



Arco Vara AS

Interim report III quarter 2011



ARCO REAL ESTATE

INTERIM REPORT
THIRD QUARTER AND NINE MONTHS
ENDED 30 SEPTEMBER 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 – 30 September 2011

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

Chief Executive: 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 (the "Group") are engaged in various aspects of the real estate business. The Group's three business lines – services, development and construction have been organised into corresponding divisions that provide a broad range of real estate services.

At the end of the third quarter of 2011, the Group comprised 28 subsidiaries (30 September 2010: 29) and 5 joint ventures (30 September 2010: 5).

The performance of all divisions is subject to seasonal fluctuations. The transaction volumes of the Service division usually increase 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 yet been developed to their full potential.

The Construction division provides general construction and environmental engineering services, operating as a general contractor and construction manager as well as a subcontractor.

The Group regards Estonia, Latvia and Bulgaria as its home markets.

Mission, vision and shared values

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

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

Our core values include:

Partnership – our client is our partner

Reliability – we are reliable, open and honest

Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

GROUP STRUCTURE

Company	Domicile	Group's ownership interest	
		30 September 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	
		30 September 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	sold	100
Arco Investeeringute AS	Estonia	100	100
Arco Vara Riia Valduste OÜ ¹	Estonia	100	100
Arco Vara Ärikinnistute OÜ	Estonia	100	100
Fineprojekti OÜ ¹	Estonia	100	-
Kerberon OÜ ¹	Estonia	100	100
Koduküla OÜ ¹	Estonia	100	50
Kolde AS ¹	Estonia	100	100
Lilletee LA OÜ ¹	Estonia	sold	100
Pärnu Turg OÜ ¹	Estonia	100	100
T53 Maja OÜ ¹	Estonia	100	100
Waldrop Investments OÜ ¹	Estonia	100	100
Marsili II SIA ¹	Latvia	100	0
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 Real Estate SRL ¹	Romania	100	100
Arco Investments TOV ¹	Ukraine	75	75
Joint ventures			
Arco HCE 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 Riga 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, which was 1,278 euros.

On 26 April 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, established Fineprojekti OÜ, a wholly-owned subsidiary with a share capital of 2,500 euros.

On 27 May 2011, Arco Vara Kinnisvarabüroo AS increased its interest in Koduküla OÜ from 50% to 100%. The additional 50% stake in Koduküla OÜ was acquired for 1 euro. The transaction did not have a significant impact on the Group's operations.

On 15 June 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, sold its 100% interest in Alasniidu LA OÜ for 360,778 euros. As a result of the transaction, the Group's long-term liabilities decreased by 1,041,937 euros and total assets decreased by 766,908 euros. Sales gain on the transaction amounted to 275,029 euros.

On 5 July 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, established a wholly-owned subsidiary, SIA Mārsili II, with a share capital of 1.071 million Latvian lats (1.5 million euros). The subsidiary's share capital was paid in with a non-monetary contribution consisting of the plots of the Baltezers 5 project that used to belong to Arco Investeeringute AS. The transaction did not have a significant impact on the Group's operations.

On 29 July 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, established a 70% subsidiary, Prime Capital SIA, whose share capital is 2,000 Latvian lats (2,846 euros). The transaction did not have a significant impact on the Group's operations.

On 10 August 2011, Balti Kindlus Kinnisvara OÜ in which Arco Vara AS' wholly-owned subsidiary Fineprojekti OÜ has a 4% stake was registered in the Commercial Register. The transaction did not have a significant impact on the Group's operations.

On 25 August 2011, in order to raise financing for privatisation Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, temporarily transferred its interest in Prime Capital SIA for 1,400 Latvian lats (the nominal value of the shares) to Dreilīņi-Ulbroka-1 SIA, a related party that is connected to Mr. Viktors Savins. The transaction did not have a significant impact on the Group's operations. The acquirer has the obligation to sell the investment back to Arco Investeeringute AS at the latter's first request for 500,000 euros, which is the estimated proportion of self-financing that Arco Investeeringute AS has to put up as final funding for the transaction.

On 15 September 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, divested its investment in Lilletee LA OÜ. The investment was acquired by VM Investments OÜ. The transaction did not have a significant impact on the Group's operations.

Changes in Group structure after the reporting period:

On 10 October 2011, Arco Vara Riia Valduste OÜ registered a change in business name. The entity's new business name is AIP Projekti OÜ.

KEY PERFORMANCE INDICATORS

- The Group ended the first nine months of 2011 with revenue of 31.3 million euros, a 2.2-fold improvement on the first nine months of 2010.
- Operating loss for nine months was 2.7 million euros, a roughly 4-fold increase year over year.
- Net loss for nine months was 3.6 million euros, roughly 2.9 times up on the first nine months of 2010.
- Equity to assets ratio at period-end was 37.0% (30 September 2010: 36.6%). Return on equity (12 months rolling) was negative (9M 2010: negative). Return on invested capital (12 months rolling) was negative (9M 2010: negative).
- At the end of the third quarter, the Group's order backlog stood at 8.6 million euros compared with 6.3 million euros at the end of the third quarter of 2010.
- During the first nine months of 2011, the Group sold 81 apartments and plots (9M 2010: 80 apartments and plots).

	9M 2011	9M 2010	Q3 2011	Q3 2010
In millions of euros				
Revenue and other income	31.3	14.7	7.8	5.8
Operating loss	-2.7	-0.7	-1.2	0.3
<i>Of which net loss on changes in the values of investment properties and inventories</i>	0.0	-0.3	0.0	0.0
Loss before tax	-3.6	-1.2	-1.7	-0.1
<i>Of which net gain/ loss on the disposal of financial assets</i>	0.3	-0.2	0.0	0.0
Net loss	-3.6	-1.3	-1.7	-0.1
EPS (in euros)	-0.77	-0.27	-0.36	-0.03
Total assets at period-end	64.0	75.0		
Invested capital at period-end	49.0	61.3		
Net loans at period-end	23.4	31.4		
Equity at period-end	23.7	27.5		
Average loan term (in years)	2.0	2.0		
Average interest rate of loans (per year)	7.6%	6.1%		
ROIC (rolling, 4 quarters)	neg	neg		
ROE (rolling, 4 quarters)	neg	neg		
Number of staff at period-end	147	142		

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

Compared with the same period last year, the Group's revenue has grown significantly across all divisions. After an interval of several years, the Service division posted an operating profit while the operating profit of the Development division remained stable year over year. The biggest setback was the loss incurred by the Construction division that is operating in an industry overshadowed by unfavourable contracts secured in prior periods and continuing bankruptcies.

In the first nine months of 2011, 81 apartments and plots were sold in the projects of Arco Vara: 57 in Estonia, 15 in Latvia and 9 in Bulgaria. Major ongoing development projects include the Tivoli apartment building in Tallinn, which is in the design stage, and the Manastirski apartment building in Sofia that has reached the stage of external finishing and interior works. With more than 7000 square metres, phase I of the Manastirski apartment building that is scheduled for completion in the first quarter of 2012 is currently our largest active development project. The progress of construction work can be viewed live at <http://www.arcoinvest.bg/livd/video/camera-one-bg>. We also continue to build and sell apartments in the Kodukolde community in Tallinn where the progress of site operations can be viewed in real time at <http://www.kodukolde.ee/#webcam> and are completing the sale of plots at Merivälja. Significant third quarter transactions include successful participation in the privatisation of land near Riga where the Group, acting through its associate Prime Capital SIA, and its Latvian partner acquired a parcel of 86 hectares. In addition, we have sold to an investor the Lille tee nursery school that is under construction in Viimsi although Arco Vara will continue to manage the project until completion and we continue to develop the Bišumuiža 1 apartment project and to sell plots in Riga. Since the reporting date, the Group has signed a deed of conveyance with the company Cleves EOOD on the transfer of 21 apartments and 13 parking spaces in the Madrid project in Bulgaria with a total value of 4.3 million euros, of which 2.5 million was paid in advance in March 2008 and 1.8 million will be paid in November 2011. In addition to the above transaction, Cleves EOOD is obliged to buy another 16 apartments and 18 parking spaces by the end of 2012 for a total price of 2.8 million euros. The final transaction price will be 7.1 million euros.

For the Service division, the first nine months of 2011 were better than the same period in several previous years. Revenue grew and the division ended the period with an operating profit of 0.09 million euros compared with an operating loss of 0.08 million euros for the same period in 2010. The number of brokerage transactions increased by 31% and the number of valuation reports issued grew by 46% year over year. At the same time, the number of brokers has decreased and the number of appraisers has grown by only 6%.

In the first nine months of 2011, the Group secured new construction contracts of 7.9 million euros. Our order backlog as at 30 September 2011 was 8.6 million euros against 6.3 million euros at the end of the third quarter of 2010. In the third quarter, the Construction division completed the Estonian Aviation Academy building in Tartu, the largest project where Arco Ehitus was the sole general contractor in 2011. The Construction division's third quarter operating loss is attributable to the unfavourable terms of the construction contracts signed in 2010 and by bankruptcy cases among our construction tender partners. Due to joint responsibility in consortium in two cases it was found necessary to continue construction by Arco Ehitus

The largest single construction projects that have generated a negative contribution in 2011 include:

- Construction of the Aviation Academy building in Tartu, performed in a consortium with OÜ Kristiine Ehitus (bankrupt), that resulted in a loss of 500 thousand euros.
- Reconstruction of the academic building of the University of Life Sciences in Tartu, performed in a consortium with OÜ Wolmreks Ehitus (bankrupt), that resulted in a loss of 600 thousand euros.
- Construction of the water and wastewater networks of Tamsalu as a subcontractor for AS K&H (bankrupt), that resulted in a loss of 240 thousand euros due to unsettled invoices.
- Construction of drinking water facilities for AS Emajõe Veevärk as a subcontractor for AS K&H (bankrupt), that resulted in a loss of 340 thousand euros due to uncollected revenue.

Within the past 12 months, the Group's loans and borrowings have decreased by 8.5 million euros and equity to assets ratio has remained virtually the same at 37%. The weighted average interest rate of loans and borrowings has risen year over year due to the upward trend in EURIBOR. However, the weighted average duration of loans and borrowings has not changed.

REVENUE AND PROFIT

	9M 2011	9M 2010	Q3 2011	Q3 2010
In millions of euros				
Revenue				
Service	1.8	1.4	0.6	0.5
Development	17.0	7.0	3.0	2.3
Construction	12.8	6.4	4.3	3.0
Eliminations	-0.3	-0.4	-0.1	-0.2
Total revenue	31.3	14.4	7.8	5.6
Operating profit/loss				
Service	0.1	-0.1	0.0	0.1
Development	0.2	0.3	0.4	0.5
Construction	-2.2	0.1	-1.4	0.1
Eliminations	0.2	0.0	0.0	0.0
Unallocated expenses	-1.0	-1.0	-0.3	-0.4
Total operating profit/loss	-2.7	-0.7	-1.2	0.3
Interest income and expense	-1.2	-0.5	-0.4	-0.2
Other finance income and expenses	0.2	-0.1	0.0	-0.3
Income tax expense	0.0	0.0	0.0	0.0
Net loss	-3.6	-1.3	-1.7	-0.2

The nine-month revenue of the Development division was boosted by sale of inventory of 8.3 million euros to joint venture Tivoli Arenduse OÜ. The revenue of the Construction division has grown year over year mainly on account of increasing construction activity while its nine-month operating loss is attributable to a rapid upsurge in construction prices that emerged in 2010 and counterparty bankruptcies. Finance income and expenses have been strongly influenced by interest expense, which has grown since the Madrid project was completed and capitalisation of associated borrowing costs was discontinued.

CASH FLOWS

	9M 2011	9M 2010
In millions of euros		
Cash flows from operating activities	-1.9	0.9
Cash flows from investing activities	0.0	1.4
Cash flows from financing activities	-0.4	-3.9
Net cash flow	-2.3	-1.7
Cash and cash equivalents at beginning of period	4.2	4.1
Cash and cash equivalents at end of period	1.9	2.4

In March 2011, Arco Investeeringute AS repaid ahead of schedule 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 the 50% stake in Tivoli Arendus OÜ paid the cash directly to SEB.

Interest payments accounted for 0.8 million euros of the net cash outflow from financing activities. Scheduled settlements of loan principal and those related to inventory sales totalled 1.6 million euros. In connection with refinancing carried out in the third quarter, loans and borrowings grew by 0.8 million euros. During the reporting period, the credit limit was used for financing the construction of the two last phases in the Kodukolde project and the Alasniidu and Lille tee nursery schools of 3.5 million euros in aggregate. Use of the limit for the Kodukolde project is not reflected in cash flows because invoices received from Merko Ehitus are booked as a loan and there are no actual cash movements.

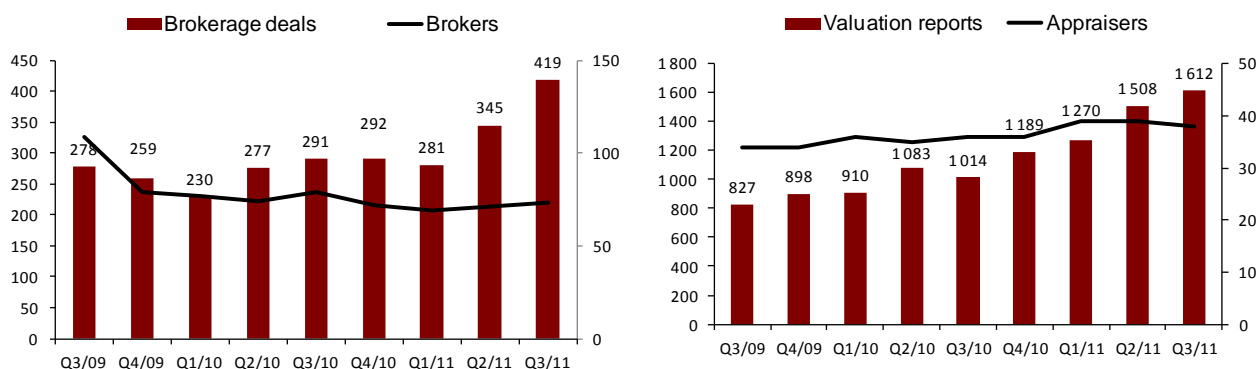
The largest current liabilities to be settled in the next 12 months comprise:

- 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 4.9 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 2.2 million euros;
- repayments of the loan taken for the Bišumuiža project of 1.1 million euros;
- repayments of the loan taken for the Laeva 2 development project of 1.1 million euros.

In the first nine months of 2011, the Group made regular repayments under the loans taken for the Kodukolde project in Tallinn, the Bišumuiža 1 project in Riga and the Madrid project in Sofia and scheduled settlements under the loans taken for its cash flow generating projects. The Group is also following the principal repayment schedules set for the bank loans taken for the Laeva 2 project and Koduküla OÜ.

SERVICE DIVISION

In 2011, the performance of the Service division has been in every respect better than in 2010. The division ended the first nine months with an operating profit of 0.09 million euros compared with an operating loss of 0.08 million euros for the first nine months of 2010. The number of the Group's brokerage transactions increased by 31% and the number of valuation reports issued grew by 46% year over year. At the same time, the number of brokers has decreased and the number of appraisers has grown by only 6%.



	9M 2011	9M 2010	Change, %
Number of brokerage transactions	1,045	798	31%
Number of projects on sale	178	176	1%
Number of valuation reports	4,390	3,007	46%
Number of appraisers*	38	36	6%
Number of brokers*	73	79	-8%
Number of staff at end of period	46	51	-10%

* Includes people working under service contracts.

DEVELOPMENT DIVISION

In the first nine months of 2011, 81 apartments and plots were sold in the projects of Arco Vara: 12 apartments in the Bišumiža project and three plots in the Baltezers project in Latvia, 55 apartments in the Kodukolde project and two plots in the Merivälja project in Estonia, and nine apartments in the Madrid project in Sofia, Bulgaria.

The Group succeeded in finding a partner, International Invest Project OÜ, for the Tivoli project and raising financing for the construction of phase I. Design work is under way and construction should start in 2011.

The last but one phase of the Kodukolde development project (50 apartments) was completed in June. By the end of the third quarter, only one apartment there was still unsold. Construction of the last phase (48 apartments) began in the second quarter.

The work is performed and financed by AS Merko Ehitus. The buildings are expected to be completed in the first half of 2012.

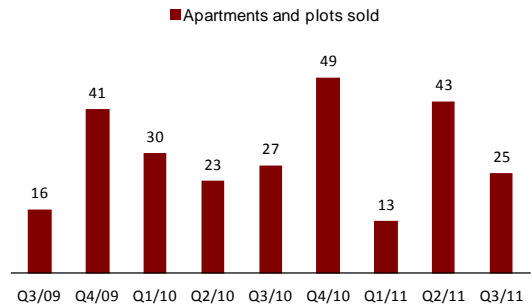
The Alasniidu nursery school building was granted a use permit at the end of May and was delivered to Harku local government with whom a rental agreement had been signed. The entity that owns the nursery school was sold in the second quarter and with this the project was successfully completed.

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 and signed a long-term rental agreement with the local government. The nursery school should be completed in the first quarter of 2012. Construction work is performed by YIT. In September 2011, Arco Investeeringute AS sold its 100% interest in Lilletee LA OÜ but will continue acting as construction manager until the nursery school is completed.

In Bulgaria, the construction of phase I of the Manastirski project is under way: 51% of the apartments have already been reserved. In the commercial and residential building Boulevard Residence Madrid in Sofia the division continues delivering reserved apartments under real right contracts and selling the remaining free apartments.

At the end of September 2011, the Development division employed 24 people (30 September 2010: 26).

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



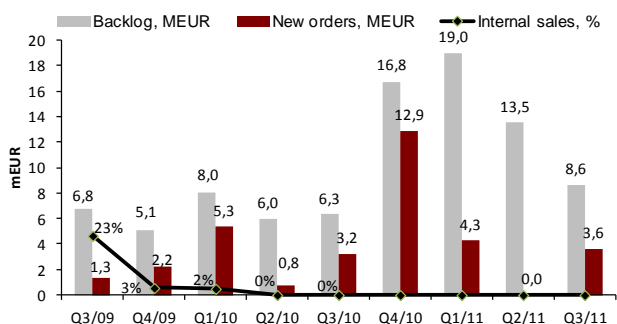
CONSTRUCTION DIVISION

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

At the end of the third quarter of 2011, the largest active construction contracts comprised the design and build of water and wastewater pipelines for the city of Loksa (remaining balance 3.3 million euros), the construction of the Tallinn-Muuga water and wastewater networks and facilities (remaining balance 1.8 million euros) and the design and build of water and wastewater networks for the Jõgeva and Puurmani rural municipalities (remaining balance 1.9 million euros).

In the first nine months of 2011, the division secured new construction contracts of 7.9 million euros. At the reporting date, the order backlog stood at 8.6 million euros compared with 6.3 million euros at the end of the third quarter of 2010.

At the end of September 2011, the Construction division employed 58 people (30 September 2010: 44).



SUMMARY TABLE OF MAJOR PROJECTS

Project type	Name	Location	Legal 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 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	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
Project type	Name	Location	Legal interest	Rentable area	Current status	Classification in the statement of financial position
Cash flow	Kerberon	Estonia, Tallinn	100%	13,236 m ²	Building rights and the right to superficies have been obtained. Generates cash flow.	Investment property
Cash flow	Madrid	Bulgaria, Sofia	100%	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	Legal interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Apartments	Bišumuiža 1	Latvia, Riga	70%	Area of unsold apartments 12,494 m ²	Building rights have been obtained. Sale of apartments is under way. In 2011 the third building was completed in phase II (phase II consists of 5 buildings).	Inventories
Apartments	Bišumuiža 2	Latvia, Riga	49%	87,737 m ²	Building rights have been obtained. Design work is under way.	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 2,014 m ²	The rights to superficies and building rights have been obtained. Sale of apartments and construction of the last (sixth) phase are under way.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Area of unsold/unreserved apartments 2,563 m ² .	The building is complete, sales continue. Five apartments have been rented out.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Area of unsold/unreserved apartments 21,571 m ²	Building rights have been obtained. Construction and sales are under way.	Inventories
Apartments	Paldiski mnt 70c	Estonia, Tallinn	33%	ca 34,000 m ²	The initial planning outline is under preparation.	Investment property
Apartments	Tehnika 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%	604,674 m ² residential land	Land has been privatised. The right to superficies has been obtained. 188 plots. Preparations for 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 22	Building rights have been obtained. Construction has been completed. On sale.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold/unreserved 2,536 m ² , 2 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	100%	84 plots, average plot 1,500 m ²	No building rights. The detailed plan process is under way. Is awaiting an improvement in the market situation.	Investment property
Plots	Tooma	Estonia, Saue	100%	107 plots, average plot 1,802 m ²	No building rights. The detailed plan process is under way. Is awaiting an improvement in the market situation	Inventories
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 30 September 2011	Carrying amount of projects presented in the summary table of major projects at 30 September 2011
In millions of euros		
Total assets	64.0	46.8
Inventories	24.7	24.2
Investment property	23.3	22.6
Investments	1.0	0.0

SIGNIFICANT CHANGES IN DETAILED PLANS DURING THE FIRST NINE 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 third quarter of 2011, the Group employed 147 people compared with 142 at the end of the third quarter of 2010. Employee remuneration expenses for the first nine months totalled 2.8 million euros against 2.5 million euros for the first nine months of 2010.

The remuneration of the member of the parent company's management board for the first nine months of 2011 amounted to 0.08 million euros. In 2010 the corresponding figure was also 0.08 million euros.

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 30 September 2011, the company had 1,880 shareholders and the share price closed at 2.86 euros, a 48% decrease compared with the previous year-end.

The following charts reflect movements in the Arco Vara share price and daily turnover in the first nine months of 2011:
In euros (EUR)



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



Index/equity	1 Jan 2011	30 Sept 2011	+/-%
—OMX Tallinn	698.38	536.60	-23.17
—ARC1T	EUR 5.51	EUR 2.86	-48.09

Major shareholders at 30 September 2011	Number of shares	Interest, %
HM INVESTEERINGUD OÜ	1,038,632	21.90%
TOLETUM OÜ	1,037,975	21.89%
BALTPLAST OÜ	896,150	18.90%
GAMMA HOLDING OÜ	449,063	9.47%
FIREBIRD REPUBLICS FUND LTD	205,064	4.32%
Skandinaviska Enskilda Banken Ab Clients	183,709	3.87%
Central Securities Depository of Lithuania	134,979	2.85%
FIREBIRD AVRORA FUND, LTD.	106,897	2.25%
FIREBIRD FUND L.P.	86,600	1.83%
Other	602,638	12.71%
Total	4,741,707	100.0%

Holdings of members of the management and supervisory boards at 30 September 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 Luutsalu (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 30 September 2011, the weighted average duration of interest-bearing liabilities was 2.0 years, which means that on average all loans need to be refinanced every two years. Although at the end of the third quarter of 2011 the Group's cash and cash equivalents totalled 1.9 million euros, 0.9 million euros of this was under the Group's own control but the rest was in accounts with restricted withdrawal opportunities (mostly accounts of designated purpose where withdrawals require the bank's consent). Liquidity and refinancing risks continue to be the most significant risks for the Group.

Interest rate risk

The base currency of most of the Group's loan agreements is the euro and the base interest rate is 3 or 6 month EURIBOR. As a result, the Group is exposed to developments in international capital markets. At the moment, the Group does not use hedging instruments to mitigate its long-term interest rate risk. In the first nine months of 2011, the Group's interest-bearing liabilities decreased by 6.4 million euros to 25.3 million euros at 30 September 2011. The period's interest payments on interest-bearing liabilities totalled 0.8 million euros. Compared with the end of the third quarter of 2010, the weighted average interest rate has risen from 6.1% to 7.6%.

Currency risk

Purchase and sales contracts are mostly signed in local currencies: euros (EUR), Latvian lats (LVL) and Bulgarian leva (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

30 November 2011

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

For the period ended 30 September	Note	9M 2011	9M 2010	Q3 2011	Q3 2010
In thousands of euros					
Revenue from rendering of services		16,280	8,533	5,942	3,834
Revenue from sale of goods		15,033	5,806	1,866	1,797
Total revenue	2	31,313	14,339	7,808	5,631
Cost of sales	3	-30,640	-12,212	-8,198	-4,574
Gross profit/loss		673	2,127	-390	1,057
Other income		18	313	6	130
Distribution expenses	4	-281	-217	-67	-58
Administrative expenses	5	-2,970	-2,711	-744	-769
Other expenses		-108	-183	-49	-12
Operating profit/loss		-2,668	-671	-1,244	348
Finance income	6	502	633	85	53
Finance expenses	6	-1,469	-1,199	-556	-532
Loss before tax		-3,635	-1,237	-1,715	-131
Income tax expense		0	-30	0	-2
Loss for the period		-3,635	-1,267	-1,715	-133
<i>Loss attributable to owners of the parent</i>		-3,634	-1,267	-1,701	-133
<i>Loss attributable to non-controlling interests</i>		-1	0	-14	0
Other comprehensive income					
Exchange differences on translating foreign operations		0	11	0	0
Total comprehensive income for the period		-3,635	-1,256	-1,715	-133
<i>Total comprehensive income attributable to owners of the parent</i>		-3,634	-1,256	-1,701	-133
<i>Total comprehensive income attributable to non-controlling interests</i>		-1	0	-14	0
Earnings per share (in euros)	7				
- Basic		-0.77	-0.27	-0.36	-0.03
- Diluted		-0.77	-0.27	-0.36	-0.03

Consolidated statement of financial position

	Note	As at 30 September 2011	As at 31 December 2010
In thousands of euros			
Cash and cash equivalents		1,913	4,209
Trade and other receivables	8	9,106	5,760
Prepayments		353	192
Inventories	9	24,713	35,740
Total current assets		36,085	45,901
Investments		997	996
Trade and other receivables	8	2,948	76
Investment property	10	23,304	22,887
Property, plant and equipment		664	703
Intangible assets		21	20
Total non-current assets		27,934	24,682
TOTAL ASSETS		64,019	70,583
Loans and borrowings	11	13,353	27,126
Trade and other payables	12	9,641	4,813
Deferred income		4,223	4,859
Provisions		1,172	1,378
Total current liabilities		28,389	38,176
Loans and borrowings	11	11,255	3,855
Other payables	12	710	724
Total non-current liabilities		11,965	4,579
TOTAL LIABILITIES		40,354	42,755
Share capital	13	3,319	3,030
Statutory capital reserve		2,011	2,011
Retained earnings		18,335	22,787
Total equity		23,665	27,828
Equity attributable to non-controlling interests		161	-70
Equity attributable to equity holders of the parent		23,504	27,898
TOTAL LIABILITIES AND EQUITY		64,019	70,583

Consolidated statement of cash flows

For the period ended 30 September	Note	9M 2011	9M 2010
In thousands of euros			
Loss for the period		-3,635	-1,268
Interest income and interest expense, net	6	1,150	485
Gain/loss on sale of subsidiaries and interests in joint ventures	6	-285	88
Share of profit/loss of joint ventures under the equity method	6	0	94
Gain/loss on other long-term investments	6	99	0
Impairment losses on financial assets	6	0	13
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3, 5	72	92
Change in the fair value of investment property	10	0	-7
Gain/loss on the sale of investment property		0	21
Gain/loss on inventory write-downs and reversals of inventory write-downs	3	0	355
Foreign exchange gains and losses	6	4	-114
Income tax expense		0	30
Operating cash flow before working capital changes		-2,595	-211
Change in receivables and prepayments		1,003	-456
Change in inventories		3,319	-129
Change in payables and deferred income		-3,628	1,684
NET CASH USED IN/FROM OPERATING ACTIVITIES		-1,901	888
Acquisition of property, plant and equipment and intangible assets		-37	-32
Proceeds from sale of property, plant and equipment and intangible assets		4	0
Paid on development of investment properties		-729	-238
Proceeds from sale of investment properties		177	1,568
Acquisition of subsidiaries and interests in joint ventures		-3	-32
Proceeds from disposal of subsidiaries and interests in joint ventures		893	7
Loans granted		-492	-56
Repayment of loans granted		75	3
Interest received		157	131
NET CASH FROM INVESTING ACTIVITIES		45	1,351
Proceeds from loans received	11	4,591	3,883
Settlement of loans and finance lease liabilities	11	-4,185	-6,197
Interest paid		-846	-1,614
NET CASH USED IN FINANCING ACTIVITIES		-440	-3,928
NET CASH FLOW		-2,296	-1,689
Cash and cash equivalents at beginning of period		4,209	4,137
Decrease in cash and cash equivalents		-2,296	-1,689
Effect of exchange rate fluctuations on cash held		0	1
Cash and cash equivalents at end of period		1,913	2,449

Consolidated statement of changes in equity

	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
Reduction of share capital	-57,868	0	255	57,613	0	0	0
Total comprehensive income for the period	0	0	0	-1,256	-1,256	0	-1,256
Balance at 30 September 2010	3,030	2,011	0	21,882	26,923	-76	26,847
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
Effect of acquisition of a subsidiary	0	0	0	-528	-528	0	-528
Increase of share capital	289	0	0	-289	0	0	0
Total comprehensive income for the period	0	0	0	-3,634	-3,634	-1	-3,635
Balance at 30 September 2011	3,319	2,011	0	18,174	23,504	161	23,665

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 third quarter and first nine months 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 is organised into the following business segments:

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 ¹		Service		Construction		Unallocated items		Eliminations		Consolidated	
	9M 2011	9M 2010	9M 2011	9M 2010	9M 2011	9M 2010	9M 2011	9M 2010	9M 2011	9M 2010	9M 2011	9M 2010
In thousands of euros												
External revenue	16,978	6,927	1,554	1,111	12,778	6,301	3	0	0	0	31,313	14,339
<i>Change</i>	145%	65%	40%	-28%	103%	-41%					118%	-21%
Inter-segment revenues	46	71	208	266	0	61	0	0	-254	-398	0	0
Total revenue	17,024	6,998	1,762	1,377	12,778	6,362	3	0	-254	-398	31,313	14,339
Operating profit/loss	203	337	91	-79	-2,208	69	-988	-1,040	234	42	-2,668	-671
<i>Of which inventory write-downs and reversals of inventory write-downs, net</i>	0	-355	0	0	0	0	0	0	0	0	0	-355

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	Q3 2011	Q3 2010	Q3 2011	Q3 2010	Q3 2011	Q3 2010	Q3 2011	Q3 2010	Q3 2011	Q3 2010	Q3 2011	Q3 2010
In thousands of euros												
External revenue	2,997	2,260	548	399	4,263	2,972	0	0	0	0	7,808	5,631
<i>Change</i>	33%	72%	37%	-15%	43%	-20%						2%
Inter-segment revenues	43	68	70	119	0	30	0	0	-113	-217	0	0
Total revenue	3,040	2,328	618	518	4,263	3,002	0	0	-113	-217	7,808	5,631
Operating profit/loss	429	555	47	82	-1,441	50	-287	-384	8	45	-1,244	348
<i>Of which inventory write-downs and reversals of inventory write-downs, net</i>	0	0	0	0	0	0	0	0	0	0	0	0

¹ The revenue of the Development segment for the first nine months of 2011 includes revenue of 8,309 thousand euros earned on the sale of inventory to the Group's joint venture Tivoli Arendus OÜ on 18 March 2011. Excluding that transaction, the Development segment's revenue for the first nine months of 2011 would have been 8,669 thousand euros, i.e. 25% up on the corresponding figure for 2010.

3. Cost of sales

	9M 2011	9M 2010	Q3 2011	Q3 2010
In thousands of euros				
Cost of properties sold ¹	-13,960	-4,876	-1,650	-1,440
Cost of construction services purchased	-14,393	-5,215	-5,800	-2,555
Personnel expenses	-1,457	-1,045	-545	-385
Management and administration costs	-585	-488	-108	-117
Vehicle expenses	-146	-133	-52	-44
Depreciation, amortisation and impairment losses	-10	-8	-3	-3
Inventory write-down expenses	0	-355	0	0
Other costs	-89	-92	-40	-30
Total cost of sales	-30,640	-12,212	-8,198	-4,574

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

	9M 2011	9M 2010	Q3 2011	Q3 2010
In thousands of euros				
Advertising expenses	-162	-115	-45	-39
Corporate marketing expenses	-56	-8	-14	-2
Personnel expenses	-42	-51	-6	-10
Market research expenses	-19	-3	-1	-1
Brokerage fees	-2	-40	-1	-6
Total distribution expenses	-281	-217	-67	-58

5. Administrative expenses

	9M 2011	9M 2010	Q3 2011	Q3 2010
In thousands of euros				
Personnel expenses	-1,254	-1,404	-392	-446
Legal and consulting fees	-952	-524	-100	-85
Office expenses	-371	-416	-132	-107
Vehicle expenses	-131	-164	-40	-51
Depreciation, amortisation and impairment losses	-62	-83	-20	-38
Expenses from write-down of receivables	-3	-25	0	7
Other expenses	-197	-95	-60	-49
Total administrative expenses	-2,970	-2,711	-744	-769

6. Finance income and expenses

Finance income	9M 2011	9M 2010	Q3 2011	Q3 2010
In thousands of euros				
Gain on sale of investments in subsidiaries	285	58	0	0
Interest income	214	190	83	53
Foreign exchange gains	2	374	1	0
Gain on sale of investments in joint ventures	0	7	0	0
Share of profit of joint ventures	0	4	0	0
Other finance income	1	0	1	0
Total finance income	502	633	85	53
Finance expenses				
	9M 2011	9M 2010	Q3 2011	Q3 2010
In thousands of euros				
Interest expense	-1,364	-675	-512	-270
Foreign exchange losses	-6	-261	-1	-256
Losses on sale of investments in joint ventures	0	-152	0	0
Share of losses of joint ventures	0	-97	0	-1
Losses on sale of investments in subsidiaries	0	-1	0	0
Other finance expenses	-99	-13	-43	-5
Total finance expenses	-1,469	-1,199	-556	-532

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.

	9M 2011	9M 2010	Q3 2011	Q3 2010
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707	4,741,707	4 741 707
Net loss attributable to equity holders of the parent (In thousands of euros)	-3 634	-1,267	-1,701	-133
Earnings per share (in euros)	-0.77	-0.27	-0.36	-0.03

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 trade and other receivables	30 September 2011	31 December 2010
In thousands of euros		
Trade receivables		
Trade receivables	6,261	2,320
Allowance for doubtful items	-320	-320
Total trade receivables	5,941	2,000
Other receivables		
Loans granted	1,525	1,753
Miscellaneous receivables	523	659
Total other receivables	2,048	2,412
Accrued income		
Interest receivable	208	198
Due from customers under long-term construction contracts	533	429
Prepaid and refundable taxes	367	548
Other accrued income	9	173
Total accrued income	1,117	1,348
Total current trade and other receivables	9,106	5,760

Non-current trade and other receivables	30 September 2011	31 December 2010
In thousands of euros		
Loans granted ¹	2,877	1
Other long-term receivables	71	75
Total non-current trade and other receivables	2,948	76

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

9. Inventories

Inventories	30 September 2011	31 December 2010
In thousands of euros		
Properties purchased and being developed for resale	24,508	35,486
Materials and finished goods	105	32
Prepayments to inventory suppliers	100	222
Total inventories	24,713	35,740

10. Investment property

In thousands of euros	
Balance at 31 December 2009	14,005
Acquisitions	238
Sales	-1,568
Transfer from inventories	11,502
Net change in fair value of investment properties	7
Balance at 30 September 2010	24,184
Balance at 31 December 2010	22,887
Acquisitions	695
Capitalised development costs	810
Transfer from inventories	501
Sales	-1,589
Balance at 30 September 2011	23,304

11. Loans and borrowings

	30 September 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	23,210	11,982	11,228	29,235	26,775	2,460
Finance lease liabilities	35	8	27	45	12	33
Other loans	1,363	1,363	0	1,701	339	1,362
Total	24,608	13,353	11,255	30,981	27,126	3,855

In the first nine months of 2011, the Group settled loans and borrowings of 4,185 thousand euros (9M 2010: 6,197 thousand euros) through cash transactions and received new loans and borrowings of 4,591 thousand euros (9M 2010: 3,883 thousand euros). As regards non-cash transactions, the Group's loans and borrowings were affected the most by the sale of the Tivoli property to joint venture Tivoli Arendus OÜ as a result of which the counterparty settled the Group's loan liabilities of 5,387 thousand euros. Other major non-cash movements included the sale of Alasniidu LA OÜ and Lillete LA OÜ that reduced the Group's loans and borrowings by 1,038 thousand euros and 758 thousand euros respectively and an increase in the Group's stake in Koduküla OÜ (from 50% to 100%) that increased loans and borrowings by 937 thousand euros.

12. Trade and other payables

Current trade and other payables		30 September 2011	31 December 2010
In thousands of euros			
Trade payables		6,799	2,412
Miscellaneous payables		1,091	1,180
Taxes payable			
Value added tax		37	66
Corporate income tax		145	157
Personal income tax		68	61
Social security tax		112	103
Other taxes		45	10
Total taxes payable		407	397

Accrued expenses		
Interest payable	866	127
Payables to employees	219	281
Other accruals	259	416
Total accrued expenses	1,344	824
Total current trade and other payables	9,641	4,813

Non-current trade and other payables

	30 September 2011	31 December 2010
In thousands of euros		
Interest payable	4	4
Retentions payable	65	79
Other non-current payables	641	641
Total non-current trade and other payables	710	724

13. Share capital

Based on the resolution of the annual general meeting of shareholders held on 12 May 2011, the par value of the shares in Arco Vara AS was increased through a capitalization issue conducted using retained earnings to 0.7 euros per share. As a result, share capital grew by 288,632 euros to 3,319,195 euros. The change in the share capital of Arco Vara AS was registered on 31 August 2011.

14. Transactions and balances with related parties

	For 9M 2011 or as at 30 September 2011	For 9M 2010 or as at 31 December 2010
In thousands of euros		
Transactions and balances with joint ventures		
Revenue	8,311	2
Current loan receivables	888	1,029
Non-current loan receivables	2,876	0
Trade receivables	93	5
Current interest receivables	75	13
Transactions and balances with companies related members of the supervisory board that have a significant interest in the Group's parent company		
Revenue	1	0
Current loan receivables	376	376
Current interest receivables	108	92
Transactions and balances with the Group's other key personnel		
Other current receivables	0	24
Transactions and balances with other related parties		
Revenue	5	0
Services purchased	929	101
Acquisition of investment properties	0	192

Trade receivables	0	6
Current loan receivables	233	182
Current interest receivables	81	75
Trade payables	70	24
Other current payables	309	38
Current loan liabilities	403	640
Current interest liabilities	0	2

15. Contingent assets and liabilities

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 is claiming a 12.5% stake in Floriston Grupp OÜ that belongs to Arco Vara AS.

Arco Vara AS responded 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 lodged 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 Arco Vara AS 1,600 euros as compensation of procedural costs.

On 28 September 2011, Indrek Porila submitted to the court a summarised and partially new position in which he: a) acknowledged conclusion of an oral non-monetary agreement in 2001, b) claimed that the agreement had been changed for a monetary one in 2007, and c) stated that the agreement allowed Indrek Porila to choose between an ownership interest and cash. Indrek Porila claimed that on behalf of Arco Vara AS the agreement had been concluded by Arti Arakas who had been authorised to do so by Viljar Arakas.

A preliminary hearing in the matter was held on 6 October 2011 in Harju County Court. The court satisfied the parties' request that Arti Arakas and Hillar-Peeter Luitsalu should be heard as witnesses.

The deadline for submitting additional statements and evidence is 1 December 2011.

The hearing in the matter will take place on 12 January 2012.

The litigation is pending.

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

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 a public procurement tender for the renovation of the Paide academic building of Järvamaa Education Centre (procurement reference number 115793) (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, 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 that 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 a 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 filed a statement of claim, seeking recognition of the cancellation of the Contract and the claim for debt. On 27 December 2010, Arco Ehitus OÜ and OÜ Kristiine Ehitus filed additional statements and a specification of the statement of claim 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 admitted the claim and has contested it in full.

The preliminary hearing and hearings in the matter took place at Harju County Court on 17 January 2011 and 11 April 2011 and on 15 June 2011 respectively. The court has not yet ruled on the matter.

The litigation is pending.

Claims of Arco Ehitus OÜ against Plastitehase AS

On 18 December 2007, Arco Ehitus OÜ and Plastitehase AS signed a construction services contract, under which Arco Ehitus OÜ undertook to build an integrated water treatment system for Plastitehase AS. Arco Ehitus OÜ did all of the agreed construction work but Plastitehase AS did not pay for work of 151,170 euros.

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

On 9 March 2011, Arco Ehitus OÜ filed a proof of claim in which it requested to be transferred the equipment it had installed under the above contract whose title had not transferred to Plastitehase AS, i.e. equipment of 151,170.05 euros. Arco Ehitus OÜ also requested 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 at Harju County Court and the second creditors' meeting where claims were defended was held on 13 June 2011.

The bankruptcy proceedings are pending.

Claims of 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 subcontract by which Arco Ehitus OÜ took over all of the rights and obligations of OÜ Wolmreks Ehitus arising from a subcontract 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 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 subcontract by which Arco Ehitus OÜ took over all of the rights and obligations of OÜ Wolmreks Ehitus arising from a subcontract 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 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 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 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 bankruptcy trustee. 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 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 sport complex Kalev. The bid included the bidders' authorisation document by which OÜ Kristiine Ehitus and Arco Ehitus OÜ authorised 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 declared the joint bid made by OÜ Wolmreks Ehitus, OÜ Kristiine Ehitus and Arco Ehitus OÜ successful.

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 given 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 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 together with a resolution of the Sillamäe City Government of 27 January 2011 that: a) invalidated the resolution by which the bid had been declared successful; b) declared the bid offering the second-best price successful; 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 declared 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 declared successful next, 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 and that Arco Ehitus OÜ had not authorised anyone to withdraw from the public procurement. 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 with 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 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 lodged an appeal against the ruling with Tartu Administrative Court requesting that the ruling be declared invalid. The appeal has not yet been ruled on.

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 respond to the statement of claim. Arco Ehitus OÜ does not admit the claim for compensation submitted by the City of Sillamäe and lodged a response 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.

On 8 June 2011, the bankruptcy trustee of OÜ Kristiine Ehitus (bankrupt since 23 May 2011) Peeter Sepper filed an application for dismissal of the action. Arco Ehitus OÜ and the City of Sillamäe presented their positions on 27 June 2011 and 17 June 2011 respectively. On 13 July 2011 the court ruled that the action brought by the City of Sillamäe against OÜ Kristiine Ehitus for compensation of damages should be dismissed.

With a ruling dated 19 September 2011, the court satisfied the application of Arco Ehitus OÜ for halting the proceedings in the same matter until the administrative proceedings have ended. Tartu Circuit Court has not yet ruled on the administrative matter.

The litigation is pending.

Claims of Arco Ehitus OÜ against Kristiine Ehitus OÜ

On 31 March 2010, Arco Ehitus OÜ and OÜ Kristiine Ehitus signed a subcontract for construction services by which Arco Ehitus OÜ undertook to build the Estonian Aviation Academy building and OÜ Kristiine Ehitus undertook to pay for the construction work as stated in signed and submitted delivery documents. Arco Ehitus OÜ performed the work as agreed in the contract and submitted records of delivery as well as associated invoices. OÜ Kristiine Ehitus did not pay Arco Ehitus OÜ for work of 29,551.75 euros.

On 22 December 2010, Arco Ehitus OÜ, OÜ Kristiine Ehitus and JD Options OÜ signed an annex to the subcontract under which Arco Ehitus OÜ took over all of the rights and obligations of OÜ Kristiine Ehitus arising from a subcontract signed between OÜ Kristiine Ehitus and JD Options OÜ. Arco Ehitus OÜ paid JD Options OÜ 3,719.23 euros on behalf of OÜ Kristiine Ehitus and OÜ Kristiine Ehitus undertook to pay Arco Ehitus OÜ 3,719.23 euros for taking over the obligation by 30 December 2010 at the latest.

On 18 February 2011, Arco Ehitus OÜ and OÜ Kristiine Ehitus signed a loan agreement under which Arco Ehitus OÜ gave OÜ Kristiine Ehitus a loan of 3,601.68 euros for discharging the tax commitments of OÜ Kristiine Ehitus. OÜ Kristiine Ehitus undertook to repay the loan principal with accrued interest by 19 April 2011 at the latest. The obligation was not discharged in line with the agreement nor has it been discharged to date.

On 23 May 2011, OÜ Kristiine Ehitus was declared bankrupt and Peeter Sepper was appointed the bankruptcy trustee. On 13 June 2011, Arco Ehitus OÜ submitted a proof of claim in which it requested that its claim of 79,678.18 euros should be recognised in full.

The bankruptcy proceedings are pending.

Claims of Arco Ehitus OÜ against AS K&H

On 3 December 2008, AS K&H and Arco Ehitus OÜ signed a contract under which Arco Ehitus OÜ undertook to perform the water management project for the catchment area of the Emajõe and Võhandu rivers, Emajõe subproject; design and build of drinking water facilities (the Emajõe contract). Arco Ehitus OÜ performed the work as agreed in the Emajõe contract and submitted invoices to AS K&H. In line with the contract, AS K&H withheld 5% of each invoice as warranty retention. Altogether, 277,307.90 euros could be withheld based on the Emajõe contract and associated invoices until the date of issuance of a letter of guarantee.

On 28 October 2010, AS K&H and Arco Ehitus OÜ signed an agreement whereby AS K&H undertook to waive the demand for a bank letter of guarantee stipulated in the Emajõe contract, to accept an Arco Vara AS letter of guarantee as security for the performance of the obligations of Arco Ehitus OÜ and to pay Arco Ehitus OÜ the amount retained on the basis of the Emajõe contract when a letter of guarantee is issued by Arco Vara AS.

On 28 October 2010, Arco Ehitus OÜ and AS K&H signed a construction services contract for a water management project for the wastewater collection area of Tamsalu (the Tamsalu contract). AS K&H waived the demand for a bank letter of guarantee and accepted an Arco Vara AS letter of guarantee as security for the performance of the obligations of Arco Ehitus OÜ.

On 5 April 2011, AS K&H signed a real right contract by which it mortgaged some of its properties under a combined mortgage of 1,000,000 euros to Arco Ehitus OÜ.

On 30 May 2011, Arco Ehitus OÜ sent AS K&H a proof of claim in which it demanded settlement of a claim of 296,087.11 arising from the Emajõe contract and settlement of a claim of 569,533.86 euros arising from the Tamsalu contract, i.e. 865,620.97 euros in aggregate.

On 3 June 2011, Arco Ehitus OÜ and AS K&H signed a compromise agreement in which AS K&H accepted the claim arising from the Emajõe contract in an amount of 289,267.81 euros and the claim arising from the Tamsalu contract in an amount of 423,941.99 euros. The parties also agreed that the above claims constitute the entire claim and that Arco Ehitus OÜ has no other claims against AS K&H in connection with the Emajõe contract and that the claims will fall due as of the signature of the compromise agreement. Under an agreement on the discharge and transfer of claim, AS K&H transferred to Arco Ehitus OÜ a claim of 200,995.16 euros and associated collateral claims against AS Tamsalu Vesi. Under the compromise agreement, Arco Ehitus OÜ transferred the combined mortgage to the extent of 350,000 euros free of charge to law office Varul AS. Thus, since 3 June 2011, the value of the combined mortgage created for the benefit of Arco Ehitus OÜ is 650,000 euros.

On 18 July 2011, Tartu County Court declared AS K&H bankrupt and appointed Sirje Tael to act as the bankruptcy trustee.

On 15 August 2011, Arco Ehitus OÜ submitted a statement of claim to the bankruptcy trustee in which it requested that the claim of Arco Ehitus OÜ should be recognised in the bankruptcy proceedings of AS K&H in an amount of 512,214.64 euros.

The creditors' first general meeting was held at Tartu County Court on 22 August 2011.

The bankruptcy proceedings are pending.

Arco Ehitus OÜ cancelled a contract with Estonian University of Life Sciences

On 14 July 2010, a consortium consisting of Arco Ehitus OÜ, OÜ Wolmreks Ehitus and OÜ Kristiine Ehitus signed a general contract for construction services with the Estonian University of Life Sciences. The authorised representative of the consortium was OÜ Wolmreks Ehitus that had been assigned the responsibility of performing the entire construction work with the agreement of the consortium. In November 2010, it became apparent that OÜ Wolmreks Ehitus and OÜ Kristiine Ehitus were in financial difficulty and on most projects work had been suspended or had been performed to a

minimal extent. In addition, it became apparent that the construction work for the Estonian University of Life Sciences had not been performed in line with the agreed dates and that the builder was behind the agreed construction schedule. Arco Ehitus OÜ immediately began seeking solutions and for more effective and efficient performance of the contract it was considered necessary to change the lead partner of the consortium. As from 1 December 2010, the lead partner and authorised representative of the consortium is Arco Ehitus OÜ.

On 21 February 2011, OÜ Wolmreks Ehitus was declared bankrupt and Arco Ehitus OÜ became solely responsible for the performance of the contract.

The price calculations for the contract with the Estonian University of Life Sciences were prepared by OÜ Wolmreks Ehitus. Since the preparation of the bid, the prices of construction services have risen by around 30-40% and the new calculations prepared by Arco Ehitus OÜ indicate that the cost of the contract will prove 447,000 larger than initially estimated. The Estonian University of Life Sciences refused to compensate the increase in the cost of the contract. Continuing construction under the original terms and conditions and without amending the contract would have had a highly adverse financial impact on Arco Ehitus OÜ.

On 11 July 2011, Arco Ehitus OÜ sent the Estonian University of Life Sciences a notice of cancellation of contract and a proposal for signing a final statement of work completed.

On 22 July 2011, the Estonian University of Life Sciences sent its response to the notice of cancellation in which it took the position that the notice of cancellation sent by Arco Ehitus OÜ was void and that the Estonian University of Life Sciences itself will cancel the general contract for construction services.

The notice of cancellation sent by Arco Ehitus OÜ and the cancellation of contract were completely lawful and there were no legal or contractual impediments to cancelling the contract. Thus, the general contract for construction services has been cancelled by Arco Ehitus OÜ as of 12 July 2011 and it is not legally possible to cancel a contract already cancelled by Arco Ehitus OÜ.

16. Events after the reporting period

Arco Vara signed 7,1 million euro apartment sales transaction under the Madrid project in Bulgaria

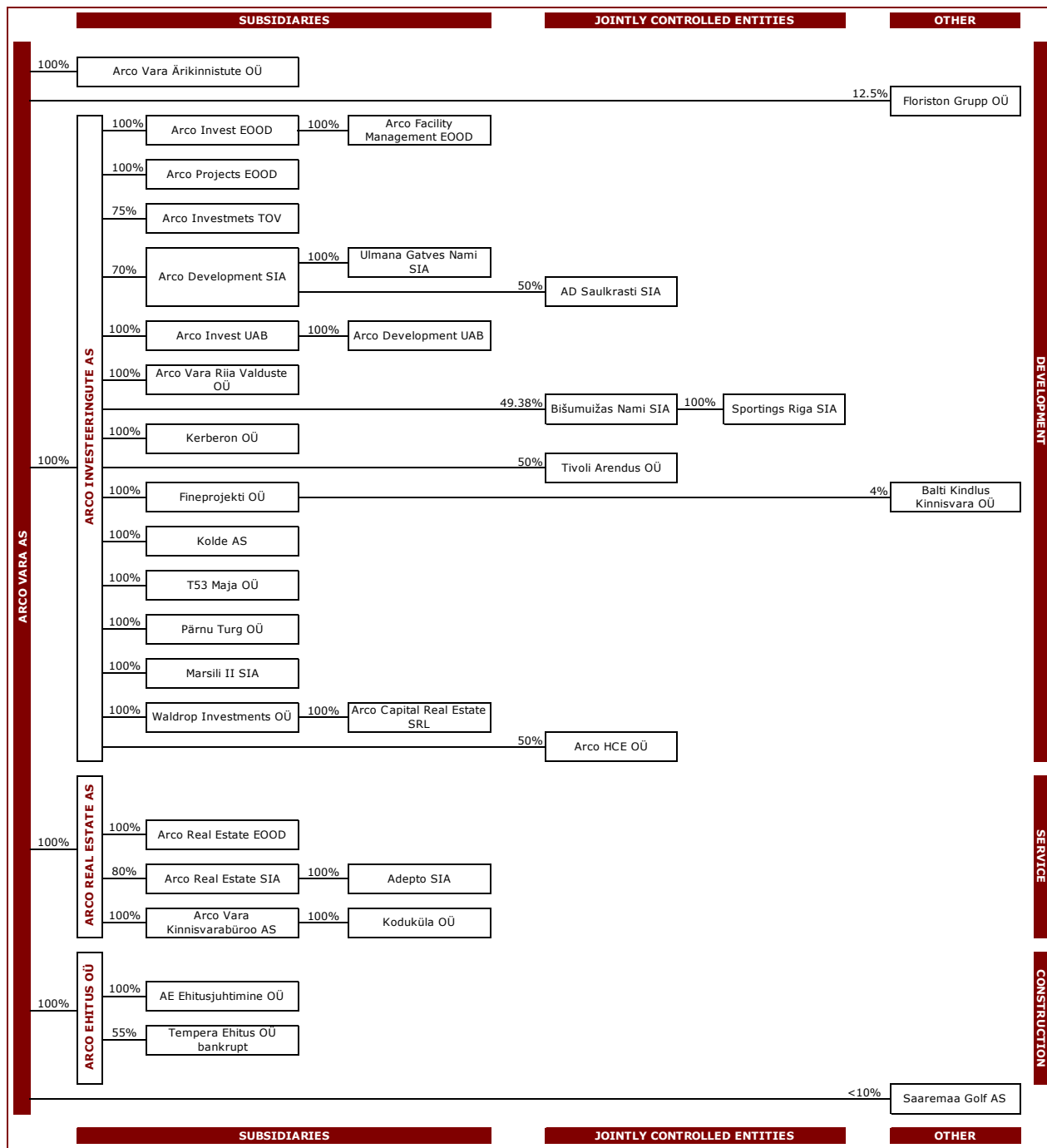
On 23.11.2011, Arco Invest EOOD - a Bulgarian subsidiary of Arco Investeeringute AS, signed a deed of conveyance with the company Cleves EOOD in order to transfer 21 apartments and 13 parking spaces in the Boulevard Residence with a total value of 4.3 million euros, of which 2.5 million were paid in advance in March 2008 and 1.8 million will be paid in November 2011.

This is the first stage of the two-stage transaction. In addition to the yesterday's transaction, Cleves EOOD is obliged to buy another 16 apartments and 18 parking spaces by the end of 2012 with a total price of 2.8 million euros.

The final transaction price is 7.1 million euros. All the above mentioned amounts include 20% Bulgarian VAT.

17. Structure of Arco Vara Group

As at 30 September 2011



Statement by the management board

The management board of Arco Vara AS has prepared the interim report for the third quarter and first nine months of 2011 as set out on pages 2-34.

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

30 November 2011