2,449	4,137	9,974
Investments		0	0	2,583
Receivables	9	9,934	9,647	17,674
Prepayments		88	192	388
Inventories	10	36,513	48,241	52,870
Biological assets		0	0	235
Total current assets		48,984	62,217	83,724
Investments		998	1,141	13,806
Receivables	9	183	168	59
Investment property	11	24,184	14,005	10,058
Property, plant and equipment		625	674	2,663
Intangible assets		37	52	798
Total non-current assets		26,027	16,040	27,384
TOTAL ASSETS		75,011	78,257	111,108
Loans and borrowings	12	19,110	23,750	14,290
Trade and other payables	13	4,753	5,344	7,937
Deferred income		6,205	5,234	4,101
Provisions		2,746	2,785	2,429
Total current liabilities		32,814	37,116	28,757
Loans and borrowings	12	14,250	11,925	29,019
Other liabilities		388	400	91
Provisions		70	70	204
Total non-current liabilities		14,708	12,395	29,314
TOTAL LIABILITIES		47,522	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 / accumulated losses		22,448	-33,907	-55,385
Own shares		0	-255	-255
Total equity attributable to equity holders of the parent		27,489	28,746	52,806
Non-controlling interests		0	0	231
Total equity		27,489	28,746	53,037
TOTAL LIABILITIES AND EQUITY		75,011	78,257	111,108

Condensed consolidated statement of cash flows

For the period ended 30 September 2010	Note	EEK		EUR	
		9M 2010	9M 2009	9M 2010	9M 2009
In thousands					
Loss for the period		-19,840	-368,638	-1,268	-23,560
Interest income and interest expense	7	7,589	11,851	485	757
Gain/loss on sale of subsidiaries and interests in jointly controlled entities	7	1,377	4,771	88	305
Gain/loss on other long-term investments	7	0	-2,685	0	-172
Impairment losses on financial assets	7	207	135,549	13	8,663
Share of profits and losses of equity accounted investees		1,463	87,424	94	5,587
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3, 4, 6	1,444	3,350	92	214
Gain/loss on the sale of property, plant and equipment and intangible assets	4	0	1,055	0	67
Gain/loss on the sale of investment property	4	332	-1,000	21	-64
Change in the fair value of investment property and biological assets	4, 11	-103	-39,562	-7	-2,528
Gain/loss on the revaluation of inventories	3	5,559	135,067	355	8,632
Exchange gains and losses	7	-1,778	1,940	-114	124
Income tax expense		465	0	30	0
Operating cash flow before working capital changes		-3,285	-30,878	-211	-1,975
Change in receivables and prepayments		-7,141	50,701	-456	3,240
Change in inventories		-2,022	67,724	-129	4,328
Change in biological assets		0	3,680	0	235
Change in payables and deferred income		26,348	-49,323	1,684	-3,152
NET CASH FROM OPERATING ACTIVITIES		13,900	41,904	888	2,676
Acquisition of property, plant and equipment and intangible assets		-493	-1,834	-32	-117
Proceeds from sale of property, plant and equipment and intangible assets		0	2,011	0	129
Acquisition of investment property	11	-3,725	-49,033	-238	-3,134
Proceeds from sale of investment property	11	24,530	2,971	1,568	190
Acquisition of subsidiaries and interests in jointly controlled entities		-500	-502	-32	-32
Proceeds from sale of investments in subsidiaries and jointly controlled entities		105	600	7	38
Proceeds from sale of other investments		0	29,383	0	1,878
Loans granted		-869	-946	-56	-60
Repayment of loans granted		51	4,217	3	271
Interest received		2,055	1,371	131	88
NET CASH FROM/USED IN INVESTING ACTIVITIES		21,154	-11,762	1,351	-749
Proceeds from loans received		60,749	40,390	3,883	2,581
Settlement of loans and finance lease liabilities		-96,968	-162,702	-6,197	-10,399
Interest paid		-25,258	-25,419	-1,614	-1,624
NET CASH USED IN FINANCING ACTIVITIES		-61,477	-147,731	-3,928	-9,442
NET CASH FLOW		-26,423	-117,589	-1,689	-7,515
Cash and cash equivalents at beginning of period		64,724	156,061	4,137	9,974
Net decrease in cash and cash equivalents		-26,423	-117,589	-1,689	-7,515
Effect of exchange rate fluctuations on cash held		20	-435	1	-28
Cash and cash equivalents at end of period		38,321	38,037	2,449	2,431

Condensed consolidated statement of changes in equity

For the period ended 30 September 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	-1,159	-1,159
Total comprehensive income/expense for the period	0	0	0	51	0	-368,528	-368,477	-110	-368,587
Transfer to retained earnings		-712,514	0	0	0	712,514	0		0
Balance at 30 September 2009	952,842	0	31,463	263	-3,992	-522,819	457,757	2,345	460,102
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 income/expense for the period	0	0	0	178	0	-19,840	-19,662	0	-19,662
Balance at 30 September 2010	47,417	0	31,463	481	0	350,753	430,114	0	430,114

	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	3	0	-23,553	-23,550	-7	-23,557
Transfer to retained earnings	0	-45,538	0	0	0	45,538	0	0	0
Balance at 30 September 2009	60,898	0	2,011	17	-255	-33,414	29,257	150	29,407
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 income/expense for the period	0	0	0	11	0	-1,268	-1,257	0	-1,257
Balance at 30 September 2010	3,030	0	2,011	30	0	22,418	27,489	0	27,489

Notes to the condensed consolidated financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the third quarter and nine months ended 30 September 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	
	9M 2010	9M 2009	9M 2010	9M 2009	9M 2010	9M 2009	9M 2010	9M 2009	9M 2010	9M 2009
In EEK thousands										
External revenue	108,369	65,529	17,385	24,067	98,588	168,272	0	0	224,342	257,868
<i>Change</i>	65%		-28%		-41%				-13%	
Other external income	4,420	102,669	106	218	370	624	0	0	4,896	103,511
Revenue and other income from other segments	1,116	56	4,168	4,411	951	32,559	-6,235	-37,026	0	0
Total revenue and other income	113,905	168,254	21,659	28,696	99,909	201,455	-6,235	-37,026	229,238	361,379
Segment result	5,280	-93,377	-1,231	-9,135	1,084	-2,859	636	224	5,769	-105,147
Unallocated expenses									-16,286	-23,406
Operating loss									-10,517	-128,553
Inventory write-down	-5,559	-134,254	0	0	0	0	0	0	-5,559	-134,254
Revaluation of investment property, net	103	39,880	0	0	0	-318	0	0	103	39,562
Depreciation, amortisation and impairment losses	-179	-786	-430	-654	-459	-1,330	0	0	-1,444	-3,350
Finance income									9,907	15,751
Finance expenses									-18,765	-254,601
Income tax expense									-465	-1,235
Net loss									-19,840	-368,638

Segment	Development		Service		Construction		Eliminations		Consolidated	
	9M 2010	9M 2009	9M 2010	9M 2009	9M 2010	9M 2009	9M 2010	9M 2009	9M 2010	9M 2009
In EUR thousands										
External revenue	6,927	4,188	1,111	1,538	6,301	10,755	0	0	14,339	16,481
<i>Change</i>	65%		-28%		-41%				-13%	
Other external income	282	6,562	7	14	24	40	0	0	313	6,616
Revenue and other income from other segments	71	4	266	282	61	2,081	-398	-2,366	0	0
Total revenue and other income	7,280	10,754	1,384	1,834	6,386	12,876	-398	-2,366	14,652	23,097
Segment result	337	-5,968	-79	-584	69	-183	41	14	369	-6,720
Unallocated expenses									-1,041	-1,496
Operating loss									-671	-8,216
Inventory write-down	-355	-8,580	0	0	0	0	0	0	-355	-8,580
Revaluation of investment property, net	7	2,549	0	0	0	-20	0	0	7	2,528
Depreciation, amortisation and impairment losses	-11	-50	-27	-42	-29	-85	0	0	-92	-214
Finance income									633	1,007
Finance expenses									-1,199	-16,272
Income tax expense									-30	-79
Net loss									-1,267	-23,560

Segment	Development		Service		Construction		Eliminations		Consolidated	
	Q3 2010	Q3 2009	Q3 2010	Q3 2009	Q3 2010	Q3 2009	Q3 2010	Q3 2009	Q3 2010	Q3 2009
In EEK thousands										
External revenue	35,362	20,556	6,237	7,370	46,509	58,490	0	0	88,108	86,416
<i>Change</i>	72%		-15%		-20%				2%	
Other external income	2,098	11,019	-176	61	105	336	0	0	2,027	11,416
Revenue and other income from other segments	1,063	-838	1,866	1,056	462	12,708	-3,391	-12,926	0	0
Total revenue and other income	38,523	30,737	7,927	8,487	47,076	71,534	-3,391	-12,926	90,135	97,832
Segment result	8,690	-61,658	1,286	-1,323	786	2,948	697	1,788	11,459	-58,245
Unallocated expenses									-6,018	-7,745
Operating profit/loss									5,441	-65,990
Inventory write-down	0	-24,547	0	0	0	0	0	0	0	-24,547
Revaluation of investment property, net	114	-33,238	0	0	0	0	0	0	114	-33,238
Depreciation, amortisation and impairment losses	-48	-273	-136	-201	-156	-431	0	0	-653	-1,018
									0	0
Finance income									827	238
Finance expenses									-8,329	-205,362
Income tax expense									-34	-426
Net loss									-2,095	-271,540

Segment	Development		Service		Construction		Eliminations		Consolidated	
	Q3 2010	Q3 2009	Q3 2010	Q3 2009	Q3 2010	Q3 2009	Q3 2010	Q3 2009	Q3 2010	Q3 2009
In EUR thousands										
External revenue	2,260	1,314	399	471	2,972	3,738	0	0	5,631	5,523
<i>Change</i>	72%		-15%		-20%				2%	
Other external income	134	704	-11	4	7	21	0	0	130	730
Revenue and other income from other segments	68	-54	119	67	30	812	-217	-826	0	0
Total revenue and other income	2,462	1,964	507	542	3,009	4,571	-217	-826	5,761	6,253
Segment result	555	-3,941	82	-85	50	188	45	114	732	-3,723
Unallocated expenses									-385	-495
Operating profit/loss									348	-4,218
Inventory write-down	0	-1,569	0	0	0	0	0	0	0	-1,569
Revaluation of investment property, net	7	-2,124	0	0	0	0	0	0	7	-2,124
Depreciation, amortisation and impairment losses	-3	-17	-9	-13	-10	-28	0	0	-42	-65
Finance income									53	15
Finance expenses									-532	-13,125
Income tax expense									-2	-27
Net loss									-134	-17,355

3. Cost of sales

	EEK		EEK	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Cost of properties sold	-76,300	-46,836	-22,536	-14,872
Cost of construction services purchased	-81,598	-144,850	-39,982	-42,989
Management and administration costs	-7,632	-9,775	-1,838	-3,372
Personnel expenses	-16,348	-27,044	-6,023	-8,616
Vehicle expenses	-2,074	-3,567	-691	-2,162
Depreciation and amortisation	-130	-1,446	-54	-435
Inventory write-down expenses ¹	-5,559	-135,067	0	-25,360
Other costs	-1,430	-1,959	-450	-62
Total cost of sales	-191,071	-370,544	-71,574	-97,868

	EUR		EUR	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Cost of properties sold	-4,876	-2,993	-1,440	-950
Cost of construction services purchased	-5,215	-9,258	-2,555	-2,747
Management and administration costs	-488	-625	-117	-216
Personnel expenses	-1,045	-1,729	-385	-551
Vehicle expenses	-133	-228	-44	-138
Depreciation and amortisation	-8	-92	-3	-28
Inventory write-down expenses ¹	-355	-8,632	0	-1,621
Other costs	-92	-125	-30	-4
Total cost of sales	-12,212	-23,682	-4,574	-6,255

¹ Write-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	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Gains on fair value adjustments to investment property (note 11)	114	96,338	111	11,635
Gains on sale of investment property	758	1,081	0	-680
Gains on sale of property, plant and equipment	0	249	0	2
Miscellaneous income	4,024	5,843	1,916	459
Total other income	4,896	103,511	2,027	11,416

	EUR		EUR	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Gains on fair value adjustments to investment property (note 11)	7	6,157	7	744
Gains on sale of investment property	49	70	0	-43
Gains on sale of property, plant and equipment	0	16	0	0
Miscellaneous income	257	373	123	29
Total other income	313	6,616	130	730

Other expenses	EEK		EEK	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Losses on fair value adjustments to investment property (note 11)	-11	-56,776	0	-44,873
Losses on sale of investment property	-1,090	-81	0	0
Losses on write-down, liquidation and sale of property, plant and equipment	-10	-1,304	0	0
Late payment interest and penalty charges	-1,078	-656	-9	-361
Miscellaneous expenses	-678	-1,655	-171	-498
Total other expenses	-2,867	-60,472	-180	-45,732
	EUR		EUR	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Losses on fair value adjustments to investment property (note 11)	-1	-3,629	0	-2,868
Losses on sale of investment property	-70	-5	0	0
Losses on write-down, liquidation and sale of property, plant and equipment	-1	-83	0	0
Late payment interest and penalty charges	-68	-42	-1	-23
Miscellaneous expenses	-43	-106	-11	-32
Total other expenses	-183	-3,865	-12	-2,923

5. Distribution expenses

	EEK		EEK	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Advertising expenses	-1,795	-1,799	-605	-766
Brokerage fees	-632	-579	-91	-66
Market research expenses	-51	-26	-13	-14
Personnel expenses	-791	-633	-163	-414
Other distribution expenses	-126	-278	-30	-203
Total distribution expenses	-3,395	-3,315	-902	-1,463
	EUR		EUR	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Advertising expenses	-115	-115	-39	-49
Brokerage fees	-40	-37	-6	-4
Market research expenses	-3	-2	-1	-1
Personnel expenses	-51	-40	-10	-27
Other distribution expenses	-8	-18	-2	-13
Total distribution expenses	-217	-212	-58	-94

6. Administrative expenses

	EEK		EEK	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Personnel expenses	-21,963	-28,950	-6,978	-7,699
Office expenses	-6,514	-10,258	-1,679	-2,991
Legal and consulting fees	-8,191	-4,550	-1,327	-1,281
Impairment of goodwill and recognition of goodwill as revenue	0	-3,725	0	-3,725
Depreciation, amortisation and impairment losses	-1,304	-1,904	-599	-586
Allowance for doubtful receivables	-385	0	104	0
Vehicle expenses	-2,559	-4,001	-797	-1,255
Other expenses	-1,506	-2,213	-762	-1,222
Total administrative expenses	-42,422	-55,601	-12,038	-18,759
	EUR		EUR	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Personnel expenses	-1,404	-1,850	-446	-493
Office expenses	-416	-656	-107	-191
Legal and consulting fees	-524	-291	-85	-82
Impairment of goodwill and recognition of goodwill as revenue	0	-238	0	-238
Depreciation, amortisation and impairment losses	-83	-122	-38	-37
Allowance for doubtful receivables	-25	0	7	0
Vehicle expenses	-164	-256	-51	-80
Other expenses	-95	-141	-49	-78
Total administrative expenses	-2,711	-3,554	-769	-1,199

7. Finance income and finance expenses

Finance income	EEK		EEK	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Gains on sale of investments in subsidiaries	911	0	0	0
Gains on sale of interests in jointly controlled entities	105	0	0	0
Share of profit of equity-accounted investees (jointly controlled entities)	58	0	0	0
Interest income	2,970	8,913	824	232
Foreign exchange gains	5,863	4,153	3	0
Income on other long-term investments	0	2,685	0	6
Total finance income	9,907	15,751	827	238
	EUR		EUR	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Gains on sale of investments in subsidiaries	58	0	0	0
Gains on sale of interests in jointly controlled entities	7	0	0	0
Share of profit of equity-accounted investees (jointly controlled entities)	4	0	0	0
Interest income	190	570	53	15
Foreign exchange gains	374	265	0	0
Income on other long-term investments	0	172	0	0
Total finance income	633	1,007	53	15

Finance expenses	EEK		EEK	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Losses on sale of investments in subsidiaries	-17	-4,771	0	-4,771
Losses on sale of interests in jointly controlled entities	-2,376	0	0	0
Share of losses of equity-accounted investees (jointly controlled entities)	-1,521	-87,424	-18	-48,407
Interest expense	-10,559	-20,764	-4,221	-7,737
Foreign exchange losses	-4,085	-6,093	-4,008	-5,960
Other finance expenses	-207	-135,549	-82	-138,487
Total finance expenses	-18,765	-254,601	-8,329	-205,362
Finance expenses	EUR		EUR	
	9M 2010	9M 2009	Q3 2010	Q3 2009
In thousands				
Losses on sale of investments in subsidiaries	-1	-305	0	-305
Losses on sale of interests in jointly controlled entities	-152	0	0	0
Share of losses of equity-accounted investees (jointly controlled entities)	-97	-5,587	-1	-3,094
Interest expense	-675	-1,327	-270	-494
Foreign exchange losses	-261	-389	-256	-381
Other finance expenses	-13	-8,664	-5	-8,851
Total finance expenses	-1,199	-16,272	-532	-13,125

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	
	9M 2010	9M 2009	Q3 2010	Q3 2009
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707	4,741,707	4,741,707
Net loss attributable to equity holders of the parent (In thousands)	-19,840	-368,528	-2,095	-272,080
Earnings per share (in kroons)	-4.18	-77.72	-0.44	-57.38
	EUR		EUR	
	9M 2010	9M 2009	Q3 2010	Q3 2009
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707	4,741,707	4,741,707
Net loss attributable to equity holders of the parent (In thousands)	-1,267	-23,553	-133	-17,390
Earnings per share (in euros)	-0.27	-4.97	-0.03	-3.67

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 September 2010	31 December 2009	30 September 2010	31 December 2009
In thousands				
Trade receivables				
Trade receivables	55,025	55,950	3,517	3,576
Allowance for doubtful items	-2,854	-2,972	-182	-190
Total trade receivables	52,171	52,978	3,335	3,386
Other receivables				
Loans granted	68,557	68,937	4,382	4,406
Miscellaneous receivables	12,624	5,777	807	369
Total other receivables	81,181	74,714	5,189	4,775
Accrued income				
Interest receivable	4,596	3,681	294	235
Due from customers under long-term construction contracts	3,770	293	241	19
Prepaid and refundable VAT	5,710	11,471	364	733
Other accrued income	8,012	7,802	511	499
Total accrued income	22,088	23,247	1,410	1,486
Total current receivables	155,440	150,939	9,934	9,647

10. Inventories

	EEK		EUR	
	30 September 2010	31 December 2009	30 September 2010	31 December 2009
In thousands				
Properties purchased and developed for resale	567,306	739,742	36,257	47,278
Other goods purchased for resale	0	453	0	29
Materials and finished goods	722	298	46	19
Prepayments to suppliers for inventories	3,272	14,312	210	915
Total inventories	571,300	754,805	36,513	48,241

11. Investment property

	EEK	EUR
In thousands		
Balance at 31 December 2008	157,367	10,058
Acquisitions	49,033	3,134
Sales	-2,971	-190
Transfer from property, plant and equipment	15,244	974
Net gain on changes in fair value (note 4)	39,562	2,528
Balance at 30 September 2009	258,235	16,504
Balance at 31 December 2009	219,129	14,005
Acquisitions	3,725	238
Sales	-24,530	-1,568
Transfer from inventories	179,968	11,502
Net gain on changes in fair value	103	7
Balance at 30 September 2010	378,395	24,184

12. Loans and borrowings

	30 September 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	499,543	283,335	523,756	338,378
Finance lease liabilities	770	219	954	247
Other loans	21,661	15,450	14,613	14,120
Total	521,974	299,004	558,193	371,615
In EUR thousands				
Debt securities	0	0	1,206	1,206
Bank loans	31,927	18,108	33,474	21,626
Finance lease liabilities	49	14	61	16
Other loans	1,384	988	935	903
Total	33,360	19,110	35,675	23,751

13. Payables

Payables	EEK		EUR	
	30 September 2010	31 December 2009	30 September 2010	31 December 2009
In thousands				
Trade payables	43,337	45,532	2,770	2,910
Miscellaneous payables	17,949	15,851	1,147	1,013
Taxes payable				
Value added tax	1,078	2,315	69	148
Corporate income tax	1,099	2,968	70	190
Personal income tax	1,081	1,047	69	67
Social security tax	1,702	1,881	109	120
Other taxes	919	924	59	59
Total taxes payable	5,879	9,135	376	584
Accrued expenses				
Interest payable	977	2,627	62	168
Payables to employees	3,570	5,118	228	327
Other accruals	2,658	5,358	170	342
Total accrued expenses	7,205	13,103	460	837
Total trade and other payables	74,370	83,621	4,753	5,344

14. Transactions with related parties

	EEK		EUR	
	9M 2010 or 30 September 2010	9M 2009 or 31 December 2009	9M 2010 or 30 September 2010	9M 2009 or 31 December 2009
In thousands				
Transactions and balances with jointly controlled entities				
Revenue	30	6	2	0
Current loan receivables	14,522	13,893	928	888
Trade receivables	60	918	4	59
Current interest receivables	165	0	11	0
Current loan liabilities	1,300	1,300	83	83
Current interest liabilities	99	53	6	3
Transactions and balances with companies with joint control over the Group or Group entities				
Purchase of non-current assets	0	10,190	0	651
Other current receivables	5,879	8,728	376	558
Current interest receivables	1,347	2,114	86	135
Current loan liabilities	0	9,559	0	611
Current interest liabilities	0	2,447	0	156
Non-current loan liabilities	0	11,768	0	752
Transactions and balances with key staff of the Group				
Revenue	0	600	0	38
Other receivables	244	313	16	20
Interest payable	28	13	2	1
Transactions with other related parties				
Services purchased	1,588	298	101	19
Acquisition of investment property	3,000	0	192	0
Trade receivables	108	0	7	0
Other receivables	2,849	2,849	182	182
Current interest receivables	1,131	1,025	72	66
Trade payables	108	0	7	0
Other payables	557	15,465	36	988
Current loan liabilities	10,008	10,008	640	640
Current interest liabilities	904	700	58	45
Long-term liabilities from non-current asset transactions	4,781	5,998	306	383

15. 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.

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

There were no other developments in the above bankruptcy proceedings in the third 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 Kärđla, because after receiving a bankruptcy caution from Arco Investeeringute AS Ühendatud Kapital AS transferred its legal address to Kärđla and changed its name for Celia Crowd AS. Arco Investeeringute AS has claimed from Celia Crowd AS payment of 128,711 thousand kroons (8,230 thousand euros) based on the ruling of the Court of Arbitration of the Estonian Chamber of Commerce and Industry dated 21 December 2009.

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 Kärđla.

On 29 March 2010, Arco Investeeringute AS filed an application to the Haapsalu Court House of Pärnu County Court located in Kärđla 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.

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

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

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

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

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

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.

16. Subsequent events

On 9 November 2010 Arco Vara AS' wholly-held subsidiary Arco Investeeringute AS transferred its claim against Celia Crowd AS (former Ühendatud Kapital AS) to AS EMF Invest for 52,000 thousand kroons (3,323 thousand euros). Through the transaction, the Group will earn exceptional sales gain of 18,875 thousand kroons (1,206 thousand euros).

In 2008, Arco Investeeringute AS granted a loan of 10,000 thousand US dollars to AS Sigma Real Estate Ltd. The loan was secured by Ühendatud Kapital AS. As the loan was not repaid, Arco filed an appeal with the Court of Arbitration of the Estonian Chamber of Commerce and Industry on 18 February 2009. Based on the judgment of the Court of Arbitration of 21 December 2009, Ühendatud Kapital AS was required to pay Arco Investeeringute AS loan principal of 10,000 thousand US dollars (114,787 thousand kroons, i.e. 7,336 thousand euros), accrued interest of 906 thousand US dollars (10,400 thousand kroons, i.e. 665 thousand euros), late payment interest of 774 thousand US dollars (8,885 thousand kroons, i.e. 568 thousand euros) and late payment interest calculated from 22 December 2009 at the rate of 8% per year which on 8 November 2010 amounted to 706 thousand US dollars (8,104 thousand kroons; i.e. 518 thousand euros). In addition, Ühendatud Kapital AS was required to indemnify the costs incurred by the Court of Arbitration of 1,099 thousand kroons (70 thousand euros). At 8 November 2010, the total claim against Ühendatud Kapital AS amounted to 137,868 thousand kroons (8,811 thousand euros).

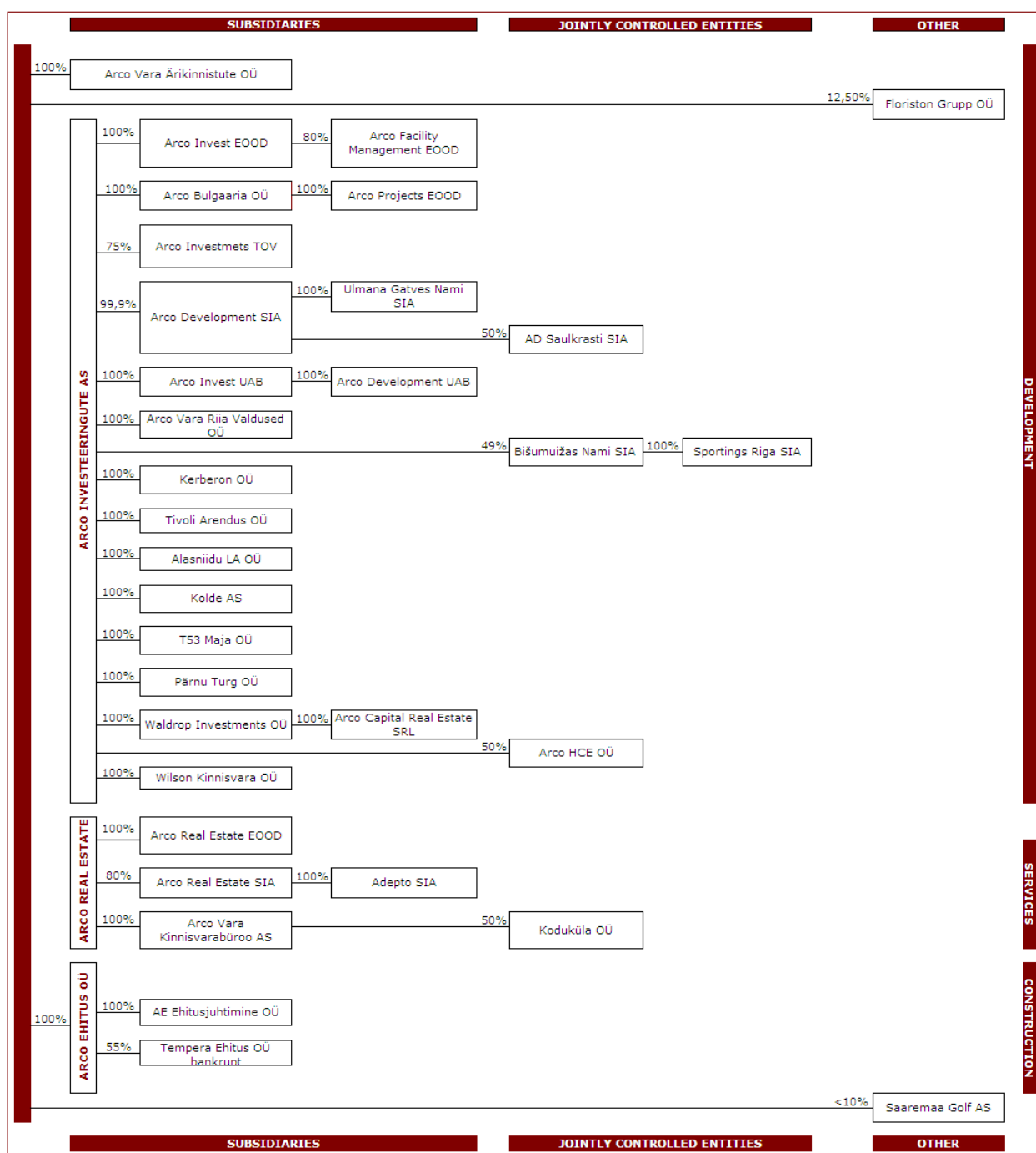
Arco Investeeringute AS instituted several actions for collecting the claim. These included filing a bankruptcy petition against Ühendatud Kapital AS which in the meantime had been denuded of assets and contesting various execution proceedings with the assets of Ühendatud Kapital AS. In total, Arco Investeeringute AS is currently involved in five

litigations against Ühendatud Kapital AS. Considering the fact that most litigations have lasted for almost a year and that in most important proceedings, even the court of first instance has not ruled on the matter, it is probable that the proceedings will last for another three to five years. In view of the fact that to date Ühendatud Kapital AS has become a company without assets it is not likely that the claim of Arco Investeeringute AS will be satisfied in the bankruptcy proceedings to any significant extent.

In the Group's statement of financial position, the receivable from Celia Crowd AS was written down to 3,000 thousand US dollars (8 November 2010: 33,689 thousand kroons, i.e. 2,153 thousand euros) already in 2009. In light of the above, the Group's management board deemed it economically reasonable to transfer the claim.

17. Group structure

The Group's structure as at 30 September 2010:



Statement by the management board

The management board of Arco Vara AS has prepared the interim report for the third quarter and nine months ended 30 September 2010 as set out on pages 2-40.

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

26 November 2010