

Arco Vara AS

Interim report 1 quarter 2011

INTERIM REPORT
FIRST QUARTER ENDED
31 MARCH 2011
(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 2011 – 31 December 2011

Reporting period: 1 January 2011 – 31 March 2011

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

Management board: Lembit Tampere

Auditor: KPMG Baltics OÜ

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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 first quarter of 2011, the Group comprised 27 subsidiaries (31 March 2010: 25) and 6 joint ventures (31 March 2010: 7).

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 March 2011	31 December 2010
%			
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 March 2011	31 December 2010
%			
Development segment			
Subsidiaries			
Arco Invest EOOD ¹	Bulgaria	100	100
Arco Facility Management EOOD ¹	Bulgaria	100	100
Arco Project EOOD ¹	Bulgaria	100	100
Alasniidu LA OÜ ¹	Estonia	100	100
Arco Investeeringute AS	Estonia	100	100
Arco Vara Riga 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
Lilletee LA OÜ ¹	Estonia	100	100
Pärnu Turg OÜ ¹	Estonia	100	100
T53 Maja OÜ ¹	Estonia	100	100
Waldrop Investments OÜ ¹	Estonia	100	100
Arco Development SIA ¹	Latvia	70	99.9
Ulmana Gatves Nami SIA ¹	Latvia	70	99.9
Arco Invest UAB ¹	Lithuania	100	100
Arco Development UAB ¹	Lithuania	100	100
Arco Capital SRL ¹	Romania	100	100
Arco Investments TOV ¹	Ukraine	75	75
Joint ventures			
Arco HCE OÜ ¹	Estonia	50	50
Koduküla OÜ ¹	Estonia	50	50
Tivoli Arendus OÜ ¹	Estonia	50	100
AD Saulkrasti SIA ¹	Latvia	35	50
Bišumuižas Nami SIA ¹	Latvia	49.38	49.38
Sporting Rīga SIA ¹	Latvia	49.38	49.38
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

On 7 February 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, divested 29.99% of its ownership interest in Arco Development SIA to SL Development SIA. The sales price of the shares was 104 euros.

On 18 March 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, sold 50% of its stake in Tivoli Arendus OÜ. As a result of the transaction, the interest of Arco Investeeringute AS in Tivoli Arendus OÜ decreased from 100% to 50%. The transaction was conducted at the nominal value of the shares.

Changes in Group structure after the reporting period:

On 26 April 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, established a wholly-owned subsidiary, Fineprojekti OÜ, whose share capital is 2500 euros.

KEY PERFORMANCE INDICATORS

- The Group's consolidated revenue for the first quarter of 2011 was 13.3 million euros. The figure includes 8.3 million euros earned on the sale of the Tivoli properties to the Group's joint venture Tivoli Arendus OÜ. Excluding the latter transaction, the Group's revenue was 5.0 million euros, 17% up on the first quarter of 2010.
- Operating loss for the period was 0.9 million euros, a 48% increase year-over-year.
- Net loss for the first quarter was 1.3 million euros, 75% up on the first quarter of 2010.
- Equity to assets ratio at period-end was 40.5% (31 March 2010: 37.1%). Return on equity (12 months rolling) was negative (Q1 2010: negative). Return on invested capital (12 months rolling) was 1.2% (Q1 2010: negative).
- At the end of the first quarter, the Group's order backlog stood at 19.0 million euros compared with 8.0 million euros at the end of the first quarter of 2010.
- During the first quarter of 2011, the Group sold 13 apartments (Q1 2010: 30 apartments and plots).

	Q1 2011	Q1 2010
In millions of euros		
Revenue	13.3	4.2
Operating loss	-0.9	-0.6
<i>Of which net loss on changes in the values of investment properties and inventories</i>	0.0	-0.2
Loss before tax	-1.3	-0.7
<i>Of which net loss on the disposal of financial assets</i>	0.0	-0.2
Net loss	-1.3	-0.7
EPS (in euros)	-0.28	-0.16
Total assets at period-end	65.5	75.4
Invested capital at period-end	53.2	63.8
Net loans at period-end	24.4	32.5
Equity at period-end	26.5	27.3
Average loan term (in years)	2.1	1.6
Average interest rate of loans (per year)	7.0%	6.0%
ROIC (rolling, 4 quarters)	1.2%	neg
ROE (rolling, 4 quarters)	neg	neg
Number of staff at period-end	150	160

FORMULAS USED

Invested capital = current interest-bearing liabilities + non-current liabilities + equity (at end of period)

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

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

Average equity = past four quarters' equity at end of period / four

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

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

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)

Group Chief Executive's review

In the first quarter of 2011, we sold 13 apartments in the projects of Arco Vara - two in Estonia, five in Latvia and six in Bulgaria. The most important project of the period was the work started on the Tivoli project in Tallinn. In addition, we acquired a lease with the commitment to build a nursery school in Lille tee in Viimsi. We have also started developing an apartment building comprising up to 12 apartment units in Tehnika street in Tallinn. For financing the construction of the 160 apartments in phase I of the Tivoli project we involved a partner but the Viimsi nursery school and the apartment building at Tehnika 53 are projects we are building without partners. We did not start any other new projects but continued the construction and sale of the Kodukolde apartment buildings project in Tallinn and the sale of plots at Merivälja. After the reporting date, we completed a nursery school at Alasniidu. We will also continue the development of apartments in the Bisumuiza 1 project in Riga and realisation of the plots at Mazais Baltezers. In Bulgaria, we continued signing real right contracts on the sale of apartments and letting the last vacant rental premises in the Madrid project and the construction of the Manastirski project in Sofia.

A significant proportion of real right contracts (i.e. contracts on the transfer of title) will be signed in the second quarter when the first 50 apartments will be completed in the Kodukolde community in Tallinn. The majority of those apartments will be delivered to customers in May and June. It is important to note that the completion of development projects has a significant impact on the Group's revenue because most sales are recognised as revenue in the period following the completion of construction work. Although the revenue of the Development division fluctuates steeply, administrative costs are incurred regardless of the stage of sale (signature of contracts on the transfer of title).

For the Service division, 2011 started better than 2010. The division ended the first quarter of 2011 with an operating loss of 32 thousand euros compared with an operating loss of 87 thousand euros for the first quarter of 2010. The improvement is all the more significant because the first quarter is low season for the division. The number of brokerage transactions increased by 22% and the number of valuation reports issued grew by 40% year-over-year. At the same time, the number of brokers decreased and the number of appraisers grew by only 8%.

In the first quarter of 2011, we secured new construction contracts of 4.3 million euros. At 31 March 2011, the Group's order backlog was 19.0 million euros against 8.0 million euros at the end of the first quarter of 2010.

Within the past 12 months, the Group has reduced its loans and borrowings by 9.4 million euros and the equity to assets ratio has risen from 37% to 41%. Although the weighted average interest rate of loans and borrowings has risen compared with a year ago, interest payments for the first quarter of 2011 totalled 0.5 million euros, remaining at the same level as in the first quarter of 2010. Compared with the end of 2010, the weighted average duration of the Group's loans and borrowings has increased significantly because at 31 March 2011 most of the Madrid loan, which at the year-end was classified as a current liability in conformity with IAS 1.74, was again classified by reference to its settlement schedule as a non-current liability.

REVENUE AND PROFIT

	Q1 2011	Q1 2010
In millions of euros		
Revenue		
Service	0.5	0.4
Development	9.9	2.4
Construction	2.9	1.5
Eliminations	0.0	-0.1
Total revenue	13.3	4.2
Operating loss		
Service	0.0	-0.1
Development	-0.6	-0.2
Construction	-0.1	-0.1
Eliminations	0.1	0.3
Unallocated revenues and expenses	-0.3	-0.5
Total operating loss	-0.9	-0.6
Interest income and expense	-0.4	-0.1
Net loss	-1.3	-0.7

The Service and Construction divisions' revenues have grown and operating losses have decreased year-over-year. Although the number of properties sold by the Development division was smaller than a year ago, in the first quarter of 2011 the division signed 13 preliminary apartment sales contracts (contracts under the law of obligations) in a new phase of the Kodukolde project, which are not yet included in revenue.

Finance income and expenses were influenced the most by growth in interest expense. This is related to the completion of the Madrid project and discontinuance of capitalisation of associated borrowing costs. In the first quarter of 2011, the Group did not earn any exceptional finance income or incur any exceptional finance expenses but the result for the first quarter of 2010 was influenced by foreign exchange gain of 0.15 million euros earned on a receivable from AS Ühendatud Kapital that was denominated in US dollars and a loss of 0.23 million euros incurred on the disposal of Arco Vara Saare Kinnistute OÜ.

CASH FLOWS

	Q1 2011	Q1 2010
In millions of euros		
Cash flows from operating activities	-0.7	-0.1
Cash flows from investing activities	-0.4	0.0
Cash flows from financing activities	-0.9	-0.8
Net cash flow	-2.0	-0.9
Cash and cash equivalents at beginning of period	4.2	4.1
Cash and cash equivalents at end of period	2.2	3.2

In March 2011, Arco Investeeringute AS repaid before maturity the remaining 5.27 million euros of the loan taken from SEB Pank for acquiring the land under the Tivoli project and 0.12 million euros of the loan taken for acquiring the land under the Laeva project. Repayment of the Tivoli loan and partial repayment of the Laeva 2 loan are not reflected in the Group's cash flows because the buyer of Tivoli Arendus OÜ paid the cash directly to SEB. There were no other exceptional loan settlements in the first quarter of 2011.

Interest payments accounted for 0.5 million euros of the net cash outflow from financing activities. Scheduled and inventory sales-related settlements of loan principal totalled 0.7 million euros. The largest proportion of credit limits utilised during the period was related to the construction of the last but one phase in the Kodukolde project and the Alasniidu nursery school that accounted for 1.2 million euros of the total. Use of the Kodukolde credit limit is not reflected in the cash flows because invoices received from Merko Ehitus are booked as a loan and there are no factual cash movements.

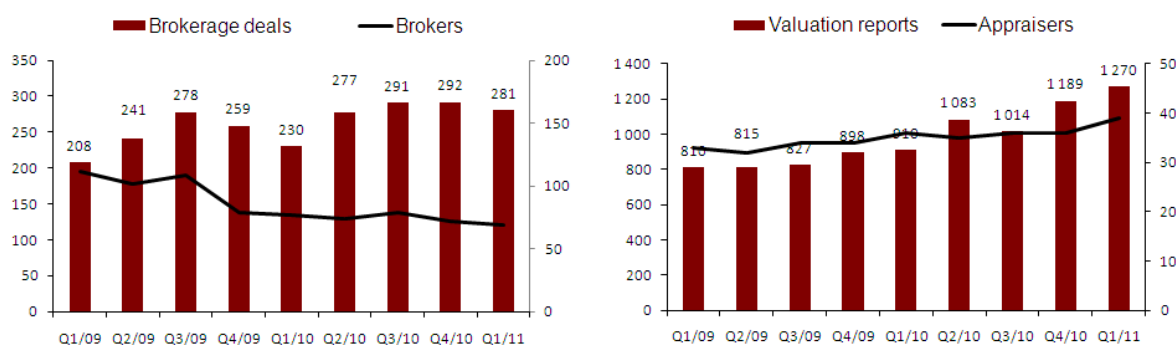
The largest current liabilities to be settled in the next 12 months comprise:

- estimated principal repayments to be made on the sale of reserved premises and payments under the settlement schedule of the loan taken for the Boulevard Residence Madrid project in Sofia of 4.7 million euros;
- repayments of the loan taken for the Manastirski project of 2.2 million euros;
- repayments of an investment loan taken for a cash flow project at Kadaka tee 131 of 1.5 million euros;
- repayments of the loan taken for the Bisumuiza project of 1.4 million euros;
- repayments of the loan taken for the Laeva 2 development project of 1.1 million euros.

In the first quarter, the Group made regular repayments of the loans taken for the Kodukolde project in Tallinn, the Bishumuiza-1 project in Riga and the Madrid project in Sofia and also scheduled settlements of the loans taken for its cash flow generating projects.

SERVICE DIVISION

For the Service division, the first quarter of 2011 was better than that of 2010: operating loss for the first quarter of 2011 was 32 thousand euros compared with 87 euros a year ago. The number of the Group's brokerage transactions increased by 22% and the number of valuation reports issued grew by 40% year-over-year. At the same time, the number of brokers decreased and the number of appraisers grew by only 8%.



	Q1 2011	Q1 2010	Change, %
Number of brokerage transactions	281	230	22%
Number of projects on sale	158	171	-8%
Number of valuation reports	1,270	910	40%
Number of appraisers*	39	36	8%
Number of brokers*	69	77	-10%
Number of staff at end of period	49	63	-22%

* Includes people working under service contracts.

DEVELOPMENT DIVISION

In the first quarter of 2011, the Group sold a total of 13 apartments in Arco Vara projects. Five apartments were sold in the Bisumuiza project in Latvia, two apartments were sold in the Kodukolde project in Estonia and six apartments were sold in the Madrid project in Sofia.

The Group found a partner, International Invest Project OÜ, for the Tivoli project and raised financing for the construction of its first phase. Design work is under way and construction is scheduled to start in 2011.

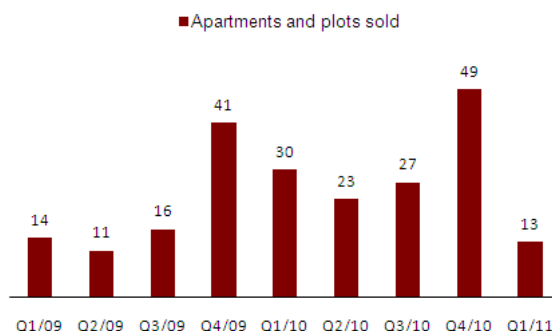
The construction of the last but one phase of the Kodukolde development project (50 apartments) is on schedule and the buildings will be completed by the end of May 2011. Construction of the last phase (50 apartments) should begin in the second quarter. Construction work is performed and financed by AS Merko Ehitus.

The construction of the Alasniidu nursery school reached its final stage. We expect to obtain a use permit for the building by the end of May after which we will deliver the building to Harku local government with whom we already have a rental agreement.

At the end of the first quarter, a wholly-held subsidiary of Arco Investeeringute AS bought the right of superficies to a property in Lille tee in Viimsi with a view to building a nursery school for six groups of children. The Group has already signed a long-term rental agreement with the local government. We have started preparing the preliminary design documentation that is required for obtaining a construction permit and negotiations with financing institutions and builders. According to current plans, the building should be completed in the first half 2012.

Most of the commercial rental premises in the Boulevard Residence Madrid commercial and residential building in Sofia that were covered with preliminary contracts have been transferred to customers and tenants have moved in. We continue to deliver reserved apartments under real right contracts and to sell off free apartments.

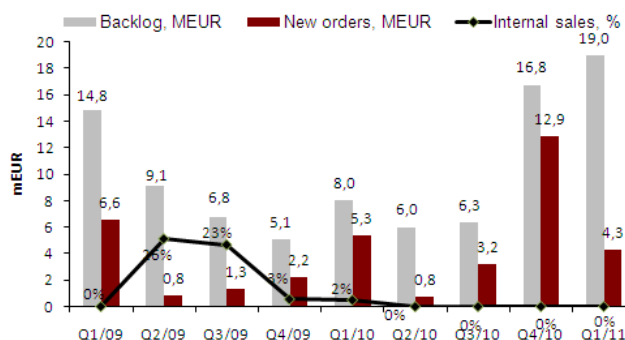
At the end of March 2011, the Development division employed 22 people (31 December 2010: 26). For further information on our projects, please refer to: www.arcorealestate.com/development.



CONSTRUCTION DIVISION

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

As at the end of the first quarter of 2011, the largest active construction contracts comprised the Tallinn-Muuga water and wastewater networks and facilities with the remaining balance of 6.7 million euros, the design and construction of the water and wastewater networks of the Jõgeva and Puurmani rural municipalities with the remaining balance of 2.7 million euros and the building of the Estonian Aviation Academy with the remaining balance of 1.9 million euros.



In the first quarter of 2011, the division secured new construction contracts of 4.3 million euros. As at the reporting date, the order backlog stood at 19.0 million euros compared with 8.0 million euros at the end of the first quarter of 2010.

At the end of March 2011, the Construction division employed 58 people (31 December 2010: 49).

A SUMMARY OF MAJOR PROJECTS

Project type	Name	Location	Interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Commercial	Ahtri tn 3	Estonia, Tallinn	50%	48,518m ²	The old plan is in force. A detailed plan for more extensive building rights is in the final stages of adoption. In the new plan, above-ground building rights extend to 51,100m ² .	Investments
Commercial	Alasniidu	Estonia, Harku rural municipality	100%	Usable floor space of the building 1.612 m ²	A nursery school for 144 children is in the final stage of construction. A rental agreement has been signed with the local government.	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	Lilletee	Estonia, Viimsi rural municipality	100%	ca 1,740 m ²	A right to superficies with the obligation to build a nursery school for six groups of children has been obtained. Design work is under way.	Inventories
Project type	Name	Location	Interest	Building rights according to business plan	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%	6,950 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	Interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Apartments	Bisumuiza 1	Latvia, Riga	70%	Area of unsold apartments 13,068 m ²	Building rights have been obtained. Sale of apartments is under way. In 2010 we started completing apartments of phase II.	Inventories
Apartments	Bisumuiza 2	Latvia, Riga	49%	87,737 m ²	Design work is scheduled to start in 2011.	Investments
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m ²	Building rights have been obtained. On sale.	Inventories
Apartments	Kolde	Estonia, Tallinn	100%	Area of unsold/ unreserved apartments 4,287 m ²	The right to superficies and building rights 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 2,793 m ² .	The building is complete, sales continue..	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Area of unsold/ unreserved apartments and commercial space 24,512 m ²	Building rights have been obtained. Construction continued in Q1 2011. On sale.	Inventories
Apartments	Paldiski mnt 70c	Estonia, Tallinn	33%	ca 34,000 m ²	The initial planning outline is under preparation.	Investment property
Apartments	Tehnika tn 53	Estonia, Tallinn	100%	1,515 m ²	A detailed plan has been adopted, design work is under way.	Inventories
Apartments	Tivoli	Estonia, Tallinn	50%	58,470 m ²	A detailed plan has been adopted, design work is under way.	Investments
Plots	Baltezers-3	Latvia, Riga	70%	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 25	Building rights have been obtained. Construction has been completed. On sale.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold/unreserved 4,651 m ² , 4 plots	Roads and networks have been completed. Sale of plots is under way.	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 is under way. Is awaiting for an improvement in the market situation.	Investments
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1,802 m ²	No building rights. The detailed plan process is under way. Is awaiting for an improvement in the market situation.	Investments
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3,363 m ²	Building rights have been obtained. Construction design documentation has been prepared. Is awaiting an improvement in the market situation.	Inventories

Note: The development and success of the Group's development projects depend largely on external factors, particularly the adoption of plans and the issuance of building permits by the local government and the planning authorities. The information presented in the table, such as building rights according to business plan, current status, project type and classification of the project in the statement of financial position, has been recorded based on management's intentions and best judgment and may change in line with changes in the planning process. Expectations of the projects' realisation may also change over time in connection with changes in the market and the competition environment. Management estimates the value of the project portfolio on an ongoing basis and is prepared to sell any project or part of a project at any time, depending on the results of the cost-benefit analysis.

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

Line item in the statement of financial position	Balance of line item at 31 March 2011	Carrying amount of projects presented in the table of major projects at March 2011
In millions of euros		
Total assets	65.5	49.4
Inventories	27.4	26.7
Investment property	23.3	22.7
Investments	1.0	0.0

SIGNIFICANT CHANGES IN DETAILED PLANS DURING THE FIRST THREE MONTHS OF 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.

PEOPLE

At the end of the first quarter of 2011, the Group employed 150 people compared with 160 at the end of the first quarter of 2010. First quarter employee remuneration expenses including relevant taxes totalled 0.9 million euros against 0.8 million euros for the first quarter of 2010.

The remuneration of the member of the parent company's management board including relevant taxes amounted to 0.1 million euros compared with 0.03 million euros for the first quarter of 2010.

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

SHARE AND SHAREHOLDERS

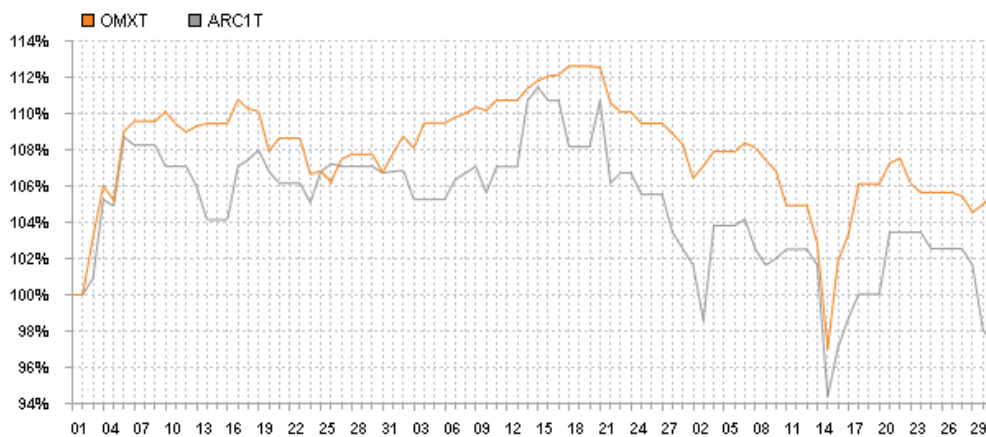
Arco Vara AS has issued a total of 4,741,707 shares. At 31 March 2011, the company had 1,999 shareholders and the share price closed at 5.36 euros, a 3% decrease since the previous year-end.

The following charts provide an overview of movements in the Arco Vara share price and daily turnover in the first quarter of 2011:

In euros (EUR)



Changes in share price compared with the benchmark index OMX Tallinn in the first quarter of 2011:



Index/equity	1 Jan 2011	31 Mar 2011	+/-%
—OMX Tallinn	698.38	737.07	5.54
—ARC1T	EUR 5.51	EUR 5.36	-2.76

Major shareholders at 31 March 2011	Number of shares	Interest, %
HM INVESTEERINGUD OÜ	1,038,632	21.9%
TOLETUM OÜ	1,037,975	21.9%
Baltplast OÜ	897,135	18.9%
GAMMA HOLDING OÜ	427,634	9.0%
Skandinaviska Enskilda Banken Ab Clients	219,585	4.6%
FIREBIRD REPUBLICS FUND LTD	156,064	3.3%
Central Securities Depository of Lithuania	129,445	2.7%
FIREBIRD AVRORA FUND, LTD.	106,897	2.3%
Lokotar Invest OÜ	26,100	0.6%
Other	702,240	14.8%
Total	4,741,707	100.0%

Holdings of members of the management and supervisory boards at 31 March 2011	Position	Number of shares held	Interest, %
Lembit Tampere	Member of Management Board	0	0%
Richard Tomingas (Toletum OÜ)	Chairman of Supervisory Board	1,037,975	21.9%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, close family members)	Member of Supervisory Board	1,048,139	22.1%
Aare Tark	Member of Supervisory Board	0	0%
Kalev Tanner	Member of Supervisory Board	0	0%
Ragnar Meitern	Member of Supervisory Board	0	0%
Total		2,086,114	44.0%

DESCRIPTION OF THE MAIN RISKS

Credit risk

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

Liquidity risk

The Group's free funds are placed in overnight or short-term fixed-interest term deposits with the largest banks operating in Estonia. The duration of a term deposit is generally one week. Owing to high refinancing risk, cash flow management is tight. The Group's cash and cash equivalents balance is constantly smaller than the balance of loans that require refinancing in the next 12 months. At 31 March 2011, the weighted average duration of interest-bearing liabilities was 2.1 years, which means that on average all loans need to be refinanced every two years. Although at the end of the first quarter of 2011 the Group's cash and cash equivalents totalled 2.2 million euros, 1.6 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 quarter of 2011, the Group's interest-bearing liabilities decreased by 5.0 million euros to 25.9 million euros at 31 March 2011. The period's interest payments on interest-bearing liabilities totalled 0.5 million euros. Compared with the end of the first quarter of 2010, the weighted average interest rate has risen from 6% to 7%.

Currency risk

Purchase and sales contracts are mostly been signed in local currencies: euros (EUR), Latvian lats (LVL) and Bulgarian levs (BGN). The Group is not protected against currency devaluations. After the adoption of the euro in Estonia from 1 January 2011, the currency risk arising from the exchange rate of the Estonian kroon and the euro ceased to exist. Most liquid funds are held in short-term deposits denominated in euros.

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

Lembit Tampere

Chief Executive Officer
and Member of the Management Board

20 May 2011



Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

For the period ended 31 March 2011	Note	Q1 2011	Q1 2010
In thousands of euros			
Revenue from rendering of services		3,737	1,835
Revenue from sale of goods		9,522	2,394
Total revenue	2	13,259	4,229
Cost of sales	3	-12,692	-3,745
Gross profit		567	484
Other income		5	117
Distribution expenses	4	-102	-63
Administrative expenses	5	-1,361	-1,100
Other expenses		-43	-68
Operating loss		-934	-630
Finance income	6	34	324
Finance expenses	6	-421	-446
Loss before tax		-1,321	-752
Income tax expense		0	-1
Loss for the period		-1,321	-753
<i>Loss attributable to owners of the parent</i>		-1,334	-753
<i>Profit attributable to non-controlling interests</i>		13	0
Other comprehensive income			
Exchange differences on translating foreign operations		0	11
Total comprehensive expense for the period		-1,321	-742
<i>Total comprehensive expense attributable to owners of the parent</i>		-1,334	-742
<i>Total comprehensive income attributable to non-controlling interests</i>		13	0
Earnings per share (in euros)	7		
- Basic		-0.28	-0.16
- Diluted		-0.28	-0.16

Consolidated statement of financial position

	Note	As at 31 March 2011	As at 31 December 2010
In thousands of euros			
Cash and cash equivalents		2,197	4,209
Trade and other receivables	8	7,545	5,760
Prepayments		325	192
Inventories	9	27,388	35,740
Total current assets		37,455	45,901
Investments		997	996
Trade and other receivables	8	2,951	76
Investment property	10	23,348	22,887
Property, plant and equipment		680	703
Intangible assets		21	20
Total non-current assets		27,997	24,682
TOTAL ASSETS		65,452	70,583
Loans and borrowings	11	12,110	27,126
Trade and other payables	12	6,235	4,813
Deferred income		4,819	4,859
Provisions		1,247	1,378
Total current liabilities		24,411	38,176
Loans and borrowings	11	13,824	3,855
Other payables	12	710	724
Total non-current liabilities		14,534	4,579
TOTAL LIABILITIES		38,945	42,755
Share capital		3,030	3,030
Statutory capital reserve		2,011	2,011
Retained earnings		21,466	22,787
Total equity		26,507	27,828
Equity attributable to non-controlling interests		175	-70
Equity attributable to equity holders of the parent		26,332	27,898
TOTAL LIABILITIES AND EQUITY		65,452	70,583

Consolidated statement of cash flows

For the period ended 31 March 2011	Note	Q1 2011	Q1 2010
In thousands of euros			
Loss for the period		-1,321	-753
Interest income and interest expense	6	355	126
Gain/loss on sale of subsidiaries and interests in joint ventures	6	0	229
Share of profits and losses of equity-accounted investees	6	0	-80
Gain/loss on other long-term investments	6	0	4
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3, 5	25	24
Gain/loss on inventory write-downs and reversals of inventory write-downs	3	0	210
Foreign exchange gains and losses	6	4	-157
Income tax expense/income		0	1
Operating cash flow before working capital changes		-937	-396
Change in receivables and prepayments		-1,866	1,863
Change in inventories		1,504	937
Change in payables and deferred income		591	-2,456
NET CASH USED IN OPERATING ACTIVITIES		-708	-52
Acquisition of property, plant and equipment and intangible assets		-2	-10
Paid on development of investment properties		-557	0
Proceeds from sale of investment properties		177	-7
Acquisition of subsidiaries and interests in joint ventures		1	0
Loans granted		-67	-12
Repayment of loans granted		29	2
Interest received		24	23
NET CASH USED IN INVESTING ACTIVITIES		-395	-4
Proceeds from loans received	11	504	1,669
Settlement of loans and finance lease liabilities	11	-876	-2,020
Interest paid		-537	-512
NET CASH USED IN FINANCING ACTIVITIES		-909	-863
NET CASH FLOW		-2,012	-919
Cash and cash equivalents at beginning of period		4,209	4,137
Decrease in cash and cash equivalents		-2,012	-919
Effect of exchange rate fluctuations on cash held		0	10
Cash and cash equivalents at end of period		2,197	3,228

Consolidated statement of changes in equity

For the period ended 31 March 2011

	Equity attributable to equity holders of the parent					Non-controlling interests	Total equity
	Share capital	Statutory capital reserve	Own shares	Retained earnings	Total		
In thousands of euros							
Balance at 31 December 2009	60,898	2,011	-255	-34,475	28,179	-76	28,103
Change in non-controlling interests(through change in interests in subsidiaries)	0	0	0	-1	-1	1	0
Reduction of share capital	-57,868	0	255	57,613	0	0	0
Total comprehensive expense for the period	0	0	0	-753	-753	0	-753
Balance at 31 March 2010	3,030	2,011	0	22,384	27,425	-75	27,350
Balance at 31 December 2010	3,030	2,011	0	22,857	27,898	-70	27,828
Change in non-controlling interests(through change in interests in subsidiaries)	0	0	0	-232	-232	232	0
Total comprehensive expense for the period	0	0	0	-1,334	-1,334	13	-1,321
Balance at 31 March 2011	3,030	2,011	0	21,291	26,332	175	26,507

Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the first quarter of 2011 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 IAS 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 2010.

The financial statements are presented in euros. The figures in the tables are in thousands of currency units unless otherwise indicated.

2. Segment reporting by business segments

The Group's business segments comprise:

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

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

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

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010
In thousands of euros												
External revenue ¹	9,888	2,385	452	345	2,918	1,489	1	10	0	0	13,259	4,229
<i>Change</i>	315%	66%	31%	-34%	96%	-60%					214%	-26%
Inter-segment revenues	2	2	54	71	0	31			-56	-104	0	0
Total revenue	9,890	2,387	506	416	2,918	1,520	1	10	-56	-104	13,259	4,229
Operating loss	-626	-174	-32	-87	-60	-130	-333	-488	117	249	-934	-630
<i>Of which inventory write-downs and reversals of inventory write-downs, net</i>	0	-210	0	0	0	0	0	0	0	0	0	-210

¹ The revenue of the Development segment for the first quarter of 2011 includes revenue of 8,309 thousand euros earned from the sale of inventories to the Group's joint venture Tivoli Arendus OÜ on 18 March 2011.

3. Cost of sales

	Q1 2011	Q1 2010
In thousands of euros		
Cost of properties sold ¹	-9,321	-1,844
Cost of construction services purchased	-2,649	-1,095
Personnel expenses	-424	-298
Management and administration costs	-233	-183
Vehicle expenses	-43	-43
Depreciation, amortisation and impairment losses	-3	-2
Inventory write-down expenses	0	-210
Other costs	-19	-70
Total cost of sales	-12,692	-3,745

¹ Includes the acquisition cost of inventories sold to the Group's joint venture Tivoli Arendus OÜ on 18 March 2011 of 8,300 thousand euros.

4. Distribution expenses

	Q1 2011	Q1 2010
In thousands of euros		
Advertising expenses	-55	-29
Market research expenses	-17	-2
Personnel expenses	-17	-16
Brokerage fees	0	-14
Other distribution expenses	-13	-2
Total distribution expenses	-102	-63

5. Administrative expenses

	Q1 2011	Q1 2010
In thousands of euros		
Legal and consulting fees	-643	-303
Personnel expenses	-428	-493
Office expenses	-129	-169
Vehicle expenses	-44	-54
Depreciation, amortisation and impairment losses	-22	-23
Expenses from write-down of receivables	0	-39
Other expenses	-95	-19
Total administrative expenses	-1,361	-1,100

6. Finance income and expenses

<i>Finance income</i>	Q1 2011	Q1 2010
In thousands of euros		
Interest income	34	79
Share of profit of joint ventures	0	88
Foreign exchange gains	0	157
Total finance income	34	324

<i>Finance expenses</i>	Q1 2011	Q1 2010
In thousands of euros		
Interest expense	-389	-205
Losses on sale of investments in joint ventures	0	-229
Share of losses of joint ventures	0	-8
Foreign exchange losses	-4	0
Other finance expenses	-28	-4
Total finance expenses	-421	-446

7. 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.

	Q1 2011	Q1 2010
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707
Net loss attributable to equity holders of the parent (In thousands of euros)	-1,334	-753
Earnings per share (in euros)	-0.28	-0.16

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.

8. Trade and other receivables

Current portion of trade and other receivables

	31 March 2011	31 December 2010
In thousands of euros		
Trade receivables		
Trade receivables	2,966	2,320
Allowance for doubtful items	-320	-320
Total trade receivables	2,646	2,000
Other receivables		
Loans granted	1,810	1,753
Miscellaneous receivables	570	659
Total other receivables	2,380	2,412
Accrued income		
Interest receivable	192	198
Due from customers under long-term construction contracts	1,722	429
Prepaid and refundable VAT	439	548
Other accrued income	166	173
Total accrued income	2,519	1,348
Total current trade and other receivables	7,545	5,760

Long-term portion of trade and other receivables

	31 March 2011	31 December 2010
In thousands of euros		
Loans granted ¹	2,876	0
Other long-term receivables	75	76
Total non-current trade and other receivables	2,951	76

¹Long-term loan to the Group's joint venture Tivoli Arendus OÜ given on the sale of the Tivoli project inventories to Tivoli Arendus OÜ in March 2011.

9. Inventories

	31 March 2011	31 December 2010
In thousands of euros		
Properties purchased and developed for resale	27,006	35,486
Materials and finished goods	58	32
Prepayments to suppliers for inventories	324	222
Total inventories	27,388	35,740

10. Investment property

In thousands of euros	
Balance at 31 December 2009	14,005
Sales	-133
Balance at 31 March 2010	13,872
Balance at 31 December 2010	22,887
Capitalised development costs	638
Sales	-177
Balance at 31 March 2011	23,348

11. Loans and borrowings

	31 March 2011			31 December 2010		
	Total	Of which current portion	Of which non-current portion	Total	Of which current portion	Of which non-current portion
In thousands of euros						
Bank loans	23,468	11,751	11,717	29,235	26,775	2,460
Finance lease liabilities	41	8	33	45	12	33
Other loans	2,425	351	2,074	1,701	339	1,362
Total	25,934	12,110	13,824	30,981	27,126	3,855

In the first quarter of 2011, the Group settled loan liabilities of 876 thousand euros (Q1 2010: 2,020 thousand euros) and received new loans of 504 thousand euros (Q1 2010: 1,669 thousand euros). The Group's loans and borrowings decreased also through the sale of the Tivoli property to the joint venture Tivoli Arendus OÜ, as a result of which the counterparty settled the Group's loan liabilities of 5,387 thousand euros. In addition, the balance of loans and borrowings grew by 711 thousand euros in connection with an increase in the financing of the Kodukolde project.

12. Trade and other payables

	31 March 2011	31 December 2010
In thousands of euros		
Trade payables	4,369	2,412
Miscellaneous payables	1,088	1,180
Taxes payable		
Value added tax	80	66
Corporate income tax	99	157
Personal income tax	71	61

Social security tax	116	103
Other taxes	14	10
Total taxes payable	380	397
Accrued expenses		
Interest payable	23	127
Payables to employees	253	281
Other accruals	122	416
Total accrued expenses	398	824
Total current trade and other payables	6,235	4,813

Non-current portion of trade and other payables

	31 March 2011	31 December 2010
In thousands of euros		
Retentions payable	706	720
Other non-current payables	4	4
Total non-current trade and other payables	710	724

13. Transactions and balances with related parties

	Q1 2011 31 March 2011	Q1 2010 or 31 December 2010
In thousands of euros		
Transactions and balances with joint ventures		
Current loan receivables	1,076	1,029
Trade receivables	5	5
Current interest receivables	22	13
Transactions and balances with companies related members of the supervisory board that have a significant interest in the Group's Parent company		
Other current receivables	376	376
Current interest receivables	97	92
Transactions and balances with the Group's key personnel		
Other current receivables	24	24
Transactions and balances with other related parties		
Purchase of services	606	22
Trade receivables	9	15
Other current receivables	182	182
Current interest receivables	77	75
Trade payables	714	7
Other current payables	329	332
Current loan liabilities	315	285
Current interest liabilities	6	2

14. 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 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 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 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 3 thousand euros claimed by Arco Vara AS. Thus, the claim of Arco Vara AS was defended to the extent of 147 thousand euros.

The report prepared by the bankruptcy trustee indicates that the debtor has commitments of 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 creditors' general meeting decided to enlarge the bankruptcy committee by one member.

There were no developments in the above bankruptcy proceedings in the first quarter of 2011.

The bankruptcy proceedings are pending.

Action brought by Indrek Porila against Arco Vara AS

On 13 May 2010, Indrek Porila, a former employee of Arco Vara AS, brought an action against Arco Vara AS at Harju County Court, claiming settlement of a principal liability of 1,342 thousand euros and associated late payment interest of 401 thousand euros, i.e. 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. 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 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. With a ruling of 13 April 2011 the court decided to partly satisfy the application and obligated Indrek Porila to pay to Arco Vara AS 1,600 euros as compensation of procedure expenses.

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 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 889,532 euros plus late payment interest. The Republic of Estonia has not recognised the claim and has contested it in full.

The preliminary hearing and hearing in the matter took place in Harju County Court on 17 January 2011 and 11 April 2011. The court has not yet ruled on the matter.

The litigation is pending.

Claims filed by Arco Ehitus OÜ against Plastitehase AS

On 18 December 2007, Arco Ehitus OÜ (the Contractor) and Plastitehase AS (the Customer) signed construction services contract no 1/12/07, under which Arco Ehitus OÜ undertook to construct an integrated water treatment system for Plastitehase AS. Arco Ehitus OÜ performed all of the contractual construction work but Plastitehase AS left bills of 151,170 euros unpaid.

Plastitehase AS was declared bankrupt on 1 March 2011 and Ly Mürsoo was appointed the trustee in the bankruptcy proceedings.

On 9 March 2011, Arco Ehitus OÜ filed a proof of claim in which it requested to be transferred all of the equipment installed by it under the above contract whose title had not transferred to Plastitehase AS, i.e. equipment of 151,170.05 euros. Arco Ehitus OÜ also stated that if the equipment could not be transferred, a corresponding explanation should be provided and its claim against Plastitehase AS should be recognised in the bankruptcy proceedings in an amount of 183,282.75 euros comprising of a principal claim of 151,170.05 euros and late payment interest of 32,112.70 euros.

The creditors' first general meeting was held on 22 March 2011 in the Kentmanni courthouse of Harju County Court.

The bankruptcy proceedings are pending.

Claims filed by Arco Ehitus OÜ against Wolmreks Ehitus OÜ

On 16 December 2010, Arco Ehitus OÜ, OÜ Wolmreks Ehitus and OÜ Savekate signed an annex to a sub-contracting agreement by which Arco Ehitus OÜ took over all of the rights and obligations of OÜ Wolmreks Ehitus arising from a sub-contracting agreement signed between OÜ Wolmreks Ehitus and OÜ Savekate on 25 August 2010. In line with the annex, Arco Ehitus OÜ paid 51,768.44 euros to OÜ Savekate on behalf of OÜ Wolmreks Ehitus and OÜ Wolmreks Ehitus undertook to pay to Arco Ehitus OÜ 51,768.44 euros for taking over the obligation by 20 December 2010 at the latest.

On 28 December 2010, Arco Ehitus OÜ, OÜ Wolmreks Ehitus and AS Parmet signed a new annex to the sub-contracting agreement by which Arco Ehitus OÜ took over all of the rights and obligations of OÜ Wolmreks Ehitus arising from a sub-contracting agreement signed between OÜ Wolmreks Ehitus and AS Parmet on 16 December 2010. In line with the annex, Arco Ehitus OÜ paid 15,338.80 euros to AS Parmet on behalf of OÜ Wolmreks Ehitus and OÜ Wolmreks Ehitus undertook to pay to Arco Ehitus OÜ 15,338.80 euros for taking over the obligation by 31 December 2010 at the latest.

On 6 January 2011, Arco Ehitus OÜ, OÜ Wolmreks Ehitus and engineering bureau Tandem OÜ signed an annex to a design services contract by which Arco Ehitus OÜ took over all of the rights and obligations of OÜ Wolmreks Ehitus arising from a design services contract signed between OÜ Wolmreks Ehitus and engineering bureau Tandem OÜ on 24 May 2010. In line with the annex, Arco Ehitus OÜ paid 3,067.76 euros to engineering bureau Tandem OÜ on behalf of OÜ Wolmreks Ehitus and OÜ Wolmreks Ehitus undertook to pay to Arco Ehitus OÜ 3,067.76 euros for taking over the obligation by 10 January 2011 at the latest.

According to the agreements between the parties, OÜ Wolmreks Ehitus undertook to pay to Arco Ehitus OÜ a total of 70,175 euros for taking over its obligations. By the date of release of this report, OÜ Wolmreks Ehitus has not fulfilled its obligations.

On 21 February 2011, OÜ Wolmreks Ehitus was declared bankrupt and Indrek Lepsoo was appointed the trustee in the bankruptcy proceedings. On 4 March 2011, Arco Ehitus OÜ filed a proof of claim in which it requested recognition of a claim of 71,092.89 euros.

The creditors' first general meeting was held on 10 March 2011 in the Tartu maantee courthouse of Harju County Court.

The bankruptcy proceedings are pending.

Action brought by Arco Ehitus OÜ against Sillamäe City Government and action brought by Sillamäe City Government against Arco Ehitus OÜ

On 6 September 2010, a consortium consisting of OÜ Wolmreks Ehitus, OÜ Kristiine Ehitus and Arco Ehitus OÜ submitted a joint bid in the public procurement tender for the renovation of the building of Sillamäe's sport complex Kalev. The bid included the bidders' authorisation document by which OÜ Kristiine Ehitus and Arco Ehitus OÜ authorised the member of the management board of OÜ Wolmreks Ehitus Hanno Muga to be the joint bidders' official representative in matters pertaining to the procurement proceedings and conclusion of the public procurement contract.

On 14 October 2010, Sillamäe City Government adopted a resolution in which it recognised the joint bid made by OÜ Wolmreks Ehitus, OÜ Kristiine Ehitus and Arco Ehitus OÜ as the successful one.

On 17 December 2010, Sillamäe City Government submitted to Arco Ehitus OÜ a letter for checking the bidder's qualification. Arco Ehitus OÜ responded to the letter on 22 December 2010 with a statement that Arco Ehitus OÜ had granted OÜ Wolmreks Ehitus a letter of authorisation that empowered and obligated OÜ Wolmreks Ehitus to conduct all procedures related to the public procurement tender for the renovation of the building of Sillamäe's sport complex Kalev. In the letter, Arco Ehitus OÜ did not supply any proof of the powers granted to Adu Haki.

On 28 January 2011, Arco Ehitus OÜ received a letter from Sillamäe City Government that had been attached a resolution of the Sillamäe City Government of 27 January 2011 that a) declared the resolution that had recognised the bid as successful invalid; b) recognised the bid offering the second-best price as the successful one; c) claimed compensation of damages from joint bidders OÜ Wolmreks Ehitus, OÜ Kristiine Ehitus and Arco Ehitus OÜ that had withdrawn the bid that had been recognised as successful. The amount claimed from the bidders as their joint and several liability was the difference between the price of the withdrawn bid and the price of the bid that was recognised as the most successful one after it, i.e. 12,549.21 euros including realisation of the guarantee issued by AS SEB Pank as security of the bid.

On 1 February 2011, Arco Ehitus OÜ submitted an explanation to Sillamäe City Government according to which Arco Ehitus OÜ did not notify the City Government in its letter of 22 December 2010 of its intention to withdraw from the public procurement tender and that Arco Ehitus OÜ had not authorised anyone to withdraw from the public procurement tender. In addition, Arco Ehitus OÜ explained that in connection with OÜ Wolmreks Ehitus's liquidation and bankruptcy proceedings the bidder did not meet the qualification requirements at the date the procurement contract was signed and therefore Sillamäe City Government did not have the right to sign a procurement contract.

On 16 February 2011, Sillamäe City Government sent Arco Ehitus OÜ a claim for compensation of damages in which it demanded that Arco Ehitus OÜ transfer compensation of 4,879.81 euros to the current account of Sillamäe City Government by 25 February 2011 at the latest.

On 27 February 2011, Arco Ehitus OÜ filed a complaint at the Jõhvi courthouse of Tartu Administrative Court in which it requested that the resolution of Sillamäe City Government of 27 January 2011 be declared invalid. Tartu Administrative Court issued a ruling on 4 March 2011 by which it returned the complaint because the mandatory legal procedure for the preliminary out-of-court settlement of the matter had not been observed.

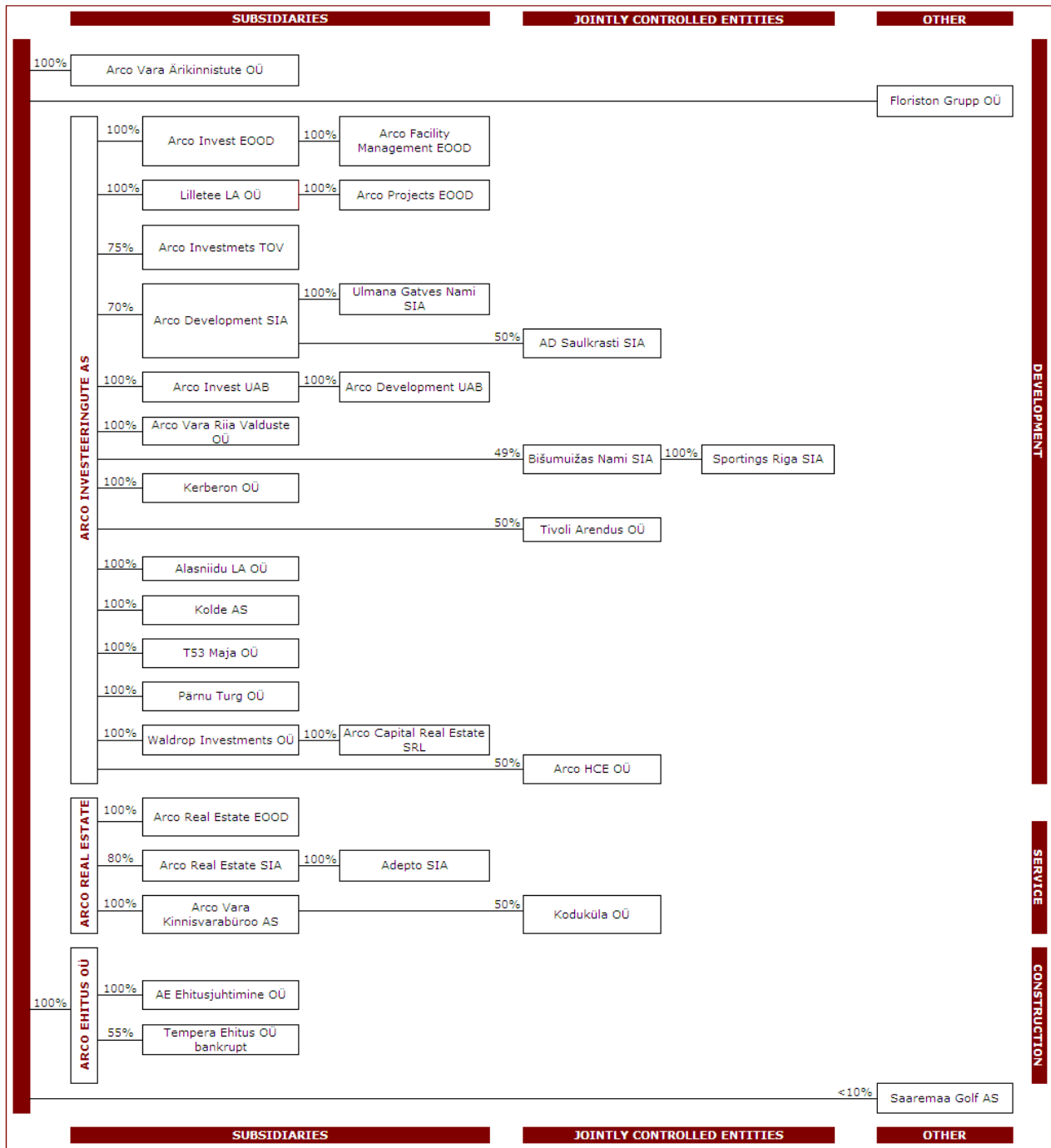
Arco Ehitus OÜ did not agree with the ruling of Tartu Administrative Court and found that this was not lawful or justified. Accordingly, on 17 March 2011, Arco Ehitus OÜ filed an appeal against the ruling with Tartu Administrative Court requesting that the ruling be declared invalid. The appeal has not yet been resolved.

On 28 March 2011, Arco Ehitus OÜ received a court ruling from Viru County Court together with a statement of claim filed by the City of Sillamäe and an order to reply to the statement of claim. Arco Ehitus OÜ did not accept the claim for compensation submitted by the City of Sillamäe and responded to the statement of claim. Arco Ehitus OÜ is of the opinion that the City of Sillamäe has no basis for claiming compensation of damages from Arco Ehitus OÜ. On the contrary, the City of Sillamäe has the obligation to return to Arco Ehitus OÜ the gain derived on unjust bases from the realisation of the letter of guarantee of 7,669.40 euros.

The litigation is pending.

15. Structure of Arco Vara Group

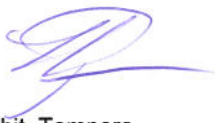
As at 31 March 2011



Statement by the management board

The management board of Arco Vara AS has prepared the interim report for the first quarter of 2011 as set out on pages 2-30.

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

Chief Executive Officer and Member of the Management Board

20 May 2011