Arco Vara AS

Interim report I quarter and 3 months 2012

ARCO VARA

INTERIM REPORT

FIRST QUARTER OF 2012

(UNAUDITED)

Company name:	Arco Vara AS
Registry number:	10261718
Address:	Jõe 2b, 10151 Tallinn, Republic of Estonia
Telephone:	+372 6 144 630
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E-mail:	info@arcovara.ee
Corporate website:	www.arcorealestate.com
Core activities:	Construction of buildings (EMTAK 41000)
	Civil engineering (EMTAK 42000)
	Specialised construction activities (EMTAK 43000)
	Real estate activities (EMTAK 6800)
Financial year:	1 January 2012 – 31 December 2012
Reporting period:	1 January 2012 – 31 March 2012
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 first quarter of 2012, the Group comprised of 28 companies (31 March 2011: 27).

The Service division is engaged in real estate brokerage, valuation, management and consulting as well as in 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 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 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

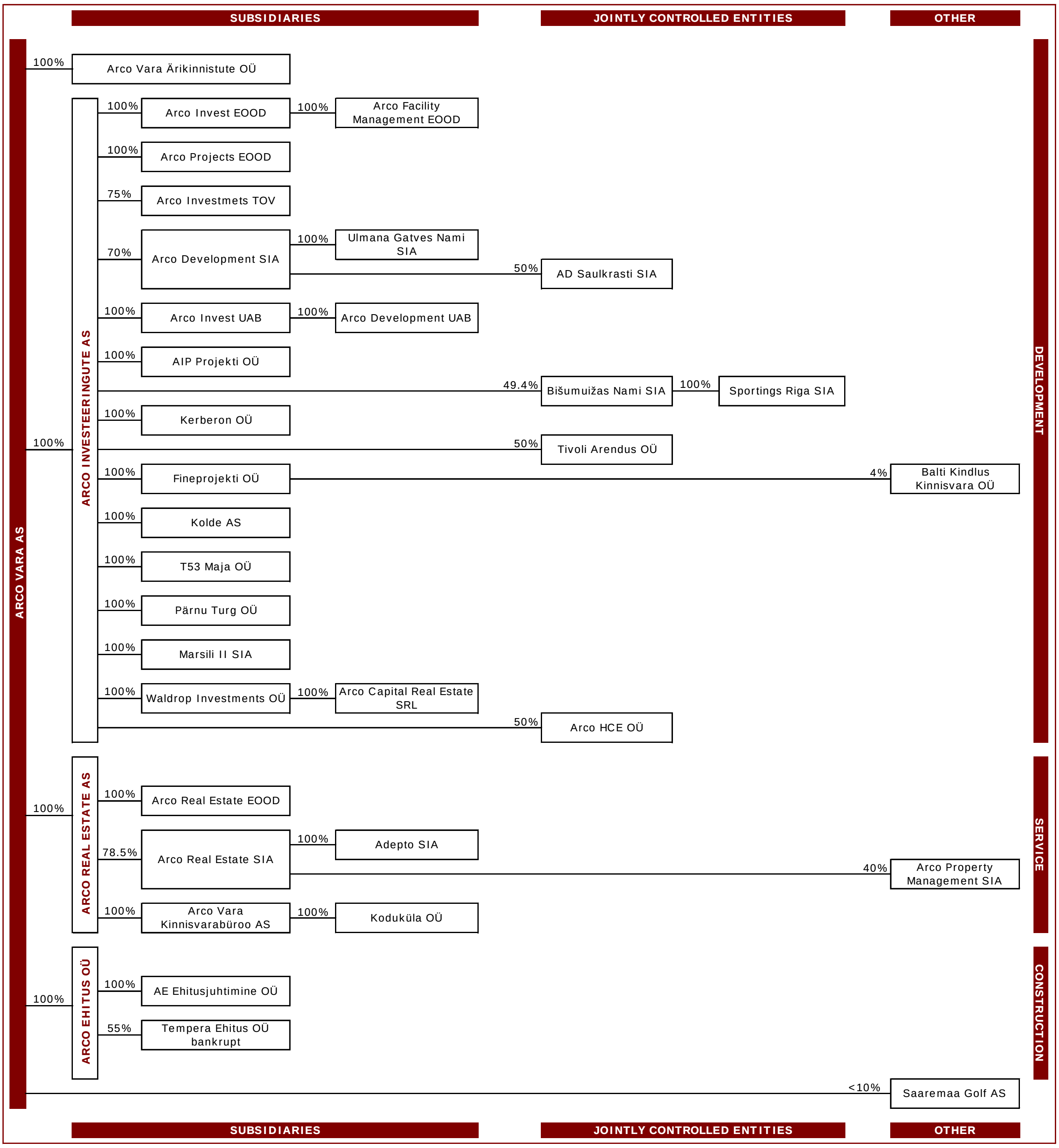
Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

GROUP STRUCTURE

As at 31 March 2012



CHANGES IN GROUP STRUCTURE

Changes in Group structure after the date of the interim report

On 27 April 2012, Arco Vara AS's wholly-held subsidiary Arco Investeeringute AS sold its 49.4% stake in the joint venture Bišumuižas Nami SIA for 2 euros to the co-venturer SIA Linstow Baltic. Through the transaction, the Group disposed of its interest in Bišumuižas Nami SIA and SIA Linstow Baltic became the sole shareholder of the entity. The transaction had no significant effect on the Group's financial position and financial performance. However, by divesting the interest the Group also disposed of a potential obligation to support the joint venture in the development of apartment buildings and in servicing loan liabilities.

Through the transaction, the Group's interest in Bišumuižas Nami SIA's subsidiary Sportings Riga SIA decreased from 49.4% to 0%.

KEY PERFORMANCE INDICATORS

- The Group ended the first quarter of 2012 with revenue of 3.6 million euros. Revenue for the first quarter of 2011 was 13.3 million euros (including 8.3 million euros earned on the sale of the Tivoli properties). Excluding the effect of the Tivoli transaction, revenue for the first quarter of 2012 was 27% smaller than a year ago.
- Operating loss for the period was 0.5 million euros. Compared with the first quarter of 2011 when the figure was 0.9 million euros, operating loss has decreased by 48%.
- Net loss for the first quarter was 0.9 million euros, a 35% decrease from the net loss of 1.3 million euros incurred in the first quarter of 2011.
- Equity to assets ratio at period-end was 40.1% (31 December 2011: 39.7%). Return on equity (12 months rolling) was negative.
- At the end of the first quarter, the Group's order backlog stood at 12.9 million euros compared with 19.0 million euros at the end of the first quarter of 2011.
- During the first quarter, the Group sold 4 apartments and plots (Q1 2011: 13 apartments and plots) in its self-developed projects.

In millions of euros	**Q1 2012**	Q1 2011
Revenue	3.6	13.3
Operating loss	-0.5	-0.9
Net loss	-0.9	-1.3
EPS (in euros)	-0.18	-0.28
Total assets at period-end	57.7	65.5
Invested capital at period-end	47.1	53.2
Net loans at period-end	22.3	24.4
Equity at period-end	23.1	26.5
Average loan term (in years)	2.3	2.1
Average interest rate of loans (per year)	6.9%	7.0%
ROIC (rolling, 4 quarters)	neg	1.2%
ROE (rolling, 4 quarters)	neg	neg
Number of staff at period-end	140	150

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

At the date of release of this report, the most important event of 2012 has been a change in the composition of the supervisory board of Arco Vara AS. Since the reporting date, three independent supervisory board members, Ragnar Meitern, Kalev Tanner and Aare Tark, have resigned and Toomas Tool, Stephan David Balkin and Aivar Pilv have been elected in their place. Now, three of the company's largest shareholders who together hold over 62% of the votes represented by shares are represented on the supervisory board.

The first quarter net loss of 0.9 million euros results mainly from the sale of an investment property, i.e. a right of superficies at Kadaka tee 131 in Tallinn. Corresponding information has already been disclosed earlier. In other respects, the Group's performance met expectations and was more profitable than in the second half of 2011.

In the first quarter of 2012, we sold four apartments in Arco Vara's projects: one in Estonia and three in Latvia. The figure does not include the apartments sold in the recently completed Manastirski apartment block and the two Kodukolde apartment buildings that will be completed in June, because currently we have concluded only contracts under the law of obligations there (presale contracts). The sales of those apartments will be included in revenue from the second quarter.

As regards major ongoing work, the large-scale Tivoli apartment project is in the design phase and we have invited tenders from potential builders. The construction of phase VI in the Kodukolde project (48 apartments) at Helme 16 in Tallinn, which was started in the second quarter of 2011, will be completed in June 2012. By the end of the first quarter, 52% of the new Kodukolde apartments had been reserved. We have also started development of a residential building with 14 apartments in Tehnika street in Tallinn. Construction term is14 months, pre-sale began in May 2012.

We have completed the construction of 7,000 square metres in phase I of the Manastirski project in Bulgaria. By the reporting date, 65% of the apartments in phase I had been reserved. In the commercial and residential building Boulevard Residence Madrid in Sofia, we continue to lease out commercial premises, to deliver reserved apartments under real right contracts (final contracts by which title is transferred), and to sell the remaining free apartments.

In the Bišumuiža 1 apartment project in Latvia, we will complete the fourth building of stage II (14 apartments) in June 2012. In addition to selling the apartments of Bišumuiža 1, we continue realising plots in the Mazais Baltezers project. Completion of development projects has a strong impact on the Group's revenue, because sales are recognised as revenue when construction has been completed, not when it is in progress.

To improve the Group's liquidity and reduce its liabilities, the Group's subsidiary OÜ Kerberon sold the right of superficies at Kadaka tee 131 in Tallinn. By divesting a business and warehouse complex on the property, the Group reduced its liabilities by 2.2 million euros and improved its liquidity although the transaction resulted in a loss of 0.7 million euros.

In the first quarter of 2012, the Service division performed better than a year ago, generating revenue of 573 thousand euros, 13% up on a year ago. The number of brokerage transactions increased by 11% and the number of valuation reports issued grew by 9% year over year. At the same time, the number of brokers increased by only 1% and the number of appraisers remained stable. During the period, the Service division began offering valuation services in Bulgaria.

In the first quarter of 2012, the Construction division secured new construction contracts of 2.9 million euros. At the reporting date, the order backlog stood at 12.9 million euros against 19.0 million euros at the end of the first quarter of 2011. The Construction division ended the first quarter with an operating profit of 0.4 million euros compared with an operating loss of 0.1 million euros incurred in the first quarter of 2011.

After the reporting date, in April 2012, the Group sold its stake in the joint venture Bišumuižas Nami SIA to the co-venturer SIA Linstow Baltic. The Group sought possibilities for exiting the project for over a year. Through the transaction, the Group disposed of the obligation to support the joint venture in the development of apartment buildings and in servicing loan liabilities. In 2011 we financed the joint venture to the extent of 0.3 million euros and Bišumuižas Nami SIA's loan liabilities alone totalled 14 million euros.

In the first quarter, the Group's loans and borrowings decreased by 1 million euros while equity to assets ratio remained more or less stable at around 40%. The weighted average interest rate of interest-bearing loans and borrowings has decreased by 0.1 percentage points compared with a year ago, mainly in connection with a decline in EURIBOR. The weighted average duration of loans and borrowings has extended slightly, from 2.1 years to 2.3 years.

REVENUE AND PROFIT

	Q1 2012	Q1 2011
In millions of euros		
Revenue		
Service	0.6	0.5
Development	0.7	9.9
Construction	2.4	2.9
Eliminations	-0.1	0.0
Total revenue	**3.6**	**13.3**
Operating profit/loss		
Service	0.0	0.0
Development	-0.6	-0.6
Construction	0.4	-0.1
Eliminations	0.0	0.1
Unallocated income and expenses, net	-0.3	-0.3
Total operating loss	**-0.5**	**-0.9**
Interest income and expense, net	-0.4	-0.4
Net loss	**-0.9**	**-1.3**

The Development division's revenue for the first quarter of 2011 was significantly impacted by the sale of inventory of 8.3 million euros to joint venture Tivoli Arendus OÜ.

CASH FLOWS

	Q1 2012	Q1 2011
In millions of euros		
Cash flows from operating activities	-1.2	-0.7
Cash flows from investing activities	1.0	-0.4
Cash flows from financing activities	-0.3	-0.9
Net cash flow	**-0.4**	**-2.0**
Cash and cash equivalents at beginning of period	2.2	4.2
Cash and cash equivalents at end of period	**1.8**	**2.2**

At 31 March 2012, the largest current liabilities to be settled in the next 12 months comprised:

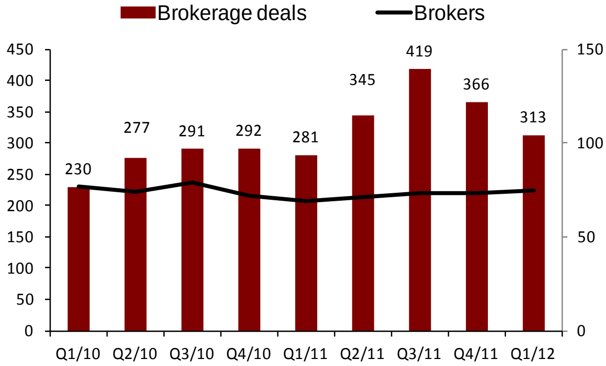
- estimated principal repayments to be made on the sale of reserved premises and payments under the settlement schedule of the loan taken for the Boulevard Residence Madrid project in Sofia of 2.5 million euros;
- repayments of the loan taken for the Manastirski project of 1.9 million euros;
- repayments of the construction loan taken by AS Kolde of 2.4 million euros;

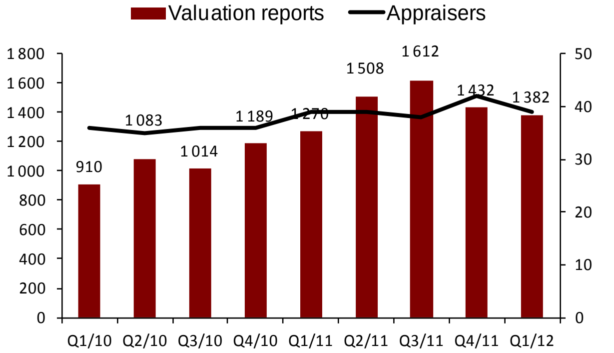
- repayments of the loan taken for the Bišumuiža 1 project of 0.5 million euros.

In the first quarter of 2012, the Group made repayments of the loan taken for the Bišumuiža-1 project in Riga and repaid the Kerberon loan in full. The Group also made scheduled repayments of loans taken for its cash flow generating projects and followed the principal repayments schedule agreed for the bank loan taken by Kodukula OÜ.

SERVICE DIVISION

In the first quarter of 2012, the Service division performed better than a year ago, ending the period with an operating loss of 5 thousand euros compared with an operating loss of 32 thousand euros for the first quarter of 2011. Revenue for the first quarter of 2012 was 573 thousand euros, 13% up on the first quarter of 2011. The number of brokerage transactions increased by 11% and the number of valuation reports issued grew by 9% year over year. At the same time, the number of brokers increased by only 1% and the number of appraisers remained stable.

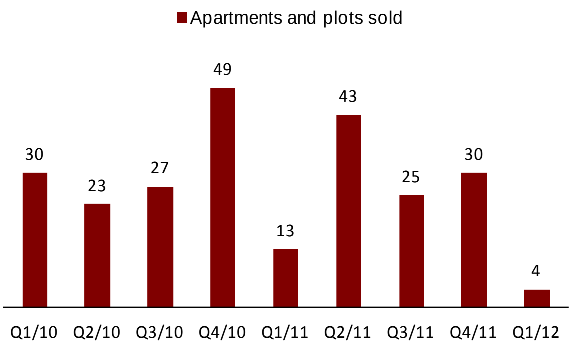




	Q1 2012	Q1 2011	Change, %
Number of completed brokerage transactions	313	281	11%
Number of projects on sale at end of period	162	158	3%
Number of valuation reports issued	1,382	1,270	9%
Number of appraisers at end of period[1]	39	39	0%
Number of brokers at end of period[1]	75	69	1%
Number of staff at end of period	45	49	-8%

[1] Includes people working under service contracts

DEVELOPMENT DIVISION



In the first quarter of 2012, four apartments were sold in Arco Vara's projects: three apartments in the Bišumuiža project in Latvia and one apartment in the Kodukolde project in Estonia. It should be noted that the figure does not yet include the apartments sold in the recently completed apartment block in the Manastirski project and the two apartment buildings, which will be completed in the Kodukolde project in June. In those projects currently only contracts under the law of obligations have been signed (under Estonian legislation, in a real estate transaction a contract under the law of obligations is signed when the buyer makes a prepayment and the parties agree the terms and conditions of sale, thus it is essentially a presale contract; title to the property transfers under a real right contract, which is usually signed when the real estate is complete). The sales of those apartments will be included in the division's revenue from the second quarter.

In 2011 the Development division found a partner, International Invest Project OÜ, for the Tivoli project and raised financing for the construction of phase I. Last year contaminated land was remediated and design work began. In the fourth quarter, Tivoli Arendus OÜ obtained a permit for the construction of six residential buildings. According to plan, construction work will begin in the summer of 2012.

Phase V of the Kodukolde development project (50 apartments) was completed in June 2011. By the end of the first quarter of 2012, all apartments in that phase had been sold. The construction of phase VI at Helme 16 in Tallinn (48 apartments) began in the second quarter of 2011. The work is performed and substantially financed by AS Merko Ehitus Eesti. The buildings are scheduled for completion in June 2012. By the end of the first quarter, half of the apartments in phase VI had been reserved on the basis of contracts under the law of obligations.

In January 2012, the division obtained a permit for the construction of a residential and commercial building of energy class B called Kastanimaja (Chestnut House), designed to be located at Tehnika 53 in Tallinn. Construction of the building was put out to tender in the first quarter of 2012. To date, the best two bidders have been selected and negotiations on signing a construction contract are under way. According to plan, construction work should be completed within 14 months. Preliminary sale of apartments began in May 2012.

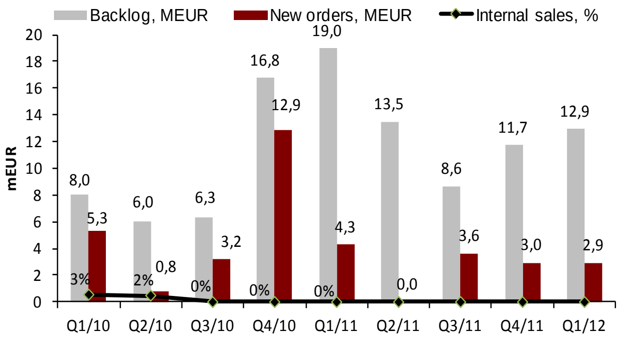
During the period, the division completed the construction of phase I in the Manastirski project in Bulgaria. As at 31 March 2012, 65% of the apartments were reserved. In the commercial and residential building Boulevard Residence Madrid in Sofia the division continues to lease out commercial premises, to deliver reserved apartments under real right contracts, and to sell the remaining free apartments.

In June 2012, the fourth building (14 apartments) will be completed in phase II of the Bišumuiža 1 apartment buildings development project in Latvia. Altogether, phase II consists of five buildings.

At the end of March 2012, the Development division employed 25 people (31 December 2011: 24).

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

CONSTRUCTION DIVISION



The Construction division specialises in environmental and civil engineering.

At the end of the first quarter of 2012, the largest contracts in progress included the design and build of the reconstruction and extension of the public water and wastewater systems of the Suure-Jaani rural municipality (two phases with a total remaining balance of 3.9 million euros), the construction of the Paide wastewater treatment plant (remaining balance 2.7 million euros), the design and build of water and wastewater pipelines for the city of Loksa (remaining balance 2.5 million euros) and the construction of the Kuusalu public water and wastewater network (remaining balance 2 million euros).

In the first quarter of 2012, the division secured new construction contracts of 2.9 million euros. At the reporting date, the order backlog stood at 12.9 million euros compared with 19.0 million euros at the end of the first quarter of 2011.

At the end of March 2012, the Construction division employed 53 people (31 December 2011: 58).

SUMMARY TABLE OF MAJOR PROJECTS

Project type	Project 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	Building rights have been obtained.	Investments in joint ventures
Project type	**Project name**	**Location**	**Legal interest**	**Leasable area**	**Current status**	**Classification in the statement of financial position**
Cash flow	Madrid	Bulgaria, Sofia	100%	7,221 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	**Project 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 11,697 m^2	Construction and sale are under way. The fourth building in phase II will be completed in June 2012 (phase II consists of 5 buildings).	Inventories
Apartments	Bišumuiža 2	Latvia, Riga	49%	87,737 m^2	Arco Vara disposed of its interest in the entity in April 2012.	Investments in joint ventures
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m^2	Building rights have been obtained.	Inventories
Apartments	Kodukolde	Estonia, Tallinn	100%	Area of unsold/ unreserved apartments 1,766 m^2	Construction of phase VI will be completed in June 2012. Sale of apartments is under way.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Area of unsold/ unreserved apartments 2,563 m^2.	The building is complete, sales continue.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Area of unsold/ unreserved apartments and commercial premises 2,349 m^2	Construction of phase I (Block C) is complete. On sale.	Inventories
Apartments	Paldiski mnt 70c	Estonia, Tallinn	33%	ca 34,000 m^2	The initial planning outline for the detailed plan is under preparation.	Investment property
Apartments	Tehnika 53	Estonia, Tallinn	100%	1,515 m^2	The detailed plan has been adopted. The construction permit has been obtained. The contract has been put out to tender.	Inventories
Apartments	Tivoli	Estonia, Tallinn	50%	58,470 m^2	The detailed plan has been adopted. The construction permit has been obtained. The contract has been put out to tender.	Investments in joint ventures
Plots	Baltezers-3	Latvia, Riga	70%	604,674 m^2 residential land	Land has been privatised. The right of 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	Palusambla 1	Estonia, Nõmme	100%	55,466 m^2	The 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 on the adoption of plans and the issue of construction 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 situation and the competitive environment. Management estimates the value of the projects 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.

PEOPLE

At the end of the first quarter of 2012, the Group employed 140 people compared with 150 at the end of the first quarter of 2011. Employee remuneration expenses for the first quarter of 2012 totalled 0.9 million euros. The figure for the first quarter of 2011 was also 0.9 million euros.

The first quarter remuneration of the parent company's member of the management board and members of the supervisory board amounted to 57 thousand euros. A year ago the corresponding figure was 51 thousand 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 31 March 2012, the company had 1,838 shareholders and the share price closed at 2.24 euros, an 8.74% increase on the previous year-end.

The following charts reflect movements in the price and daily turnover of the Arco Vara share in the first quarter of 2012:

In euros (EUR)

Changes in share price compared with the benchmark index OMX Tallinn in the first quarter of 2012:

Index/equity	1 January 2012	31 March 2012	+/-%
OMX Tallinn	531.17	602.62	+13.45
ARC1T	EUR 2.06	EUR 2.24	+8.74

Major shareholders at 31 March 2012	Number of shares	Interest, %
OÜ HM INVESTEERINGUD OÜ	1,025,338	21.62%
OÜ TOLETUM	1,024,681	21.61%
OÜ BALTPLAST	900,000	18.98%
GAMMA HOLDING OÜ	453,196	9.56%
FIREBIRD REPUBLICS FUND LTD	205,064	4.32%
Skandinaviska Enskilda Banken Ab Clients	183,709	3.87%
Central Securities Depository of Lithuania	134,653	2.84%
FIREBIRD AVRORA FUND, LTD.	106,897	2.25%
FIREBIRD FUND L.P.	86,600	1.83%
Other	621,569	13.12%
Total	**4,741,707**	**100.0%**

Holdings of members of the management and supervisory boards at 31 March 2012	Position	Number of shares held	Interest, %
Lembit Tampere	Member of Management Board	0	0%
Richard Tomingas (Toletum OÜ)	Chairman of Supervisory Board	1,024,681	21.6%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	Member of Supervisory Board	1,034,845	21.8%
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		**2,059,526**	**43.4%**

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 2012, the weighted average duration of interest-bearing liabilities was 2.3 years, which means that on average all loans need to be refinanced every two years. Although at the end of the first quarter of 2012 the Group's cash and cash equivalents totalled 1.8 million euros, 1.1 million euros of this was under the Group's own control but the rest was in accounts with restricted withdrawal opportunities (mostly accounts of designated purpose where withdrawals require the bank's consent). Liquidity and refinancing risks continue to be the most significant risks for the Group.

Interest rate risk

The base currency of most of the Group's loan agreements is the euro and the base interest rate is 3 or 6 month EURIBOR. As a result, the Group is exposed to developments in international capital markets. At the moment, the Group does not use hedging instruments to mitigate its long-term interest rate risk. In the first quarter of 2012, the Group's interest-bearing liabilities decreased by 1.0 million euros to 23.4 million euros at 31 March 2012. The period's interest payments on interest-bearing liabilities totalled 0.4 million euros. Compared with the first quarter of 2011, the weighted average interest rate has decreased from 7% to 6.9%.

Currency risk

Purchase and sales contracts are mostly 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	18 May 2012

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	Q1 2012	Q1 2011
In thousands of euros			
Revenue from rendering of services		3,368	3,737
Revenue from sale of goods		260	9,522
Total revenue	2, 3	**3,628**	**13,259**
Cost of sales	4	-2,815	-12,692
Gross profit		**813**	**567**
Other income	7	192	5
Marketing and distribution expenses	5	-82	-102
Administrative expenses	6	-697	-1,361
Other expenses	7	-716	-43
Operating loss		**-490**	**-934**
Finance income	8	22	34
Finance expenses	8	-394	-421
Loss before tax		**-862**	**-1,321**
Loss for the period		**-862**	**-1,321**
Loss attributable to owners of the parent		*-847*	*-1,334*
Profit/loss attributable to non-controlling interests		*-15*	*13*
Total comprehensive expense for the period		**-862**	**-1,321**
Earnings per share (in euros)	9		
- Basic		**-0.18**	-0.28
- Diluted		**-0.18**	-0.28

Consolidated statement of financial position

	Note	**31 March 2012**	31 December 2011
In thousands of euros			
Cash and cash equivalents		1,787	2,209
Trade and other receivables	10	7,648	7,012
Prepayments		397	433
Inventories	11	23,178	21,564
Non-current assets held for sale		0	469
Total current assets		**33,010**	**31,687**
Investments in equity-accounted investees		4	4
Other investments		8	8
Trade and other receivables	10	3,135	3,058
Deferred income tax asset		250	250
Investment property	12	20,306	24,046
Property, plant and equipment		920	934
Intangible assets		25	26
Total non-current assets		**24,648**	**28,326**
TOTAL ASSETS		**57,658**	**60,013**
Loans and borrowings	13	9,425	9,662
Trade and other payables	14	6,930	7,735
Deferred income		2,304	2,012
Provisions		1,201	1,205
Total current liabilities		**19,860**	**20,614**
Loans and borrowings	13	13 929	14 675
Other payables	14	748	741
Total non-current liabilities		**14,677**	**15,416**
TOTAL LIABILITIES		**34,537**	**36,030**
Share capital		3,319	3,319
Statutory capital reserve		2,011	2,011
Retained earnings		17,791	18,653
Total equity		**23,121**	**23,983**
Equity attributable to non-controlling interests		140	155
Equity attributable to equity holders of the parent		**22,981**	**23,828**
TOTAL LIABILITIES AND EQUITY		**57,658**	**60,013**

Consolidated statement of cash flows

	Note	Q1 2012	Q1 2011
In thousands of euros			
Loss for the period		-862	-1,321
Interest income and interest expense, net	8	321	355
Loss on sale of investment property	7	712	0
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	4, 6	23	25
Foreign exchange gains and losses, net	8	3	4
Operating cash flow before working capital changes		**197**	**-937**
Change in receivables and prepayments		169	-1,866
Change in inventories		-953	1,504
Change in payables and deferred income		-575	591
NET CASH USED IN OPERATING ACTIVITIES		**-1,162**	**-708**
Acquisition of property, plant and equipment and intangible assets		-12	-2
Paid on development of investment property		0	-557
Proceeds from sale of investment property		1,140	177
Acquisition of investments in subsidiaries and joint ventures		0	1
Loans granted	15	-63	-67
Repayment of loans granted		0	29
Other payments related to investing activities		-29	0
Interest received		3	24
NET CASH FROM/USED IN INVESTING ACTIVITIES		**1,039**	**-395**
Proceeds from loans received	13	261	504
Settlement of loans and finance lease liabilities	13	-165	-876
Interest paid		-393	-537
Other payments related to financing activities		-2	0
NET CASH USED IN FINANCING ACTIVITIES		**-299**	**-909**
NET CASH FLOW		**-422**	**-2,012**
Cash and cash equivalents at beginning of period		2,209	4,209
Decrease in cash and cash equivalents		-422	-2,012
Cash and cash equivalents at end of period		**1,787**	**2,197**

Consolidated statement of changes in equity

	Equity attributable to equity holders of the parent				Non-controlling interests	Total equity
	Share capital	Statutory capital reserve	Retained earnings	Total		
In thousands of euros						
Balance at 31 December 2010	**3,030**	**2,011**	**22,857**	**27,898**	**-70**	**27,828**
Change in non-controlling interests (through change in the Group's interests in subsidiaries)	0	0	-232	-232	232	**0**
Total comprehensive expense for the period	0	0	-1,334	-1,334	13	**-1,321**
Balance at 31 March 2011	**3,030**	**2,011**	**21,291**	**26,332**	**175**	**26,507**
Balance at 31 December 2011	**3,319**	**2,011**	**18,498**	**23,828**	**155**	**23,983**
Total comprehensive expense for the period	0	0	-847	-847	-15	**-862**
Balance at 31 March 2012	**3,319**	**2,011**	**17,651**	**22,981**	**140**	**23,121**

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 2012 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 2011. 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.

Revenue and operating profit by business segment

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	Q1 2012	Q1 2011	Q1 2012	Q1 2011	Q1 2012	Q1 2011	Q1 2012	Q1 2011	Q1 2012	Q1 2011	Q1 2012	Q1 2011
In thousands of euros												
External revenue	765	9,888	501	452	2,362	2,918	0	1	0	0	3,628	13,259
Change	*-92%*	*315%*	*11%*	*31%*	*-19%*	*96%*					*-73%*	
Inter-segment revenues	6	2	72	54	0	0			-78	-56	0	0
Total revenue	**771**	**9,890**	**573**	**506**	**2,362**	**2,918**	**0**	**1**	**-78**	**-56**	**3,628**	**13,259**
Operating profit/loss	**-603**	**-626**	**-5**	**-32**	**381**	**-60**	**-339**	**-333**	**76**	**117**	**-490**	**-934**

Assets and liabilities by operating segment

Segment	Development		Service		Construction		Unallocated assets and liabilities		Consolidated	
	31 March 2012	31 December 2011	31 March 2012	31 December 2011	31 March 2012	31 December 2011	31 March 2012	31 December 2011	31 March 2012	31 December 2011
In thousands of euros										
Assets	49,483	52,588	427	405	5,692	5,460	2,056	1,560	57,658	60,013
Liabilities	28,390	29,716	243	281	5,792	5,932	112	101	34,537	36,030

3. Revenue

	Q1 2012	Q1 2011
In thousands of euros		
Revenue from construction services	2,463	2,898
Revenue from brokerage services	452	316
Rental income	383	374
Revenue from sale of properties[1]	260	9,522
Revenue from property management services	53	134
Other revenue	17	15
Total revenue	**3,628**	**13,259**

[1] The figure for Q1 2011 includes income of 8,309 thousand euros earned on the sale of a property to the Group's joint venture Tivoli Arendus OÜ.

4. Cost of sales

In thousands of euros	**Q1 2012**	Q1 2011
Cost of construction services purchased	-1,898	-2,649
Personnel expenses	-470	-424
Cost of properties sold[1]	-236	-9,321
Management and administration costs	-132	-233
Vehicle expenses	-45	-43
Depreciation, amortisation and impairment losses	-5	-3
Other costs	-29	-19
Total cost of sales	**-2,815**	**-12,692**

[1] The figure for Q1 2011 includes the cost of inventory of 8,300 thousand euros sold to the Group's joint venture Tivoli Arendus OÜ.

5. Marketing and distribution expenses

In thousands of euros	**Q1 2012**	Q1 2011
Advertising expenses	-34	-55
Brokerage fees	-18	0
Personnel expenses	-11	-17
Market research expenses	-2	-17
Other marketing and distribution expenses	-17	-13
Total marketing and distribution expenses	**-82**	**-102**

6. Administrative expenses

In thousands of euros	**Q1 2012**	Q1 2011
Personnel expenses	-409	-428
Office expenses	-137	-129
Legal and consulting fees	-64	-643
Vehicle expenses	-40	-44
Depreciation, amortisation and impairment losses	-18	-22
Other expenses	-29	-95
Total administrative expenses	**-697**	**-1,361**

7. Other income and other expenses

Other income

In thousands of euros	**Q1 2012**	Q1 2011
Gains on sale of other assets[1]	191	0
Miscellaneous income	1	5
Total other income	**192**	**5**

[1] Gains on sale of non-current assets held for sale in January 2012 when the Group's subsidiary Arco Ehitus OÜ sold a property at Odra 16 in Tallinn.

Other expenses

In thousands of euros	**Q1 2012**	Q1 2011
Loss on sale of investment property[1]	-712	0
Late payment interest and penalty charges	-1	-32
Miscellaneous expenses	-3	-11
Total other expenses	**-716**	**-43**

[1] The loss on the sale of investment property arose in February 2012 when the Group's subsidiary Kerberon OÜ sold a right of superficies.

8. Finance income and finance expenses

Finance income

In thousands of euros	**Q1 2012**	Q1 2011
Interest income	22	34
Total finance income	**22**	**34**

Finance expenses

In thousands of euros	**Q1 2012**	Q1 2011
Interest expense	-343	-389
Foreign exchange losses	-3	-4
Other finance expenses	-48	-28
Total finance expenses	**-394**	**-421**

9. 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.

	Q1 2012	Q1 2011
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)	-847	-1,334
Earnings per share (in euros)	**-0.18**	-0.28

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.

10. Trade and other receivables

Short-term trade and other receivables

In thousands of euros	31 March 2012	31 December 2011
Trade receivables		
Trade receivables	5,586	4,874
Impairment allowance	-130	-130
Total trade receivables	**5,456**	**4,744**
Other receivables		
Loans granted	701	634
Miscellaneous receivables	517	517
Total other receivables	**1,218**	**1,151**
Accrued income		
Accrued interest	208	200
Due from customers under long-term construction contracts	216	425
Prepaid and recoverable taxes	549	491
Other accrued income	1	1
Total accrued income	**974**	**1,117**
Total short-term trade and other receivables	**7,648**	**7,012**

Long-term trade and other receivables

In thousands of euros	31 March 2012	31 December 2011
Loans granted (see note 15)	2,986	2,981
Long-term interest receivables (see note 15)	103	17
Other long-term receivables	46	60
Total long-term trade and other receivables	**3,135**	**3,058**

11. Inventories

In thousands of euros	31 March 2012	31 December 2011
Properties purchased and developed for resale	22,214	20,604
Materials and finished goods	159	155
Prepayments to inventory suppliers	805	805
Total inventories	**23,178**	**21,564**

12. Investment property

In thousands of euros	
Balance at 31 December 2010	**22,887**
Capitalised development costs	638
Sales	-177
Balance at 31 March 2011	**23,348**
Balance at 31 December 2011	**24,046**
Transfer from inventories	325
Sales	-4,065
Balance at 31 March 2012	**20,306**

13. Loans and borrowings

	31 March 2012			31 December 2011		
	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	19,857	5,965	13,892	22,019	7,381	14,638
Finance lease liabilities	46	9	37	49	12	37
Other loans	3,451	3,451	0	2,269	2,269	0
Total	**23,354**	**9,425**	**13,929**	**24,337**	**9,662**	**14,675**

In the first quarter of 2012, the Group settled loans and borrowings of 165 thousand euros (Q1 2011 : 876 thousand euros) through cash transactions and raised new loans and borrowings of 261 thousand euros (Q1 2011: 505 thousand euros). As regards non-cash transactions, the Group's loans and borrowings were affected the most by the repayment of a bank loan of 2,200 thousand euros, effected in connection with the sale of a right of superficies by the Group's subsidiary Kerberon OÜ. Growth in loans and borrowings resulted mainly from the financing of construction costs of 1,115 thousand euros provided by the builder of the Kodukolde project.

14. Trade and other payables

Short-term trade and other payables

	31 March 2012	31 December 2011
In thousands of euros		
Trade payables	**5,677**	**6,040**
Miscellaneous payables	**81**	**103**
Taxes payable		
Value added tax	83	143
Corporate income tax	199	210
Personal income tax	64	68
Social security tax	105	106
Other taxes	22	13
Total taxes payable	**473**	**540**

Accrued expenses		
Accrued interest payables	46	3
Payables to employees	237	256
Accrued expenses from service contracts	279	649
Other accruals	137	144
Total accrued expenses	**699**	**1,052**
Total short-term trade and other payables	**6,930**	**7,735**

Long-term trade and other payables

	31 March 2012	**31 December 2011**
In thousands of euros		
Retentions payable	64	65
Interest payable	43	35
Other long-term payables	641	641
Total long-term trade and other payables	**748**	**741**

15. Transactions and balances with related parties

During the period the Group conducted transactions with or at period-end had balances with the following related parties:

1) **the Group's joint ventures**;
2) **companies under the control of the members of the supervisory board of Arco Vara AS that have a significant interest in the Group's parent company** – OÜ Toletum and OÜ HM Investeeringud;
3) **Other related parties** – companies under the control of the management board member and the supervisory board members of Arco Vara AS (excluding companies that have a significant interest in the parent company) and companies controlled by Viktors Savins, who has significant influence over the Group's Latvian operations.

Transactions with related parties

	Q1 2012	Q1 2011
In thousands of euros		
Joint ventures		
Provision of loans	63	2,936
Sale of properties	0	8,309
Sale of services	1	0
Other related parties		
Sale of services	1	0
Purchase of services	145	168
Settlement of other payables	309	3
Receipt of loans	63	30
Repayment of loans received	2	0

Balances with related parties

	31 March 2012	31 December 2011
In thousands of euros		
Joint ventures		
Short-term loan receivables	67	0
Trade receivables	37	36
Long-term loan receivables (see note 10)	2,986	2,981
Short-term interest receivables	0	85

Long-term interest receivables (see note 10)	103	17
Companies that have a significant interest in the Group's parent company		
Other short-term receivables	376	376
Short-term interest receivables	119	114
Other related parties		
Short-term loan receivables	234	233
Short-term interest receivables	86	84
Prepayments for inventories	445	445
Payables to suppliers	11	12
Other short-term payables	0	309
Short-term loans and borrowings	478	408
Short-term interest payables	7	3

The remuneration provided to the Group's key management personnel, i.e. the member of the management board and the members of the supervisory board of the Group's parent company, for the first quarter of 2012, including social security charges, amounted to 57 thousand euros (Q1 2011: 51 thousand euros) in aggregate.

16. Contingent assets and liabilities

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

In 2010, Järvamaa Education Centre, a state-owned vocational educational institution administered by the Ministry of Education and Research, and Arco Ehitus OÜ (together with OÜ Kristiine Ehitus) signed general public procurement contract for the renovation of the Paide academic building of Järvamaa Education Centre (the Contract). Arco Ehitus OÜ presented to Järvamaa Education Centre a letter of guarantee of 88 thousand euros as required by the Contract. During construction, it appeared that the documents Järvamaa Education Centre had submitted to the contractor contained a number of deficiencies and Arco Ehitus OÜ and OÜ Kristiine Ehitus cancelled the contract. In response, Järvamaa Education Centre sent AS SEB Pank a letter of claim for payment of the guaranteed amount, i.e. 88 thousand euros.

In 2010, Arco Ehitus OÜ filed a statement of claim against the Republic of Estonia through the Ministry of Education and Research, seeking recognition of the cancellation of the Contract and settlement of a principal claim of 889 thousand euros and a fixed amount of late payment interest of 42 thousand euros plus further late payment interest accruing during the judicial proceedings.

In 2011, the Republic of Estonia brought a counter-action against Arco Ehitus OÜ, seeking payment of damages of 508 thousand euros, a contractual penalty of 4 thousand euros and late payment interest of 0.0266% per day from the filing of the counter-action until due satisfaction of the claims. Arco Ehitus OÜ has contested the claim.

The litigation is pending.

In the Group's statement of financial position, the amount of the letter of guarantee (88 thousand euros) is recognised within other short-term receivables. The Group considers it highly probable that the litigations will have a positive outcome.

Arco Ehitus OÜ's claims against AS K&H and AS Tamsalu Vesi

In June 2011, Arco Ehitus OÜ and AS K&H signed a compromise agreement by which AS K&H accepted the claims arising from two contracts between Arco Ehitus OÜ and AS K&H of 713 thousand euros in aggregate.

The parties further agreed that Arco Ehitus OÜ had no additional or collateral claims against AS K&H. Under an agreement on the discharge and transfer of claim, AS K&H transferred to Arco Ehitus OÜ a claim of 201 thousand euros and associated collateral claims, which AS K&H had against AS Tamsalu Vesi.

In 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.

In July 2011, Tartu County Court declared AS K&H bankrupt and 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 thousand euros.

In March 2012 an agreement was signed in the bankruptcy proceedings under which Arco Ehitus OÜ waived the mortgages and the bankruptcy trustee and the bankruptcy committee confirmed that there was no basis for retracting or otherwise contesting the contracts signed in June 2011 and that the transfer of claim to Arco Ehitus OÜ was valid and AS Tamsalu Vesi has to satisfy the claim in full.

Arco Ehitus OÜ has repeatedly sent AS Tamsalu Vesi AS proofs of claim for settlement of a claim of 181 thousand euros. At the date of release of this report, the bankruptcy proceedings are pending and Tamsalu Vesi AS has not settled its debt.

Arco Ehitus OÜ's claims against the bankrupt Wolmreks Ehitus OÜ, OÜ Kristiine Ehitus and Plastitehase AS

In 2011 three companies, OÜ Wolmreks Ehitus, OÜ Kristiine Ehitus and Plastitehase AS against which Group company Arco Ehitus OÜ had claims, were declared bankrupt. The total amount of claims submitted to the bankruptcy trustees is 334 thousand euros. Arco Ehitus OÜ has written all those receivables down in full. At the reporting date, the bankruptcy proceedings were pending.

Surety granted to joint venture Arco HCE OÜ

The Group's subsidiary Arco Investeeringute AS has agreed to stand surety for a bank loan of 1,917 thousand euros taken by the Group's joint venture Arco HCE OÜ. The Group's management board has estimated the probability of the realisation of the obligation and has made a provision extending to 50% of the surety obligation, i.e. 959 thousand euros.

Bank guarantees for construction activities

Group entities' obligations under construction contracts and financial liabilities are secured with various guarantees and surety bonds. Banks have issued the letters of guarantee required by customers against commercial pledges. The guarantees expire within up to three years. The Group considers the probability of the realisation of the guarantees and surety bonds remote. Therefore, respective provisions have not been recognised in the statement of financial position.

At the end of the first quarter of 2012, bank guarantees provided to customers to secure Group entities' commitments under construction contracts totalled 1,212 thousand euros and the unused portion was 293 thousand euros (at 31 December 2011 the respective figures were 620 thousand euros and 362 thousand euros). The amount of secured commitments has increased in connection with growth in construction operations.

17. Events after the reporting date

On 9 April 2012, the Group's subsidiary Arco Invest EOOD obtained a permit for use for an apartment building with 74 apartments in the Manastirski district in Sofia. Construction of the building began in April 2011; the building was completed on time and in line with the agreed budget.

On 27 April 2012, the Group's subsidiary Arco Investeeringute AS sold its 49.4% stake in the joint venture Bišumuižas Nami SIA for 2 euros to the co-venturer SIA Linstow Baltic. By the transaction, the Group disposed of its interest in Bišumuižas Nami SIA and SIA Linstow Baltic became the entity's sole shareholder.

On 30 April 2012, an extraordinary general meeting of Arco Vara AS elected Stephan David Balkin and Toomas Tool as new members of the supervisory board in order to replace two members of the supervisory board, Kalev Tanner and Ragnar Meitern, who had resigned.

On 15 May 2012, the annual general meeting of Arco Vara AS resolved:

- to approve the consolidated audited annual report of Arco Vara AS for 2011;
- to transfer the net loss for the year ended 31 December 2011 of 3,381,662 euros to retained earnings;
- to elect Aivar Pilv as a new member of the supervisory board of Arco Vara AS (in order to replace Aare Tark who had resigned);
- to appoint AS PricewaterhouseCoopers as the auditor of Arco Vara AS for a term of one year.

18. Group structure

Company	Domicile	Group's ownership interest 31 March 2012	Group's ownership interest 31 December 2011
%			
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	78.5	78.5
Arco Real Estate SIA[1]	Latvia	78.5	78.5

Company	Domicile	Group's ownership interest 31 March 2012	Group's ownership interest 31 December 2011
%			
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
Arco Investeeringute AS	Estonia	100	100
AIP Projekti OÜ[1]	Estonia	100	100
Arco Vara Ärikinnistute OÜ	Estonia	100	100
Fineprojekti OÜ[1]	Estonia	100	100
Kerberon OÜ[1]	Estonia	100	100
Koduküla OÜ[1]	Estonia	100	100
Kolde AS[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
Marsili II SIA[1]	Latvia	100	100
Arco Development SIA[1]	Latvia	70	70
Ulmana Gatves Nami SIA[1]	Latvia	70	70
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	50
AD Saulkrasti SIA[1]	Latvia	35	35
Bišumuižas Nami SIA[1]	Latvia	49.38	49.38
Sportings 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

[1] Interest through a subsidiary

Statement by the member of the management board

The member of the management board of Arco Vara AS has prepared the interim report for the first quarter of 2012 as set out on pages 2-30.

The interim report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union 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

18 May 2012