



Arco Vara AS

Interim report 4 quarter and 12 months
2010



ARCO REAL ESTATE

INTERIM REPORT
FOURTH QUARTER AND 12 MONTHS
ENDED 31 DECEMBER 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 – 31 December 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 2010, the Group comprised 28 subsidiaries (2009: 26) and 5 jointly controlled entities (2009: 8).

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

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

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

The Construction division provides general construction and environmental engineering services, operating as a general contractor 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	
		31 December 2010	31 December 2009
%			
Service segment			
Subsidiaries			
Arco Real Estate EOOD ¹	Bulgaria	100	100
Arco Real Estate AS	Estonia	100	100
Arco Vara Kinnisvarabüroo ¹	Estonia	100	100
Adepto SIA ¹	Latvia	80	80
Arco Real Estate SIA ¹	Latvia	80	80

Company	Domicile	Group's ownership interest	
		31 December 2010	31 December 2009
%			
Development segment			
Subsidiaries			
Arco Invest EOOD ¹	Bulgaria	100	100
Arco Facility Management EOOD ¹	Bulgaria	100	-
Arco Project EOOD ¹	Bulgaria	100	100
Alasniidu LA OÜ ¹	Estonia	100	-
Lilletee LA OÜ ¹	Estonia	100	100
Arco Investeeringute AS	Estonia	100	100
Arco Vara Riia 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	sold	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	62.9
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	-
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 (0.1 million euros).

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

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

On 17 December 2010 Arco Invest EOOD, a wholly-owned subsidiary of Arco Investeeringute AS, raised its stake in Arco Facility Management EOOD from 80% to 100%. The transaction was conducted at the nominal value of the shares.

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

KEY PERFORMANCE INDICATORS

- In 2010 the Group generated revenue and other income of 358.4 million kroons (22.9 million euros), a 27% decrease year-over-year
- Operating loss for 2010 amounted to 2.0 million kroons (0.1 million euros), a 98% improvement on 2009
- Net loss was 4.6 million kroons (0.3 million euros), a 99% improvement on 2009
- Equity to assets ratio at period-end was 39.4% (end of 2009: 36.7%). Return on equity was negative (2009: negative). Return on invested capital was 1.8% (2009: negative)
- At the end of 2010, our order backlog (in the construction business) stood at 262.2 million kroons (16.8 million euros), compared with 79.6 million kroons (5.1 million euros) at the end of 2009
- In the twelve months of 2010 we sold a total of 129 apartments and plots (2009: 82).

	EEK				EUR			
	12M 2010	12M 2009	Q4 2010	Q4 2009	12M 2010	12M 2009	Q4 2010	Q4 2009
In millions								
Revenue and other income	358.4	493.1	129.2	131.7	22.9	31.5	8.3	8.4
Operating profit / loss	-2.0	-91.7	8.5	36.9	-0.1	-5.9	0.5	2.4
<i>Incl. net loss from the revaluation of investment properties and inventories</i>	-8.2	-40.6	-2.6	-40.6	-0.5	-2.6	-0.2	-2.6
Profit / loss before tax	-4.2	-363.9	15.2	3.5	-0.3	-23.3	1.0	0.2
<i>Incl. net gain/loss from the disposal of financial assets</i>	-2.4	-4.5	0.0	0.0	-0.2	-0.3	0.0	0.0
Net profit / loss	-4.6	-363.1	15.3	5.6	-0.3	-23.2	1.0	0.4
EPS (in kroons and euros)	-0.92	-76.26	3.26	1.46	-0.06	-4.87	0.21	0.09
Total assets at period end	1,104.4	1,224.4			70.6	78.3		
Invested capital at period end	931.5	1,015.3			59.5	64.9		
Net loans at period end	430.2	500.8			27.5	32.0		
Equity at period end	435.4	449.8			27.8	28.7		
Average loan term (in years)	0.8	1.2			0.8	1.2		
Average interest rate of loans (per year)	6.4%	5.9%			6.4%	5.9%		
ROIC (rolling, 4 quarters)	1.8%	neg			1.8%	neg		
ROE (rolling, 4 quarters)	neg	neg			neg	neg		
Number of staff at period end	153	171			153	171		

Group Chief Executive's review

In 2010, a total of 129 apartments and plots were sold in the projects of Arco Vara - 73 in Estonia, 45 in Latvia and 11 in Bulgaria. 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. We have also signed the first real right contracts on the apartments and have transferred the apartments to 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 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 AS Kolde 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. We are also holding negotiations with potential business partners and banks with a view to starting and financing the construction of the Tivoli project. Subsequent to the reporting date, we have held an architectural competition and have launched preparatory site work. Construction should commence in spring 2011. In addition, at the beginning of 2011 we have announced a plan to build a four-floor apartment building in Tehnika street in Tallinn.

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, in the third quarter the division was able to post its first post-crisis quarterly operating profit of 1.3 million kroons (0.08 million euros). In 2010 the number of brokerage transactions grew by 11% year-over-year and the number of valuation reports issued increased by 25% although the number of brokers and appraisers decreased by 4%.

The division's Bulgarian team moved to new first-class office premises in the Madrid Boulevard Residence. The division is planning to increase the number of brokers in order to be ready for the recovery of the real estate market.

During the year, the Construction division secured new contracts of 347 million kroons (22.2 million euros). At the reporting date, the order backlog amounted to 262 million kroons (16.8 million euros) compared with 80.0 million kroons (5.1 million euros) at the end of 2009. 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 should be noted that in 2010 practically all of the Group's construction revenue was external – the proportion of internally generated sales was negligible.

The reporting period brought significant improvement to most of the Group's financial performance indicators - both revenue and gross profit grew on a quarterly basis. Over several years, all divisions ended the third quarter with an operating profit. The reduction of fixed costs that began in 2009 has had a positive impact also on the results for 2010. Management will continue monitoring fixed costs. Compared with the previous year administrative expenses have shrunk by 26%.

To improve liquidity, the Group has disposed of a number of smaller investment properties that were not under its complete control or otherwise did not fit the corporate strategy.

In addition, the Group 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.

In 2010 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 improved the Group's fourth quarter results by an 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			
	12M 2010	12M 2009	Q4 2010	Q4 2009	12M 2010	12M 2009	Q4 2010	Q4 2009
In millions								
Revenue and other income								
Service	30.0	38.0	8.3	9.3	1.9	2.4	0.5	0.6
Development	196.7	218.1	82.8	49.8	12.6	13.9	5.3	3.2
Construction	139.6	277.2	39.7	75.7	8.9	17.7	2.5	4.8
Eliminations	-7.9	-40.2	-1.6	-3.1	-0.5	-2.6	-0.1	-0.2
Total revenue and other income	358.4	493.1	129.2	131.7	22.9	31.5	8.3	8.4
Operating profit / loss								
Service	-2.7	-16.6	-1.4	-7.5	-0.2	-1.1	-0.1	-0.5
Development	27.1	-36.8	21.8	56.7	1.8	-2.4	1.3	3.6
Construction	-3.6	-8.1	-4.7	-5.3	-0.2	-0.5	-0.3	-0.3
Eliminations	0.0	0.0	-0.6	-0.2	0.0	0.0	0.0	0.0
Unallocated expenses	-22.8	-30.2	-6.6	-6.8	-1.5	-1.9	-0.4	-0.4
Total operating profit / loss	-2.0	-91.7	8.5	36.9	-0.1	-5.9	0.5	2.4
Interest income and expense	-18.2	-22.6	-10.6	-10.7	-1.2	-1.4	-0.7	-0.7
Other finance income and expense	15.9	-249.7	17.3	-22.7	1.0	-16.0	1.2	-1.4
Income tax expense	-0.3	0.9	0.1	2.1	0.0	0.1	0.0	0.1
Net profit / loss	-4.6	-363.1	15.3	5.6	-0.3	-23.2	1.0	0.4

The Construction division's fourth quarter results were adversely affected by a write-down of receivables by 4.6 million kroons (0.3 million euros), conducted due to the bankruptcies of a major customer and a consortium partner.

The main cost cuts have been made and managing and reducing expenses has become a daily routine at all units. For the time being, the Group's 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 fourth quarter were influenced the most by the sale of a receivable from Ühendatud Kapital AS. Despite a decrease in revenue and other income across all divisions, thanks to determined cost control the Group's operating loss has decreased by 98% compared with 2009.

CASH FLOWS

	EEK		EUR	
	12M 2010	12M 2009	12M 2010	12M 2009
In millions				
Cash flows from operating activities	27.4	-51.1	1.8	-3.3
Cash flows from investing activities	95.1	104.9	6.1	6.7
Cash flows from financing activities	-121.3	-145.2	-7.8	-9.3
Net cash flow	1.2	-91.4	0.1	-5.8
Cash and cash equivalents at beginning of period	64.7	156.1	4.1	10.0
Effect of movements in exchange rates	0.0	0.0	0.0	0.0
Cash and cash equivalents at end of period	65.9	64.7	4.2	4.1

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

In December 2010 Arco Vara AS repaid early 4.5 million kroons (0.3 million euros) of the loan received from LHV bank.

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

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

- The loan taken for the Boulevard Residence Madrid project in Sofia of 238.1 million kroons (15.2 million euros) in aggregate has been reclassified to current liabilities because due to the write-down of collateral it is temporarily not in full compliance with the covenant for the value of collateral. The loan is to be repaid by 2015. According to the sales forecast and settlement schedule, as at 31 December 2010 the portion to be repaid in the next 12 months would be 72.1 million kroons (4.6 million euros).
- Loans of 102.5 million kroons (6.6 million euros) related to the Tivoli and Laeva2 projects.
- A loan of 25.5 million kroons (1.6 million euros) related to the Bishumuiza project.
- The scheduled current portion of a loan related to the Manastirski project of 31.7 million kroons (2.0 million euros).

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

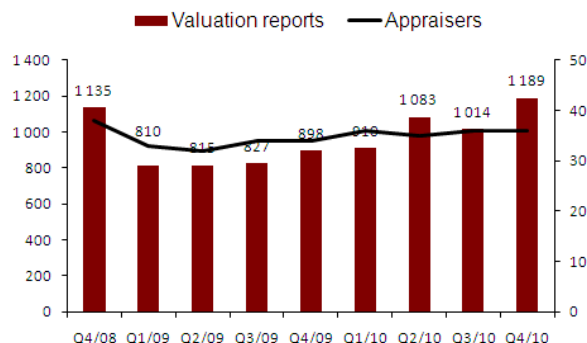
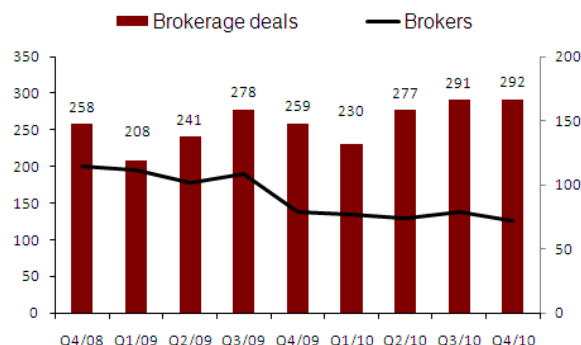
SERVICE DIVISION

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

In connection with the revival of the housing market, we are continuing an active marketing campaign in Estonia. In addition, we are continuing partnering negotiations with other major housing and commercial real estate developers. Through effective cooperation, the number of properties brokered has increased. Our goal is to offer the customers both a wide range of services and an extensive selection of properties.

In Sofia, the Service division's Bulgarian team moved to new first-class office premises in the Madrid Boulevard Residence. We are also planning to increase the number of brokers in order to be ready for the recovery of the real estate market in Bulgaria.

The Service division ended 2010 with an operating loss of 2.7 million kroons (0.17 million euros) compared with an operating loss of 16.6 million kroons (1.06 million euros) in 2009. The most successful quarter was the third one where the division generated an operating profit of 1.3 million kroons (0.08 million euros). Before that, the division last earned an operating profit in the third quarter of 2006. Compared with 2009, the number of brokerage transactions has grown by 11% and the number of valuation reports issued has increased by 25%.



Number of brokerage transactions
Number of projects on sale
Number of valuation reports
Number of appraisers*
Number of brokers*
Number of staff at end of period

* Includes people working under service contracts

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

DEVELOPMENT DIVISION

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

For building and financing the next phase in the Kodukolde project (100 apartments), we have 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.

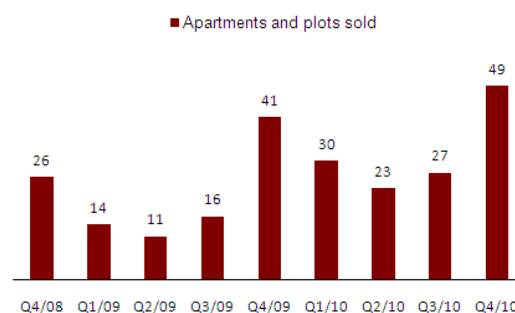
The Development division has acquired a property for building a nursery school in Harku rural municipality. There is a rental agreement with the local government, a construction contract with YIT Ehitus AS and a financing agreement with DnB NORD bank. Construction work has commenced and the nursery school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

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

The real estate market of the Baltic countries has stabilised. The sharpest price increase has occurred in Latvia. In response, we have increased prices also in our own development projects.

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

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



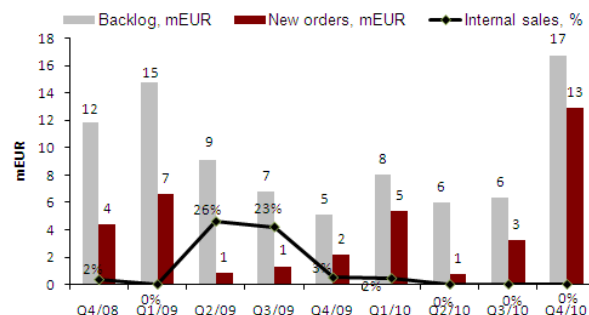
CONSTRUCTION DIVISION

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

At the year-end, the largest new construction contracts were the Tallinn-Muuga water and sewerage networks and facilities of 103 million kroons (6.6 million euros) and the new building of the Estonian Aviation Academy of 31 million kroons (2.0 million euros).

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

At the reporting date, the division employed 49 people (31 December 2009: 59 people).



MAJOR PROJECTS

Project type	Name	Location	Ownership interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Commercial	Ahtri 3	Estonia, Tallinn	50%	48,518m ²	The old plan is in force. A new detailed plan for more extensive building rights is in the final stages of adoption. In the new plan, above-ground building rights extend to 51,100m ² .	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.	Investment property
Commercial	Laeva 2	Estonia, Tallinn	100%	7,776m ²	A detailed plan has been adopted. A building permit has been obtained. Tenant search is under way.	Investment property
Project type	Name	Location	Ownership interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Cash flow	Kerberon	Estonia, Tallinn	100%	13,236m ²	Building rights and the right to superficies have been obtained. Generates cash flow.	Investment property
Cash flow	Madrid	Bulgaria, Sofia	100%	6,950m ²	Building rights have been obtained. Generates cash flow.	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	2,529m ²	Building rights have been obtained. Generates cash flow.	Investment property
Project type	Name	Location	Ownership interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Apartments	Bishumuiza 1	Latvia, Riga	99.9%	Unsold building rights 14,241m ²	Building rights have been obtained. Sale of apartments is under way. In 2010 we started completing apartments of phase II.	Inventories
Apartments	Bishumuiza 2	Latvia, Riga	49%	87,737m ²	Design work has been postponed.	Investment
Apartments	Hills	Lithuania, Vilnius	100%	6,500m ²	Building rights have been obtained. Sales have commenced.	Inventories
Apartments	Kolde	Estonia, Tallinn	100%	Unsold/unreserved building rights 7,191m ²	Building rights and the right to superficies have been obtained. Sale of apartments and construction of the last but one phase are under way.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Area of unsold/unreserved apartments 2,793m ²	Building rights and use permit have been obtained. Sales are in progress.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Area of unsold/unreserved apartments and commercial space 24,524m ²	Building rights have been obtained. Sales are in progress.	Inventories
Apartments	Paldiski mnt 70c	Estonia, Tallinn	33%	ca 34,000m ²	The initial planning outline is under preparation.	Investment property
Apartments	Tehnika 53	Estonia, Tallinn	50%	1,515m ²	A detailed plan is in the final phase of adoption.	Inventories
Apartments	Tivoli	Estonia, Tallinn	100%	58,470m ²	A detailed plan has been adopted. Preparations for the design of phase I are under way.	Inventories

Plots	Baltezers-3	Latvia, Riga	100%	172,380m ² , total land of 861,900m ²	The right to superficies has been obtained. 189 plots. Preparations for the construction of phase I infrastructure are under way (phase I comprises 33 plots).	Investment property
Plots	Baltezers-5	Latvia, Riga	100%	No of unsold plots 25	Building rights have been obtained. Construction has been completed, sales are under way.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold/unreserved 4,651m ² , 4 plots	Roads, pipelines and networks have been completed. Sale of plots is under way.	Inventories
Plots	Palusambla 1	Estonia, Nõmme	100%	55,466m ²	A detailed plan for the formation of 12 plots for one detached building each is in the final phase of adoption.	Inventories
Plots	Pärtli	Estonia, Saue	50%	84 plots, average plot 1,500m ²	No building rights. The detailed plan process underway. Is waiting for an improvement in the market situation.	Investment
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1,802m 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 3,363m 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 31 December 2010	Carrying amount of projects presented in the table of major projects at 31 December 2010	Balance of line item at 31 December 2010	Carrying amount of projects presented in the table of major projects at 31 December 2010
In millions				
Total assets	1,104.4	897.6	70.6	57.4
Inventories	559.2	550.0	35.7	35.2
Investment property	358.1	347.6	22.9	22.2
Property, plant and equipment	11.0	0.0	0.7	0.0
Investments	15.6	0.0	1.0	0.0

SIGNIFICANT CHANGES IN DETAILED PLANS IN 2010

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

Palusambla 1: A detailed plan was initiated on 22 November 2000 with a view to designating part of the area as residential land with associated building rights and maintaining the remainder as a green corridor. The detailed plan was approved by the Tallinn City Government on 9 June 2004 and was put on public display. In connection with the submissions and objections lodged, adoption proceedings halted. On 22 December 2009, the Tallinn City Planning Department decided that after the adjustment of the plan in light of submissions made, adoption proceedings could resume. In response to the submissions, the number of residential plots (for detached houses) was reduced to 12 (the

average size of a plot is approximately 1,700 square metres), a new topo-geodetic base plan was prepared and a dendrological survey was conducted. The plan was adjusted to effective legislation. To date, the plan has been approved by the Tallinn Transport Department and the Tallinn Environmental Department. The Administrative Council of Nõmme City District has not adopted a decision despite repeated requests. Proceedings will resume in spring 2011.

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

According to the detailed plan, 15% of the property is designated as commercial land and 85% as residential land. The respective gross enclosed areas are 200 square metres and 1,315 square metres. The maximum number floors is 4 and the planned number of apartments is 12.

PEOPLE

At the end of 2010, the Group employed 153 people compared with 171 at the end of 2009. Employee remuneration expenses including relevant taxes totalled 52.8 million kroons (3.4 million euros) against 72.4 million kroons (4.6 million euros) for 2009.

The remuneration of the members of the management board including relevant taxes amounted to 1.9 million kroons (0.1 million euros) compared with 5.3 million kroons (0.3 million euros) for 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 31 December 2010 the company had 2,025 shareholders and the share price closed at 86.21 kroons (5.51 euros), a 61% increase year-over-year.

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

In Estonian kroons (EEK)



In euros (EUR)



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



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

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

Holdings of members of the management and supervisory boards at 31 December 2010	Position	Number of shares held	Interest, %
Lembit Tampere	Member of Management Board	0	0%
Richard Tomingas (Toletum OÜ)	Chairman of Supervisory Board	1,037,975	21.9%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, closely related persons)	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 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 31 December 2010 the weighted average duration of interest-bearing liabilities was 0.8 years, which means that on average all loans need to be refinanced every ten months. Although at the end of 2010 the Group's cash and cash equivalents totalled 65.9 million kroons (4.2 million euros), 52.0 million kroons (3.3 million euros) of this was under the Group's own control but the rest was in accounts with restricted withdrawal opportunities (mostly accounts of designated purpose where withdrawals require the bank's consent). Liquidity and refinancing risks continue to be the most significant risks for the Group.

Interest rate risk

The base currency of most of the Group's loan agreements is 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 2010 the Group's interest-bearing liabilities decreased by 71.7 million kroons (4.6 million euros) to 486.5 million kroons (31.1 million euros) at 31 December 2010. Interest payments of the year totalled 35.1 million kroons (2.2 million euros). Compared with the end of 2009, the weighted average interest rate has risen from 5.9% to 6.4%.

Currency risk

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

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

25 February 2011



Condensed consolidated interim financial statements

Condensed consolidated statement of comprehensive income

For the period ended 31 December 2010	Note	12M 2010	12M 2009	Q4 2010	Q4 2009
EEK In thousands					
Revenue from rendering of services		181,239	293,316	47,734	86,814
Revenue from sale of goods		149,423	92,274	58,586	40,908
Total revenue	2	330,662	385,590	106,320	127,722
Cost of sales	3	-254,049	-414,186	-62,978	-43,642
Gross profit / loss		76,613	-28,596	43,342	84,080
Other income	4	27,776	107,502	22,880	3,991
Distribution expenses	5	-4,734	-4,401	-1,339	-1,086
Administrative expenses	6	-63,225	-85,666	-20,803	-30,065
Other expenses	4	-38,453	-80,496	-35,586	-20,024
Operating profit / loss		-2,023	-91,657	8,494	36,896
Finance income	7	26,448	8,152	16,541	-3,446
Finance expenses	7	-28,616	-280,419	-9,851	-29,971
Profit / loss before tax		-4,191	-363,924	15,184	3,479
Income tax expense		-398	868	67	2,103
Profit / loss for the period		-4,589	-363,056	15,251	5,582
<i>Profit / loss attributable to owners of the parent</i>	8	<i>-4,385</i>	<i>-361,618</i>	<i>15,455</i>	<i>6,910</i>
<i>Loss attributable to non-controlling interests</i>		<i>-204</i>	<i>-1,438</i>	<i>-204</i>	<i>-1,328</i>
Other comprehensive income / expense					
Exchange differences on translating foreign operations		0	303	-178	40
Total other comprehensive income / expense		0	303	-178	40
Total comprehensive income / expense for the period		-4,589	-362,753	15,073	5,622
<i>Total comprehensive income / expense attributable to owners of the parent</i>		<i>-4,385</i>	<i>-361,315</i>	<i>15,277</i>	<i>6,950</i>
<i>Total comprehensive expense attributable to non-controlling interests</i>		<i>-204</i>	<i>-1,438</i>	<i>-204</i>	<i>-1,328</i>
Earnings per share (in EEK)					
- Basic		-0.92	-76.26	3.26	1.46
- Diluted		-0.92	-76.26	3.26	1.46

For the period ended 31 December 2010		Note	12M 2010	12M 2009	Q4 2010	Q4 2009
EUR In thousands						
Revenue from rendering of services			11,583	18,746	3,051	5,548
Revenue from sale of goods			9,550	5,897	3,744	2,614
Total revenue	2		21,133	24,643	6,795	8,162
Cost of sales	3		-16,237	-26,471	-4,025	-2,789
Gross profit / loss			4,896	-1,828	2,770	5,373
Other income	4		1,775	6,871	1,462	255
Distribution expenses	5		-302	-281	-86	-69
Administrative expenses	6		-4,041	-5,475	-1,330	-1,922
Other expenses	4		-2,458	-5,145	-2,274	-1,280
Operating profit / loss			-130	-5,858	542	2,357
Finance income	7		1,690	521	1,057	-220
Finance expenses	7		-1,829	-17,922	-630	-1,915
Profit / loss before tax			-269	-23,259	969	222
Income tax expense			-25	55	4	134
Profit / loss for the period			-294	-23,204	973	356
<i>Profit / loss attributable to owners of the parent</i>	8		-294	-23,112	973	441
<i>Loss attributable to non-controlling interests</i>			0	-92	0	-85
Other comprehensive income / expense						
Exchange differences on translating foreign operations			0	19	-11	3
Total other comprehensive income / expense			0	19	-11	3
Total comprehensive income / expense for the period			-294	-23,185	962	359
<i>Total comprehensive income / expense attributable to owners of the parent</i>			-281	-23,093	975	444
<i>Total comprehensive expense attributable to non-controlling interests</i>			-13	-92	-13	-85
Earnings per share (in EUR)						
- Basic			-0.06	-4.87	0.21	0.09
- Diluted			-0.06	-4.87	0.21	0.09

Condensed consolidated statement of financial position

As at 31 December	Note	2010	2009	2008
In EEK thousands				
Cash and cash equivalents		65,858	64,724	156,061
Investments		0	0	40,416
Receivables	9	90,130	150,939	276,541
Prepayments		3,004	2,999	6,077
Inventories	10	559,215	754,805	827,237
Biological assets		0	0	3,680
Total current assets		718,207	973,467	1,310,012
Investments		15,588	17,853	216,025
Receivables		1,189	2,635	921
Investment property	11	358,104	219,129	157,367
Property, plant and equipment		10,994	10,545	41,664
Intangible assets		312	812	12,475
Total non-current assets		386,187	250,974	428,452
TOTAL ASSETS		1,104,394	1,224,441	1,738,464
Loans and borrowings	12	424,433	371,615	223,598
Trade and other payables	13	78,828	83,621	124,190
Deferred income		72,501	81,902	64,172
Provisions		21,555	43,571	37,999
Total current liabilities		597,317	580,709	449,959
Loans and borrowings	12	60,316	186,578	454,048
Other liabilities		11,337	6,278	1,418
Provisions		0	1,100	3,191
Total non-current liabilities		71,653	193,956	458,657
TOTAL LIABILITIES		668,970	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		356,544	-530,537	-862,979
Own shares		0	-3,992	-3,992
Total equity attributable to equity holders of the parent		435,424	449,776	829,848
Non-controlling interests		-1,103	-1,191	3,614
Total equity		436,527	450,967	826,234
TOTAL LIABILITIES AND EQUITY		1,104,394	1,224,441	1,738,464

As at 31 December	Note	2010	2009	2008
In EUR thousands				
Cash and cash equivalents		4,209	4,137	9,974
Investments		0	0	2,583
Receivables	9	5,760	9,647	17,674
Prepayments		192	192	388
Inventories	10	35,740	48,241	52,870
Biological assets		0	0	235
Total current assets		45,901	62,217	83,724
Investments		996	1,141	13,806
Receivables	9	76	168	59
Investment property	11	22,887	14,005	10,058
Property, plant and equipment		703	674	2,663
Intangible assets		20	52	798
Total non-current assets		24,682	16,040	27,384
TOTAL ASSETS		70,583	78,257	111,108
Loans and borrowings	12	27,126	23,750	14,290
Trade and other payables	13	5,038	5,344	7,937
Deferred income		4,634	5,234	4,101
Provisions		1,378	2,785	2,429
Total current liabilities		38,176	37,116	28,757
Loans and borrowings	12	3,855	11,925	29,019
Other liabilities		724	400	91
Provisions		0	70	204
Total non-current liabilities		4,579	12,395	29,314
TOTAL LIABILITIES		42,755	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		22,787	-33,907	-55,154
Own shares		0	-255	-255
Total equity attributable to equity holders of the parent		27,828	28,746	53,037
Non-controlling interests		-70	-76	231
Total equity		27,758	28,670	53,268
TOTAL LIABILITIES AND EQUITY		70,583	78,257	111,108

Condensed consolidated statement of cash flows

For the period ended 31 December 2010	Note	EEK		EUR	
		12M 2010	12M 2009	12M 2010	12M 2009
In thousands					
Loss for the period		-4,589	-363,056	-293	-23,204
Interest income and interest expense	7	18,163	22,595	1,161	1,444
Gain/loss on sale of subsidiaries and interests in jointly controlled entities	7	-1,328	4,492	-85	287
Gain/loss on other long-term investments	7	-18,246	-2,001	-1,166	-128
Impairment losses on financial assets	7	1,788	18,888	114	1,207
Share of profits and losses of equity accounted investees		2 841	225,284	182	14,398
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3, 6	2,115	4,975	135	318
Gain/loss on the sale of property, plant and equipment and intangible assets	4	15	1,550	1	99
Gain/loss on the sale of investment property	4	-2,887	-1,088	-185	-70
Change in the fair value of investment property and biological assets	4, 11	30,021	-24,265	1,919	-1,551
Gain/loss on inventory write-downs and reversals of inventory write-downs	3	-21,868	64,905	-1,398	4,148
Exchange gains and losses	7	-1,050	2,823	-67	180
Income tax expense		398	-868	25	-55
Operating cash flow before working capital changes		5,373	-45,766	343	-2,927
Change in receivables and prepayments		-26,119	30,546	-1,669	1,952
Change in inventories		37,490	7,527	2,396	481
Change in biological assets		0	3,680	0	235
Change in payables and deferred income		10,653	-47,037	681	-3,006
NET CASH FROM / USED IN OPERATING ACTIVITIES		27,397	-51,050	1,751	-3,265
Acquisition of property, plant and equipment and intangible assets		-628	-1,961	-40	-125
Proceeds from sale of property, plant and equipment and intangible assets		25	5,729	2	366
Acquisition of investment property	11	-3,725	-2,776	-238	-177
Proceeds from sale of investment property		24,530	8,581	1,568	548
Acquisition of subsidiaries and interests in jointly controlled entities		-500	-585	-32	-37
Proceeds from sale of investments in subsidiaries and jointly controlled entities		23,105	69,479	1,477	4,441
Proceeds from sale of other investments		0	29,383	0	1,878
Loans granted		-3,613	-12,768	-231	-816
Repayment of loans granted		52,078	5,878	3,328	377
Interest received		3,809	3,929	243	251
NET CASH FROM INVESTING ACTIVITIES		95,081	104,889	6,077	6,706
Proceeds from loans received		65,157	115,005	4,164	7,350
Settlement of loans and finance lease liabilities		-151,386	-226,560	-9,675	-14,480
Interest paid		-35,070	-33,662	-2,241	-2,150
NET CASH USED IN FINANCING ACTIVITIES		-121,299	-145,217	-7,752	-9,280
NET CASH FLOW		1,179	-91,378	76	-5,839
Cash and cash equivalents at beginning of period		64,724	156,061	4,137	9,974
Increase / decrease in cash and cash equivalents		1,179	-91,378	76	-5,839
Effect of exchange rate fluctuations on cash held		-45	41	-4	2
Cash and cash equivalents at end of period		65,858	64,724	4,209	4,137

Condensed consolidated statement of changes in equity

For the period ended 31 December 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	-3 367	-3 367
Total comprehensive income/expense for the period	0	0	0	91	0	-361 406	-361 315	-1 438	-362 753
Adjustments to retained earnings	0	0	0	0	0	-13 952	-13 952	0	-13 952
Transfer to retained earnings	0	-712 514	0	0	0	712 514	0	0	0
Balance at 31 December 2009	952 842	0	31 463	303	-3 992	-529 649	450 967	-1 191	449 776
Balance at 31 December 2009	952 842	0	31 463	303	-3 992	-529 649	450 967	-1 191	449 776
Change in non-controlling interests(through change in interests in subsidiaries)	0	0	0	0	0	0	0	292	292
Reduction of share capital (note 8)	-905 425	0	0	0	3 992	901 433	0	0	0
Adjustments to retained earnings	0	0	0	0	0	-10 055	-10 055	0	-10 055
Total comprehensive income/expense for the period	0	0	0	0	0	-4 385	-4 385	-204	-4 589
Balance at 31 December 2010	47 417	0	31 463	303	0	357 344	436 527	-1 103	435 424

	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	-215	-215
Total comprehensive income/expense for the period	0	0	0	6	0	-23 098	-23 092	-92	-23 184
Adjustments to retained earnings	0	0	0	0	0	-892	-892	0	-892
Transfer to retained earnings	0	-45 538	0	0	0	45 538	0	0	0
Balance at 31 December 2009	60 898	0	2 011	19	-255	-33 851	28 822	-76	28 746
Balance at 31 December 2009	60 898	0	2 011	19	-255	-33 851	28 822	-76	28 746
Change in non-controlling interests(through change in interests in subsidiaries)	0	0	0	0	0	0	0	19	19
Reduction of share capital (note 8)	-57 868	0	0	0	255	57 613	0	0	0
Adjustments to retained earnings	0	0	0	0	0	-644	-644	0	-644
Total comprehensive income/expense for the period	0	0	0	0	0	-280	-280	-13	-293
Balance at 31 December 2010	3 030	0	2 011	19	0	22 838	27 898	-70	27 828

Notes to the condensed consolidated financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the fourth quarter and 12 months ended 31 December 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
Total comprehensive expense	-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
Total comprehensive expense	-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 was 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	
	12M 2010	12M 2009	12M 2010	12M 2009	12M 2010	12M 2009	12M 2010	12M 2009	12M 2010	12M 2009
In EEK thousands										
External revenue	167,891	112,203	24,512	30,438	138,259	242,949	0	0	330,662	385,590
<i>Change</i>	50%		-19%		-43%				-14%	
Other external income	27,197	105,688	106	797	473	1,017	0	0	27,776	107,502
Revenue and other income from other segments	1,582	181	5,364	6,808	909	33,238	-7,855	-40,227	0	0
Total revenue and other income	196,670	218,072	29,982	38,043	139,641	277,204	-7,855	-40,227	358,438	493,092
Segment result	27,116	-36,687	-2,661	-16,622	-3,635	-8,118			20,820	-61,427
Unallocated expenses									-22,843	-30,230
Operating loss									-2,023	-91,657
Inventory write-downs and reversals of inventory write-downs, net	21,868	-64,905	0	0	0	0	0	0	21,868	-64,905
Revaluation of investment property, net	-28,873	28,986	-1,148	-3,145	0	-1,576	0	0	-30,021	24,265
Depreciation, amortisation and impairment losses	-930	-1,477	-560	-830	-625	-2,668	0	0	-2,115	-4,975

Segment	Development		Service		Construction		Eliminations		Consolidated	
	12M 2010	12M 2009	12M 2010	12M 2009	12M 2010	12M 2009	12M 2010	12M 2009	12M 2010	12M 2009
In EUR thousands										
External revenue	10,731	7,171	1,567	1,945	8,836	15,527	0	0	21,134	24,644
<i>Change</i>	50%		-19%		-43%				-14%	
Other external income	1,738	6,755	7	51	30	65	0	0	1,775	6,871
Revenue and other income from other segments	101	12	343	435	58	2,124	-502	-2,571	0	0
Total revenue and other income	12,570	13,938	1,917	2,431	8,924	17,716	-502	-2,571	22,909	31,515
Segment result	1,733	-2,345	-170	-1,062	-232	-519	0	0	1,331	-3,926
Unallocated expenses									-1,460	-1,932
Operating loss									-128	-5,858
Inventory write-downs and reversals of inventory write-downs, net	1,398	-4,148	0	0	0	0	0	0	1,398	-4,148
Revaluation of investment property, net	-1,845	1,853	-73	-201	0	-101	0	0	-1,919	1,551
Depreciation, amortisation and impairment losses	-59	-94	-36	-53	-40	-171	0	0	-135	-318

Segment	Development		Service		Construction		Eliminations		Consolidated	
	Q4 2010	Q4 2009	Q4 2010	Q4 2009	Q4 2010	Q4 2009	Q4 2010	Q4 2009	Q4 2010	Q4 2009
In EEK thousands										
External revenue	59,522	46,674	7,127	6,371	39,671	74,677	0	0	106,320	127,722
<i>Change</i>	28%		12%		-47%				-17%	
Other external income	22,777	3,019	0	579	103	393	0	0	22,880	3,991
Revenue and other income from other segments	466	125	1,196	2,397	-42	679	-1,620	-3,201	0	0
Total revenue and other income	82,765	49,818	8,323	9,347	39,732	75,749	-1,620	-3,201	129,200	131,713
Segment result	21,836	56,690	-1,430	-7,487	-4,719	-5,259	-636	-224	15,051	43,720
Unallocated expenses									-6,557	-6,824
Operating profit									8,494	36,896
Inventory write-downs and reversals of inventory write-downs, net	27,427	69,349	0	0	0	0	0	0	27,427	69,349
Revaluation of investment property, net	-28,976	-10,894	-1,148	-3,145	0	-1,258	0	0	-30,124	-15,297
Depreciation, amortisation and impairment losses	-751	-691	-130	-176	-166	-1,338	0	0	-671	-1,625

Segment	Development		Service		Construction		Eliminations		Consolidated	
	Q4 2010	Q4 2009	Q4 2010	Q4 2009	Q4 2010	Q4 2009	Q4 2010	Q4 2009	Q4 2010	Q4 2009
In EUR thousands										
External revenue	3,804	2,983	455	407	2,535	4,773	0	0	6,795	8,163
<i>Change</i>	28%		12%		-47%				-17%	
Other external income	1,456	193	0	37	7	25	0	0	1,462	255
Revenue and other income from other segments	30	8	76	153	-3	43	-104	-205	0	0
Total revenue and other income	5,290	3,184	531	597	2,539	4,841	-104	-205	8,257	8,418
Segment result	1,396	3,623	-91	-479	-302	-336	-41	-14	962	2,794
Unallocated expenses									-419	-436
Operating profit									543	2,358
Inventory write-downs and reversals of inventory write-downs, net	1,753	4,432	0	0	0	0	0	0	1,753	4,432
Revaluation of investment property, net	-1,852	-696	-73	-201	0	-80	0	0	-1,925	-978
Depreciation, amortisation and impairment losses	-48	-44	-8	-11	-11	-86	0	0	-43	-104

3. Cost of sales

	EEK		EEK	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Cost of properties sold	-117,053	-87,313	-40,753	-40,477
Cost of construction services purchased	-118,205	-205,216	-36,607	-60,366
Management and administration costs	-12,013	-11,787	-4,381	-2,012
Personnel expenses	-23,824	-34,345	-7,476	-7,301
Vehicle expenses	-2,855	-4,627	-781	-1,060
Depreciation and amortisation expense	-176	-1,728	-46	-282
Inventory write-down expenses ¹	21,868	-64,905	27,427	70,162
Other costs	-1,791	-4,265	-361	-2,306
Total cost of sales	-254,049	-414,186	-62,978	-43,642

¹Inventory write-downs include reversals of prior period write-downs of 30.9 million kroons (2.0 million euros) conducted in 2010.

	EUR		EUR	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Cost of properties sold	-7,481	-5,580	-2,605	-2,587
Cost of construction services purchased	-7,555	-13,116	-2,339	-3,858
Management and administration costs	-768	-753	-280	-128
Personnel expenses	-1,523	-2,195	-478	-467
Vehicle expenses	-182	-296	-50	-68
Depreciation and amortisation expense	-11	-110	-3	-18
Inventory write-down expenses ¹	1,398	-4,148	1,753	4,484
Other costs	-115	-273	-23	-147
Total cost of sales	-16,237	-26,471	-4,025	-2,789

4. Other income and other expenses

Other income	EEK		EEK	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Gains on fair value adjustments to investment property (note 11)	3,459	89,639	3,345	-6,699
Gains on sale of investment property	3,977	7,458	3,219	6,377
Gains on sale of property, plant and equipment	0	249	0	0
Miscellaneous income	20,340	10,156	16,316	4,313
Total other income	27,776	107,502	22,880	3,991

	EUR		EUR	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Gains on fair value adjustments to investment property (note 11)	220	5,729	213	-428
Gains on sale of investment property	255	477	206	407
Gains on sale of property, plant and equipment	0	16	0	0
Miscellaneous income	1,300	649	1,043	276
Total other income	1,775	6,871	1,462	255

Other expenses	EEK		EEK	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Losses on fair value adjustments to investment property (note 11)	-33,480	-65,374	-33,469	-8,598
Losses on sale of investment property	-1,090	-6,370	0	-6,289
Losses on write-down, liquidation and sale of property, plant and equipment	-15	-1,799	-5	-495
Late payment interest and penalty charges	-1,172	-1,355	-94	-699
Miscellaneous expenses	-2,696	-5,598	-2,018	-3,943
Total other expenses	-38,453	-80,496	-35,586	-20,024

	EUR		EUR	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Losses on fair value adjustments to investment property (note 11)	-2,140	-4,178	-2,139	-549
Losses on sale of investment property	-70	-407	0	-402
Losses on write-down, liquidation and sale of property, plant and equipment	-1	-115	0	-32
Late payment interest and penalty charges	-74	-87	-6	-45
Miscellaneous expenses	-173	-358	-129	-252
Total other expenses	-2,458	-5,145	-2,274	-1,280

5. Distribution expenses

	EEK		EEK	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Advertising expenses	-2,565	-2,367	-770	-568
Brokerage fees	-675	-845	-43	-266
Market research expenses	-77	-37	-26	-11
Personnel expenses	-1,054	-870	-263	-237
Other distribution expenses	-363	-282	-237	-4
Total distribution expenses	-4,734	-4,401	-1,339	-1,086

	EUR		EUR	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Advertising expenses	-164	-151	-49	-36
Brokerage fees	-43	-54	-3	-17
Market research expenses	-5	-2	-2	-1
Personnel expenses	-67	-56	-17	-15
Other distribution expenses	-23	-18	-15	0
Total distribution expenses	-302	-281	-86	-69

6. Administrative expenses

	EEK		EEK	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Personnel expenses	-29,907	-37,165	-7,944	-8,215
Office expenses	-8,671	-16,064	-2,157	-5,806
Legal and consulting fees	-12,623	-7,722	-4,432	-3,172
Impairment of goodwill and recognition of goodwill as revenue	0	-10,896	0	-7,171
Depreciation, amortisation and impairment losses	-1,939	-3,247	-635	-1,343
Allowance for doubtful receivables	-4,970	-2,652	-4,585	-2,652
Vehicle expenses	-3,217	-4,879	-658	-878
Other expenses	-1,898	-3,041	-392	-828
Total administrative expenses	-63,225	-85,666	-20,803	-30,065

	EUR		EUR	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Personnel expenses	-1,911	-2,375	-508	-525
Office expenses	-555	-1,027	-138	-371
Legal and consulting fees	-807	-494	-283	-203
Impairment of goodwill and recognition of goodwill as revenue	0	-696	0	-458
Depreciation, amortisation and impairment losses	-124	-208	-41	-86
Allowance for doubtful receivables	-318	-169	-293	-170
Vehicle expenses	-206	-312	-42	-56
Other expenses	-120	-194	-25	-53
Total administrative expenses	-4,041	-5,475	-1,330	-1,922

7. Finance income and finance expenses

Finance income	EEK		EEK	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Gains on sale of investments in subsidiaries	3,616	1,153	2,705	1,153
Gains on sale of interests in jointly controlled entities	105	0	0	0
Share of profit of equity-accounted investees (jointly controlled entities)	71	123	13	123
Interest income	3,223	4,725	253	-4,188
Foreign exchange gains	1,187	150	-4,676	150
Income on other long-term investments	18,246	2,001	18,246	-684
Total finance income	26,448	8,152	16,541	-3,446

	EUR		EUR	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Gains on sale of investments in subsidiaries	231	74	173	74
Gains on sale of interests in jointly controlled entities	7	0	0	0
Share of profit of equity-accounted investees (jointly controlled entities)	5	8	1	8
Interest income	205	302	16	-268
Foreign exchange gains	76	9	-299	10
Income on other long-term investments	1,166	128	1,166	-44
Total finance income	1,690	521	1,057	-220

Finance expenses	EEK		EEK	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Losses on sale of investments in subsidiaries	-17	-5,645	0	-874
Losses on sale of interests in jointly controlled entities	-2,376	0	0	0
Share of losses of equity-accounted investees (jointly controlled entities)	-2,912	-225,407	-1,391	-137,983
Interest expense	-21,386	-27,320	-10,827	-6,556
Foreign exchange losses	-137	-2,973	3,948	-1,033
Other finance expenses	-1,788	-186	-1,581	-186
Write-down of financial assets	0	-18,888	0	116,661
Total finance expenses	-28,616	-280,419	-9,851	-29,971

	EUR		EUR	
	12M 2010	12M 2009	Q4 2010	Q4 2009
In thousands				
Losses on sale of investments in subsidiaries	-1	-361	0	-56
Losses on sale of interests in jointly controlled entities	-152	0	0	0
Share of losses of equity-accounted investees (jointly controlled entities)	-186	-14,406	-89	-8,819
Interest expense	-1,367	-1,746	-692	-419
Foreign exchange losses	-9	-190	252	-65
Other finance expenses	-114	-12	-101	-12
Write-down of financial assets	0	-1,207	0	7,456
Total finance expenses	-1,829	-17,922	-630	-1,915

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	
	12M 2010	12M 2009	Q4 2010	Q4 2009
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707	4,741,707	4,741,707
Net profit / loss attributable to equity holders of the parent (In thousands)	-4,385	-361,618	15,455	6,910
Earnings per share (in kroons)	-0.92	-76.26	3.26	1.46

	EUR		EUR	
	12M 2010	12M 2009	Q4 2010	Q4 2009
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707	4,741,707	4,741,707
Net profit / loss attributable to equity holders of the parent (In thousands)	-294	-23,112	973	441
Earnings per share (in euros)	-0.06	-4.87	0.21	0.09

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.

In 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

As at 31 December	EEK		EUR	
	2010	2009	2010	2009
In thousands				
Trade receivables				
Trade receivables	36,299	55,950	2,320	3,576
Allowance for doubtful items	-5,014	-2,972	-320	-190
Total trade receivables	31,285	52,978	2,000	3,386
Other receivables				
Loans granted	27,161	68,937	1,736	4,406
Miscellaneous receivables	10,573	5,777	676	369
Total other receivables	37,734	74,714	2,412	4,775
Accrued income				
Interest receivable	3,095	3,681	198	235
Due from customers under long-term construction contracts	6,711	293	429	19
Prepaid and refundable VAT	8,574	11,471	547	733
Other accrued income	2,731	7,802	174	499
Total accrued income	21,111	23,247	1,348	1,486
Total current receivables	90,130	150,939	5,760	9,647

10. Inventories

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

11. Investment property

	EEK	EUR
In thousands		
Balance at 31 December 2008	157,367	10,058
Acquisitions	49,033	3,134
Sales	-26,794	-1,713
Transfer from property, plant and equipment	15,258	975
Net gain on changes in fair value (note 4)	24,265	1,551
Balance at 31 December 2009	219,129	14,005

Balance at 31 December 2009	219,129	14,005
Acquisitions	3,725	238
Sales	-14,697	-939
Transfer from inventories	179,968	11,502
Net gain on changes in fair value	-30,021	-1,919
Balance at 31 December 2010	358,104	22,887

12. Loans and borrowings

	31 December 2010		31 December 2009	
	Total	Of which current portion	Total	Of which current portion
EEK In thousands				
Debt securities	0	0	18,870	18,870
Bank loans	457,421	418,942	523,756	338,378
Finance lease liabilities	707	185	954	247
Other loans	26,621	5,306	14,613	14,120
Total	484,749	424,433	558,193	371,615

	31 December 2010		31 December 2009	
	Total	Of which current portion	Total	Of which current portion
EUR In thousands				
Debt securities	0	0	1,206	1,206
Bank loans	29,235	26,775	33,474	21,626
Finance lease liabilities	45	12	61	16
Other loans	1,701	340	935	903
Total	30,981	27,126	35,675	23,751

13. Payables

As at 31 December	EEK		EUR	
	2010	2009	2010	2009
In thousands				
Trade payables	32,291	45,532	2,064	2,910
Miscellaneous payables	23,911	15,851	1,528	1,013
Taxes payable				
Value added tax	1,035	2,315	66	148
Corporate income tax	2,454	2,968	157	190
Personal income tax	957	1,047	61	67
Social security tax	1,616	1,881	103	120
Other taxes	156	924	10	59
Total taxes payable	6,218	9,135	397	584
Accrued expenses				
Interest payable	1,991	2,627	127	168
Payables to employees	4,393	5,118	281	327
Other accruals	10,024	5,358	641	342
Total accrued expenses	16,408	13,103	1,049	837
Total trade and other payables	78,828	83,621	5,038	5,344

14. Transactions with related parties

Transactions and balances with related parties

	EEK		EUR	
	12M 2010 or 31 December 2010	12M 2009 or 31 December 2009	12M 2010 or 31 December 2010	12M 2009 or 31 December 2009
In thousands				
Transactions and balances with jointly controlled entities				
Revenue	40	136	3	9
Current loan receivables	16,108	13,893	1,029	888
Trade receivables	72	918	5	59
Current interest receivables	210	0	13	0
Current loan liabilities	0	1,300	0	83
Current interest liabilities	0	53	0	3
Transactions and balances with companies 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	1,434	2,114	92	135
Current loan liabilities	0	15,329	0	980
Current interest liabilities	0	2,447	0	156
Non-current loan liabilities	0	5,201	0	332
Transactions and balances with key staff of the Group				
Revenue	0	1,704	0	109
Other receivables	0	313	0	20
Interest payable	0	748	0	48
Transactions with other related parties				
Services purchased	2,413	298	154	19
Acquisition of investment property	3,000	0	192	0
Sale of inventories	6,685	0	427	0
Trade receivables	227	0	15	0
Other receivables	2,849	2,849	182	182
Current interest receivables	1,167	1,025	75	66
Trade payables	108	0	7	0
Other payables	5,201	15,465	332	988
Current loan liabilities	4,457	10,008	285	640
Current interest liabilities	39	700	2	45
Long-term liabilities from non-current asset transactions	0	5,998	0	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 fourth quarter of 2010.

The bankruptcy proceedings are pending.

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

On 11 December 2009, Arco Investeeringute AS filed a bankruptcy petition against Ühendatud Kapital AS. The petition was forwarded to the Haapsalu Court House of Pärnu County Court, located in Kärkla, because after receiving a bankruptcy caution from Arco Investeeringute AS Ühendatud Kapital AS transferred its legal address to Kärkla 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 Kärkla.

On 29 March 2010, Arco Investeeringute AS filed an application to the Haapsalu Court House of Pärnu County Court located in Kärkla 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 Kärkla 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 Kärkla and on 22 September 2010 the court decided, based on the application of Arco Investeeringute AS, not to review the bankruptcy petition and to return the bankruptcy petition.

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

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

To date the litigations have been terminated.

Action brought by Indrek Porila against Arco Vara AS

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

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

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

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

The litigation is pending.

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

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

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

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

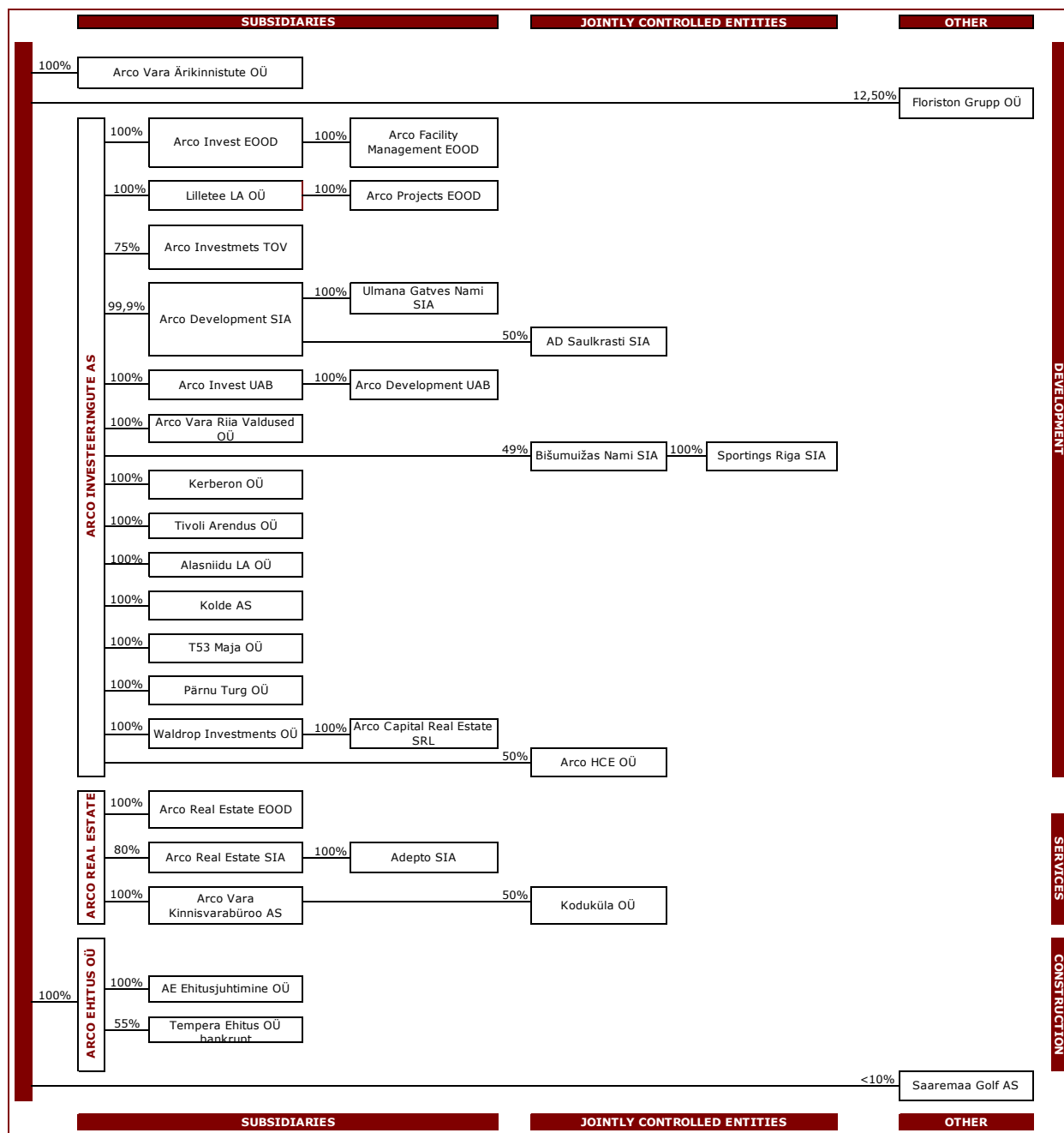
On 13 September 2010 Arco Ehitus OÜ and OÜ Kristiine Ehitus brought an action demanding recognition of the cancellation of the contract and settlement of claim. On 27 December 2010 Arco Ehitus OÜ and OÜ Kristiine Ehitus filed additional statements and a specification of the action according to which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

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

The litigation is pending.

16. Group structure

The Group's structure as at 31 December 2010



Statement by the management board

The management board of Arco Vara AS has prepared the interim report for the fourth quarter and twelve months ended 31 December 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

25 February 2011