



Arco Vara AS

Interim report 1 quarter of 2009

FIRST QUARTER AND THREE MONTHS 2009
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

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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 2009 – 31 December 2009

Reporting period: 1 January 2009 – 31 March 2009

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

Management board: Lembit Tampere, Heigo Metsoja, Veiko Taevere

Auditor Ernst & Young Baltic AS

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Management report for the first quarter of 2009

GENERAL INFORMATION

Arco Vara AS and other companies of its Group (hereinafter Group) are engaged in various aspects of the real estate business that can be divided into three business lines: Service Division, Development Division and Construction Division. As of end of the 1st quarter 2009, the Group comprised 29 subsidiaries (2008 Q1: 33), 13 joint companies (2008 Q1: 20) and 2 associates (2008 Q1: 2).

The performance of all divisions of the Group is subject to seasonal fluctuations. The transaction volumes of the Service Division usually expand in autumn and spring while the turnover of the Construction Division and the investment volumes of the Development Division subside in the winter.

The principal activity of the Service Division is real estate brokerage, valuation, management, consulting and short-term investment in residential real estate.

The principal activity of the Development Division is developing integrated residential environments and commercial real estate. Fully developed housing solutions are sold to end-customers. Commercial properties are developed until they start generating cash flow after which they are sold to a real estate fund or another developer. The Group holds some completed commercial properties that are yielding income from rent, but have not been sold yet as they have not been developed to their full potential.

The principal activity of the Construction division is offering general and subcontracting service and carrying out environmental engineering works.

Domestic markets of the Group are Estonia, Latvia Bulgaria and Ukraine.

Mission, vision and common values

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

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

Core values of Arco Vara:

Partnership – our client is our partner

Reliability – we are reliable, open and honest

Professionalism – we deliver high-quality services

Respect – we respect our client's personality

Responsibility – we keep our promises

STRUCTURE OF THE GROUP

Company	Country of location	Shareholding of the Group	
		31.03.2009	31.12.2008
%			
Service segment			
Subsidiaries			
Arco Real Estate EOOD ¹	Bulgaria	100	100
Arco Real Estate AS	Estonia	100	100
Arco Ukraina Valdused OÜ ¹	Estonia	75	75
Arco Vara Kinnisvarabüroo ¹	Estonia	100	100
Adepto SIA ¹	Latvia	80	80
Arco Real Estate SIA ¹	Latvia	80	80
Arco Neruhomist TOV ¹	Ukraine	75	75

Company	Country of location	Shareholding of the Group	
		31.03.2009	31.12.2008
%			
Development segment			
Subsidiaries			
Arco Invest EOOD ¹	Bulgaria	100	100
Arco Facility Management EOOD ¹	Bulgaria	80	-
Arco Project EOOD ¹	Bulgaria	100	100
Arco Bulgaaria OÜ ¹	Estonia	100	100
Arco Investeeringute AS	Estonia	100	100
Arco Vara Kinnistute AS ¹	Estonia	merged	100
Arco Vara Puukool OÜ	Estonia	100	100
Arco Vara Riia Valdused OÜ ¹	Estonia	100	100
Kerberon OÜ ¹	Estonia	100	100
Kolde AS ¹	Estonia	100	100
Pärnu Turg OÜ ¹	Estonia	100	100
Waldrop Investments OÜ ¹	Estonia	100	100
Wilson Kinnisvara OÜ ¹	Estonia	100	100
AD Saulkrasti SIA ¹	Latvia	50.4	50.4
Arco Development SIA ¹	Latvia	80	80
Ulmana Gatves Nami SIA ¹	Latvia	80	80
Arco Invest UAB ¹	Lithuania	100	100
Arco Development UAB ¹	Lithuania	100	100
Arco Capital SRL ¹	Romania	100	100
Arco Investments TOV ¹	Ukraine	75	75
Jointly controlled entities			
Arco HCE OÜ ¹	Estonia	50	50
Arco Vara Arenduse OÜ ¹	Estonia	50	50
Arco Vara Saare Kinnistud OÜ ¹	Estonia	50	50
Arco Ärikeskus OÜ ¹	Estonia	50	50
Chalwell OÜ ¹	Estonia	merged	50
Floriston Grupp OÜ	Estonia	50	50
Kastner Grupp OÜ ¹	Estonia	50	50
Koduküla OÜ ¹	Estonia	50	50
Noland Grupp OÜ ¹	Estonia	merged	50
Pärnu Elumaja OÜ	Estonia	50	50
Redman Invest OÜ ¹	Estonia	merged	50

Snowden OÜ ¹	Estonia	50	50
Steadman OÜ ¹	Estonia	merged	50
Tallinna Olümpiapurjespordikeskus AS ¹	Estonia	50	50
Varamaad Kinnisvara OÜ ¹	Estonia	33,4	33,4
Bišumuižas Nami SIA	Latvia	40	40
Sporting Riga SIA ¹	Latvia	40	40
Related company			
Gilmor Grupp OÜ (in the process of liquidation) ¹	Estonia	20	20
Jüri Arendus OÜ ¹	Estonia	20	20
Building segment			
Subsidiaries			
Arco Ehitus OÜ	Estonia	100	100
Tempera Ehitus OÜ ^{1, 2}	Estonia	55	55
Arco Construction SIA ¹	Latvia	55	55

¹ Shareholding through subsidiaries.

² On 26 February 2009 OÜ Tempera Ehitus OÜ was declared bankrupt by a decision of the Harju County Court. Tempera Ehitus OÜ is not consolidated.

CHANGES IN THE GROUP STRUCTURE

On 16 January 2009, Arco Investeeringute AS, a subsidiary of Arco Vara AS (shareholding of Arco Vara AS 100%) established the company Arco Facility Management EOOD, a subsidiary in Bulgaria that will provide complex property management services on the Bulgarian market.

Floriston OÜ, a 50% subsidiary of Arco Vara AS, has merged with its 100% subsidiaries Chalwell OÜ, Noland Grupp OÜ, Redman Invest OÜ and Steadman OÜ.

Arco Investeeringute AS, a 100% subsidiary of Arco Vara AS merged its 100% subsidiary Arco Vara Kinnistute AS. As a result of merger, Arco Vara Kinnistute AS dissolved and Arco Investeeringute AS became its legal successor. Changes in Commercial Register were made on 15 April 2009.

Changes in the Group structure after the balance sheet date:

Arco Investeeringute AS, a subsidiary of Arco Vara AS, increased its shareholding in the related company Bišumuižas Nami SIA from 40% to 49.4%. No cash was used in the transaction as both major shareholders of the project converted the recent subordinated liabilities to equity.

KEY FINANCIALS

- Revenue and other income for the 1st quarter totalled 95.6 million kroons (6.1 million euros), 15% down year-over-year.
- EBIT amounted to -13.9 million kroons (-0.9 million euros), 53.2% up year-over-year.
- Net profit amounted to -14.7 million kroons (-0.9 million euros), 12.0% up year-over-year.
- Equity ratio was 36.8% (2008 Q1: 54.3%). ROE was -92.4% (2008 Q1: 7.8%). ROIC was -46.7% (2008 Q1: 6.1%)
- Construction division was awarded new construction contracts worth 103 million kroons (6.6 million euros), (2008 Q1: 111 million kroons, 7.1 million euros)
- Group's order backlog in the Construction division stood at 232.0 million kroons (14.8 million euros), (2008 Q1: 358 million kroons, 22.9 million euros)
- Over the quarter, a total of 14 apartments and plots were sold (2008 Q1: 11) and 13 reserved (2008 Q1: 48).

	EEK		EUR	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1
In millions				
Revenue and other income	95.6	111.9	6.1	7.2
EBIT	-13.9	-29.7	-0.9	-1.9
<i>incl. revaluation of investment property</i>	0.0	-12.4	0.0	-0.8
Profit / loss before tax	-14.7	-16.4	-0.9	-1.0
<i>incl. profit or loss from transfer of financial assets</i>	0.0	0.0	0.0	0.0
Net profit / loss	-14.7	-16.7	-0.9	-1.1
EPS 1 (in kroons and euros)	-0.15	-0.16	-0.01	-0.01
Total assets at period end	1,894.2	3,521.8	121.1	225.1
Invested capital at period end	1,689.4	3,227.8	108.0	206.3
Net loans at period end	877.8	684.4	56.1	43.7
Equity at period end	697.1	1,911.3	44.6	122.2
Current Ratio	1.9	2.1		
ROIC (rolling 12 months)	-46.7%	6.2%		
ROE (rolling 12 months)	-92.4%	7.8%		
Number of staff at period end	258	654		

Comments by the CEO

During the 1st quarter 2009, 14 apartments or plots were sold and 13 objects reserved in Arco Vara projects. In the Boulevard Residence Madrid project in Sofia, a 30-year rental agreement was concluded with the Austrian supermarket chain Billa, by which the supermarket will rent approx. 900 m² of the ground floor sales space of the building. The strategy of Arco Vara development division is to complete and sell the unfinished apartments in project Kodukolde and plots in project Merivälja2 in Tallinn, Bišumuiža-1 in Riga, Boulevard Residence in Madrid and Manastirski in Sofia by using the benefits of dropped construction prices and releasing this way invested equity as well as reducing the liabilities of the Group. Together with the drop in construction prices and considering our goal to maintain our competitiveness, we have decreased the prices of plots and apartments of Arco Vara projects in the 1st quarter.

In the construction division, new agreements in the amount of 103 million kroons (6.6 million euros) were concluded in the 1st quarter (2008 Q1: 11 million kroons, 7.1 million euros). Considering the general situation on the Estonian construction market, the decrease in contract prices of Arco Vara construction division has been low on year-over-year basis – 7.3%. Compared to the 4th quarter 2008 when the situation in the real estate and construction sector changed rapidly, the volume of new construction agreements has increased 35%, from 69 million kroons (4.4 million euros) to 103 million kroons (6.6 million euros). One of the most important goals of the construction division for the near future is to decrease the administration costs of the Latvian subsidiary, similarly to what has already been done in Estonia. The operating loss of the Estonian construction division (without nonrecurring redundancy costs) was approx. 0.5 million kroons (0.03 million euros).

By restructuring the service division, we have considerably decreased its administration costs. The number of employees has been reduced by 290 persons (80%), at the same time, the turnover has decreased less. During the 1st quarter, the work organisation of some smaller offices outside the capital was changed: the classical office-based work organisation was given up and replaced by the home office system, whereby all services were maintained. In other offices, more cost

effective work organisation solutions are being implemented in cooperation with employees. In the service division, the property management department has managed to maintain the turnover and profitability, after the balance sheet date, 2 objects have been added to their portfolio.

The nonrecurring expenditure of the service division in the 1st quarter amounting to 1.5 million kroons (0.1 million euros) was caused by redundancy payments, sales of intangible assets and vehicles used by redundants, which was, due to market situation, made under the price level fixed in leasing contracts, and sales of properties acquired in earlier years as current investments under their cost price.

The aim of the service division is to continue implementing the partially applied and in the current market situation justified work organisation also in foreign markets, which allows increasing service provision with unlimited means in these countries, with a future focus on Estonia, Latvia and Bulgaria.

All in all, we have managed to save in the 1st quarter on y-o-y basis more than 17 million kroons (1.1 million euros) administration and marketing costs, which means that we are ahead our annual schedule of saving 60 million kroons (4 million euros) that we set ourselves in autumn. The number of persons employed by the Group has decreased from 654 persons in 1st quarter 2008 to 259 persons in 1st quarter 2009. However, the Group earned a loss of 14.7 million kroons (0.8 million euros) in the first quarter, wherefrom the portion of nonrecurring expenditures was approx. 5 million kroons (0.3 million euros).

REVENUE AND PROFIT

	EEK		EUR	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1
In millions				
Revenue and other income				
Services	10.8	32.6	0.7	2.1
Development	30.1	29.7	1.9	1.9
Construction	58.9	89.5	3.8	5.7
Eliminations	-4.2	-39.9	-0.3	-2.5
Total revenue and other income	95.6	111.9	6.1	7.2
EBIT				
Services	-5.2	-8.2	-0.3	-0.5
Development	-0.3	-16.1	0.0	-1.0
Construction	-3.4	4.2	-0.2	0.3
Eliminations	-0.1	-4.6	0.0	-0.3
Unallocated expenses	-4.9	-5.1	-0.3	-0.3
Total EBIT	-13.9	-29.7	-0.8	-1.8
Interest income and expense	-5.0	5.0	-0.3	0.3
Net other financial items	4.3	8.3	0.3	0.5
Income tax expense	0.0	-0.4	0.0	0.0
Net profit / loss	-14.7	-16.7	-0.8	-1.0

The Group sold a total of 14 apartments and plots (2008 Q1: 11). The development division was able to maintain the revenue, the revenue of the construction division decreased 34% and the one of the service division 67%.

Due to the low stock-in-trade an improvement in turnover can be expected in the 4th quarter 2009. In autumn, the project "Boulevard Residence Madrid" will be completed in Sofia. In Tallinn, more than 60 apartments add in the "Kodukolde" project and in the "Merivälja2" project more than 50 plots with full infrastructure. The recent reservations and new sales will be reflected after the end of construction and authorisation for use are obtained as turnover.

No substantial revaluations were made in the 1st quarter. More than before, interests paid are recognised as interest costs, as some of the projects have been frozen and the Group is not capitalizing these interests anymore. The financial

income and expenses were mainly influenced by the exchange rate profit of 4.2 million kroons (0.3 million euros) from the claim against AS Ühendatud Kapital in US dollars. As at the end of the quarter the Group has liquid assets in value of 114.5 million kroons (7.3 million euros). Interest-bearing liabilities amount to 979.4 million kroons (62.6 million euros) of which 477.3 million kroons (30.5 euros) are short-term.

CASH FLOWS

	EEK		EUR	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1
In millions				
Cash flows from operating activities	-1.1	-33.3	-0.1	-2.1
Cash flows from investing activities	27.6	-180.6	1.8	-11.6
Cash flows from financing activities	-84.4	-69.4	-5.4	-4.4
Net cash flow	-57.9	-283.3	-3.7	-18.1
Cash and cash equivalents at beginning of period	172.6	765.0	11.0	48.9
Effect of exchange rate fluctuations	-0.1	0.0	0.0	0.0
Cash and cash equivalents at end of period	114.5	481.7	7.3	30.8

In January 2009 the company made an extraordinary repayment of 40 million kroons related to Tivoli and Laeva projects loans to SEB Bank by releasing the Group from the obligation to maintain liquid assets worth 150 million kroons (9.6 million euros) in SEB bank accounts.

The biggest short-term liabilities are the bond stock in the amount of approx. 52 million kroons (3.3 million euros) to be redeemed, the loan related to the Ahtri project in the amount of 97.2 million kroons (6.2 million euros), and approx. 77 million kroons (4.9 million euros) calculated principal returns from the sales of assets („Kodukolde”, „Merivälja2” and „Boulevard Residence Madrid”). Short-term liabilities have been mostly affected by accounting the Tivoli and Laeva2 project loans as short-term loans, in the amount of 120 million kroons (7.7 million euros) with an expiry date of 31.03.2010. On a current basis, loans in the project „Kodukolde” in Tallinn and „Bišumuiža-1” in Riga, Latvia have been paid, where the recent loan payments per sold square meter are higher than the sales turnover. After the balance sheet date, the relevant loans have been refunded and the loan servicing costs remained under the sales prices, by leaving the Group more disposable funds. After the balance sheet date, most of the Group liabilities will be in euros.

SERVICE DIVISION

Cost and business model optimisation started in autumn has had good results but is still not sufficient for earning net profit. By cash flow, the revenues and expenses of the division in 1st quarter are in balance and didn't need any subsidy from parent company.

In the 1st quarter, as the liquidity of the company is most important, the division sold objects that were acquired earlier as short-term investments, due to the market situation, the prices have been sometimes under the cost price. The number of employees in the division has decreased within 12 months by 80%, a total of 290 persons, while the turnover has decreased by 67%. The number of brokerage transactions of the Group in 12 months has decreased by 57%, and the number of valuation reports has decreased by 60%.

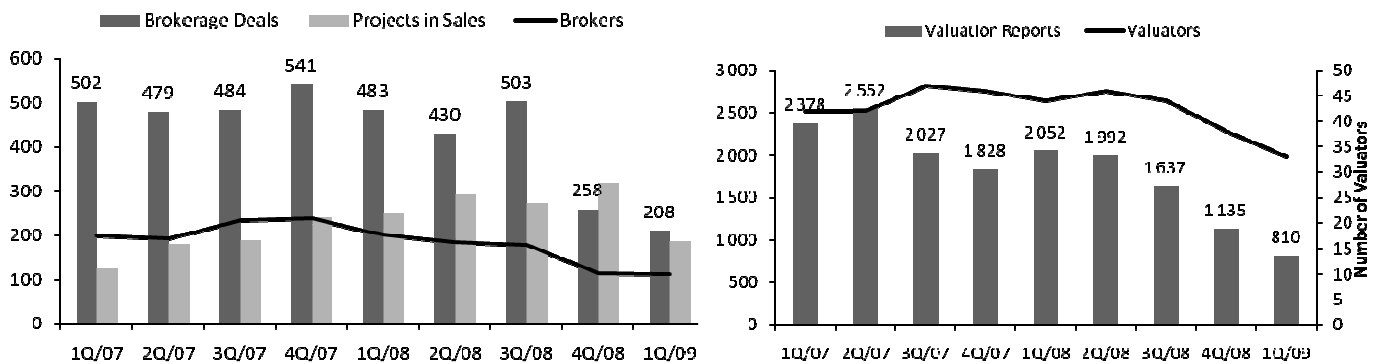
The property management department has managed to maintain the turnover and the profitability, after the balance sheet date, 2 more objects were added to the portfolio.

The nonrecurring operating costs of the division amounted to more than 1.5 million kroons (0.1 million euros) and were related to redundancy payments and sales of assets under their cost price.

The number of employees in the division has been reduced by 66 persons. At the end of the 1st quarter the division employed 73 persons (2008 Q1: 360 persons).

	2009 Q1	2008 Q1	change, %
Number of brokered objects	208	483	-56,9%
Projects being sold, pcs.	186	247	-24,7%
Number of valuation reports	810	2 052	-60,5%
Number of appraisers*	33	44	-25,0%
Number of real estate brokers*	111	201	-44,8%
Number of division staff at the end of period	73	360	-79,7%

* Includes authorisation agreements



DEVELOPMENT DIVISION

In the 1st quarter 2009, 14 apartments or plots were sold and 13 were reserved. Within the "Boulevard Residence Madrid" project in Sofia, long-term lease agreement was concluded with the Austrian supermarket chain "Billa"; the supermarket will lease 900 m² of retail premises. Tallinn Administrative Court annulled the decision of Tallinn City Council with what detailed plan of Tivoli project in Tallinn was established, (see Note 16). After the balance sheet date an appeal is drafting.

The main risk factor for the development division is the refinancing of loans of empty plots in Estonia.

Although the cash flow of the Group is tense, we will finish the construction of unfinished apartments and plots with more favourable construction prices in order to satisfy the demand with ready to be sold stock. No new investments are planned.

In order to reduce liquidity risk, the prices in current projects in the Baltic's as well as in Sofia have been decreased substantially and during the year we aim at selling cash flow generating projects. For some employees, salaries and working times have been reduced. At the end of the 1st quarter the division employed 43 persons (2008 Q1: 55 persons).

Further information on the projects: www.arcorealestate.com/development

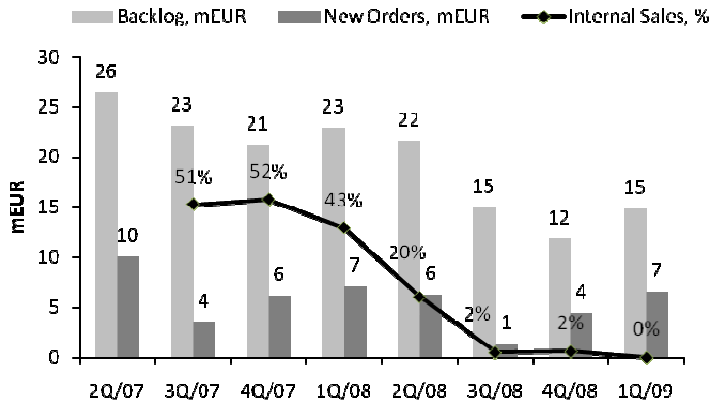
CONSTRUCTION DIVISION

The construction division has mostly won tenders of environmental and infrastructure engineering. The average volume of the tenders has decreased and the contractor is usually the state or local governments.

The biggest new contracts in the 1st quarter were the Emajõe-Võhandu drinking water project and the Kohtla-Järve-Kiviõli sewerage project.

In the 1st quarter the division was awarded construction contracts worth 103 million kroons (6.6 million euros), in the 1st quarter of 2008 the corresponding figure was 111 million kroons (7.1 million euros). At the end of the 1st quarter, the division's order backlog was 232 million kroons (14.8 million euros) and the internal sales accounted for 0%, in the 1st quarter of 2008 the division's order backlog was 358 million kroons (22.9 million euros).

At the end of the 1st quarter the division employed 127 persons (2008 Q1: 195 persons).



SUMMARY TABLE OF MAJOR PROJECTS

Type	Name	Location	Holding	Building rights according to business plan	Current state	Balance sheet account
Commercial	Ahtri 3	Estonia, Tallinn	50%	approx. 44 500m ²	The old plan and building permit are in effect. Municipality is preparing a new detailed plan. In the new plan, above-ground building rights are 51 100 m ² Negotiations with potential tenants ongoing.	Investment property
Commercial	Ilmarine	Estonia, Tallinn	50%	approx. 80 000 m ²	After the balance sheet date the thematic plan "Location of high rise buildings in Tallinn" is established	Investment property
Commercial	Laeva 2	Estonia, Tallinn	100%	7 776 m ²	Detailed plan approved. Building permit for the building part acquired. Negotiations with potential tenants.	Investment property
Commercial	Paldiski mnt 80	Estonia, Tallinn	100%	24 000 m ²	No building right. Municipality is processing the endorsed detailed plan.	Investment property
Type	Name	Location	Holding	Rented area	Current state	Balance sheet account
Cash flow	Enerpoint	Estonia, Kuressaare	100%	3 352 m ²	In 1 st quarter 2009, production building extension was finished. Building right acquired, producing cash flow.	Investment property
Cash flow	Kaarli 2	Estonia, Tallinn	33%	Plot 4.791 m ²	Café with a total area of 242 m ² and the parking area are producing cash flow.	Investment property
Cash flow	Kerberon	Estonia, Tallinn	100%	15 750 m ²	Building right acquired, right of superficies, producing cash flow.	Investment property
Cash flow	Melon	Estonia, Tallinn	50%	5 728 m ²	Building right acquired, producing cash flow. We are applying for additional building right for approx. 11,000 m ² . Sketches of the detailed plan are subject to proceedings at the Tallinn City Planning Department.	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	2 529 m ²	Building right acquired, producing cash flow.	Investment property
Cash flow	Raekoja 10	Investment property	50%	1 493 m ²	Producing cash flow.	Investment property
Cash flow	Rüütli Str. 16 / 18	Estonia, Tallinn	50%	980 m ²	Building right acquired, producing cash flow.	Investment property
Cash flow	Bišumuiža 1	Estonia, Tallinn	50%	17 754 m ²	Building rights at the moment according to existing superficies produces cash flow. New detailed plan in the process of approval, total volume at least 74,675 m ² .	Investment property
Type	Name	Location	Holding	Building rights according to business plan	Current state	Balance sheet account
Apartments	Bišumuiža 1	Latvia, Riga	80%	Unsold building rights 18 345 m ² .	Building rights established, apartments are on sale.	Inventories
Apartments	Bišumuiža 2	Latvia, Riga	40%	87 770 m ²	Designing.	Inventories
Apartments	Hills	Lithuania, Vilnius	100%	6 500 m ²	Building rights acquired. Project is on sale.	Inventories

Apartments	Kolde	Estonia, Tallinn	100%	Unsold building rights 17 574 m ² .	Right of superficies, building rights acquired. In 1st quarter 2009, building of the 4th stage was continued. Apartments are on sale.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Unsold building rights 12 229 m ² .	Building rights acquired, construction and sales ongoing.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Unsold building rights 25 135 m ² .	Building rights acquired, construction and sales ongoing.	Inventories
Apartments	Tivoli	Estonia, Tallinn	100%	58 470 m ²	No building rights, detailed plan in the final phase	Inventories
Apartments	TOP Residential	Estonia, Tallinn	50%	33 770 m ²	No building rights, planning in the start phase	Investment property
Plots	Baltezers-2	Latvia, Riga	80%	1 940 m ²	7 plots on sale.	Investment property
Plots	Baltezers-3	Latvia, Riga	80%	172 380 m ² , total land 861 900 m ²	Rights of superficies. 189 plots. 1 st stage of infrastructure in preparation(1st stage includes 3 plots).	Investment property
Plots	Baltezers-5	Latvia, Riga	80%	48 plots unsold	Building rights acquired. Construction finished, sales ongoing.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold 63 572 m ² , 52 plots	Construction of roads and utility lines and sales ongoing.	Inventories
Plots	Pärtli	Estonia, Saue	50%	84 plots, average plot 1 500 m ²	No building rights, detailed planning under development, suspended until improvement of market situation	Investment property
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1802 m ²	No building rights, detailed planning under development, suspended until improvement of market situation	Inventories
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3 363 m ²	Building rights and design present, suspended until improvement of market situation.	Inventories

Note: The development and success of the Group's development projects depend largely on external factors. Their success is the adoption of plans and the issuance of building permits by the local government and the planning authorities. The information presented in the tables, such as building rights according to business plan, current state, project type and classification of the project in the balance sheet, 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 according to changes in the market and in competition. 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:

Balance Sheet Item	EEK		EUR	
	Balance sheet item at 31.03.09	Book values of projects presented in the summary table at 31.03.09.	Balance sheet item at 31.03.09	Book values of projects presented in the summary table at 31.03.09.
In millions				
Total assets	1 894.2	1 355.9	121.1	86.7
Inventories	871.6	809.9	55.7	51.8
Investment property	547.1	546.0	35.0	34.9
Property, plant and equipment	53.5	0.0	3.4	0.0

SIGNIFICANT CHANGES IN DETAILED PLANS IN 3 MONTHS OF 2009:

Ilmarine: After the balance sheet date, the thematic plan "Location of high rise buildings in Tallinn" is established.

Tivoli: After the balance sheet date, Tallinn Administrative Court annulled the decision of Tallinn City Council with what detailed plan of Tivoli project in Tallinn was established, (see Note 16).

STAFF

The average number of Group employees was 303 persons in 1st quarter 2009 (2008 Q1: 659 persons). They were paid (including associated taxes) 15.2 million kroons (1 million euros) remuneration (2008 Q1: 34.7 million kroons, 2.2 million euros). Payroll, including associated taxes has decreased 49.3% on annual basis.

The remuneration of the Group's management board for the 1st quarter of 2009, including associated taxes, totalled 1 million kroons (0.06 million euros). In 2008, the corresponding figure was amounted to 1.5 million kroons (0.1 million euros).

In 1st quarter 2009 the remuneration of management board has been reduced by 10%.

SHARE AND SHAREHOLDERS

The total number of outstanding shares of the company is 95 284 150. As at the end of the 1st quarter the company has 1,826 shareholders, 98.1% of them holding less than 100,000 shares. At the end of the 1st quarter, the price of the share closed at 1.63 kroons (0.14 euros), by falling 42% during the quarter. The company holds 450 000 of its own shares with the average acquisition value of 8.87 kroons (0.57 euros).

The share price changes of the shares of Arco Vara AS, and changes of transaction volumes in Q1 2009 are illustrated by the following diagram:



Major shareholders at 31.03.2009	Number of shares	Ownership interest %
FREIER PROJEKT OÜ	22 203 887	23.3%
TOLETUM OÜ	20 757 258	21.8%
OÜ HM INVESTEERINGUD	20 675 883	21.7%
SEB Ab Clients	13 520 101	14.2%
GAMMA HOLDING OÜ	2 802 875	2.9%
Central Securities Depository of Lithuania	1 743 305	1.8%
JPMORGAN CHASE BANK, UK RESIDENTS	1 375 640	1.4%
SEB KASVUFOND	732 250	0.8%
SEB PROGRESSIIVNE PF	684 471	0.7%
inter baltic invest oü	594 775	0.6%
Other	10 193 705	10.7%
Total	95 284 150	100.0%

Share positions related to the management board and the supervisory board

Shareholdings of management and the board			
At 31.03.2009	Position	Number of shares	Ownership interest %
Lembit Tampere	CEO	0	0.00%
Veiko Taevere	Member of the Management Board	0	0.00%
Heigo Metsoja	Member of the Management Board	0	0.00%
Richard Tomingas (Toletum OÜ)	Chairman of the Supervisory Board	20 757 258	21.8%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	Member of the Supervisory Board	20 790 953	21.8%
Aare Tark	Member of the Supervisory Board	0	0.00%
Kalev Tanner	Member of the Supervisory Board	0	0.00%
Ragnar Meitern	Member of the Supervisory Board	0	0.00%
Total		41 548 211	43.60%

DESCRIPTION OF MAIN RISKS

Credit risks

Credit risk is most apparent in the construction division of the Group. The payment behaviour of contractual partners in relation to the Group is continuously monitored. In the 1st quarter, the payment behaviour has worsened, but until now, no considerable credit losses have been borne.

Liquidity risks

Balance on hand is kept in biggest Estonian banks as overnight deposits or fixed rate short-term time deposits. The lengths of time deposits are usually two weeks. Although the current assets of the Group exceed the short-term liabilities by 1.8 times, the continuous management of cash flows is tense due to the high refunding risk. The cash and cash equivalents balance of the Group is permanently lower than the loan balances needing refunding within the next 12 months. The weighted average length of interest bearing liabilities is as of 31 March 2009 2.2 years, which means that almost a half of the total loan balance needs refunding each year.

Interest risks

Most of the Group loan agreements have been concluded in euros and the base interest is the 3-month and 6-month EURIBOR. Thus, the Group is open to what is happening on international capital markets. At present, the long-term interest risk with options is to a considerable extent not managed. The interest bearing liabilities of the Group have decreased within the quarter by 66.9 million kroons (4.3 million euros). As of 31 March 2009, the interest bearing liabilities of the Group amount to 979.4 million kroons (62.6 million euros). Actually paid interest expenses in the 1st quarter 2009 was 15.0 million kroons (1.0 million euros), compared to 2008 Q1, the weighted average interest expenses have decreased from 7.7% to 6.4%.

Currency risks

Sales agreements are usually concluded in local currencies: Estonian kroons (EEK), Latvian lats (LVL) and Bulgarian levis (LEV). A claim in the amount of 6 million USD (70.7 million kroons; 4.5 million euros) has been concluded in US dollars. The currency risk of this claim has not been managed. The Group is not

protected against devaluation of currencies. Most of the liquid resources are kept in deposits in Estonian kroons.

Formulas

Invested capital = current interest-bearing liabilities plus long-term liabilities plus equity

Net loans = current interest-bearing liabilities at the end of period plus long-term liabilities at the end of period less cash and cash equivalents at the end of period less short-term investments in securities

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

Average equity = the past 4 quarters' closing equity / 4

ROE = net profit for the period/ the period's average equity

Average invested capital = the sum of current interest-bearing liabilities, long-term liabilities and equity for the last four quarters / 4

ROIC = the sum of pre-tax profit and interest expenses for the last 4 quarters / average invested capital

EPS 1 = net profit attributable to equity holders of the parent / weighted average number of ordinary outstanding shares of the period

Current ratio = current assets at the end of period / current liabilities at the end of period

The management board warrants that the management report provides a true and fair overview of the development and results of the company and Group, their financial standing and contains the description of the main risks and uncertainties.

Lembit Tampere

Chair of the management board



29.05.2009

Veiko Taevere

Member of the management board



29.05.2009

Heigo Metsoja

Member of the management board



29.05.2009

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	EEK		EUR	
		2009 Q1	2008 Q1	2009 Q1	2008 Q1
in thousands					
Rendering of services		75 914	88 691	4 852	5 668
Sale of goods		18 408	18 830	1 176	1 203
Total revenue	2	94 322	107 521	6 028	6 871
Cost of sales		-87 592	-86 327	-5 598	-5 517
Gross profit		6 730	21 194	430	1 354
Other income	3	1 308	4 394	84	281
Selling and distribution costs	4	-879	-4 672	-56	-299
Administrative expenses	5	-20 602	-34 075	-1 317	-2 178
Other expenses	3	-475	-16 512	-30	-1 055
EBIT		-13 918	-29 671	-889	-1 897
Finance income	6	7 772	14 011	497	895
Finance expenses	6	-8 529	-703	-545	-45
Profit / loss before tax		-14 675	-16 363	-937	-1 047
Income tax expense		0	-366	0	-23
Net profit / loss		-14 675	-16 729	-937,00	-1 070
Other Comprehensive income					
Exchange differences on translation foreign subsidiaries		0	-278	0	-18
Other Comprehensive income for the period		-14 675	-17 007	-938	-1 087
Total comprehensive income		-14 675	-17 007	-938,00	-1 087
Profit attributable to:					
<i>Equity holders of the parent</i>		-860	-1 442	-55	-92
<i>Minority interest</i>		-13 815	-15 287	-883	-977
		-14 675	-16 729	-938	-1 069
Comprehensive income attributable to:					
<i>Equity holders of the parent</i>		-860	-1 442	-55	-92
<i>Minority interest</i>		-13 815	-15 565	-883	-995
		-14 675	-17 007	-938	-1 087
Earnings per share	7				
- Basic earnings per share		-0.15	-0.16	-0.01	-0.01
- Diluted earnings per share		-0.15	-0.16	-0.01	-0.01

Consolidated statement of financial position

	Note	EEK		EUR	
		31.03.2009	31.12.2008	31.03.2009	31.12.2008
in thousands					
Cash and cash equivalents		114 514	172 574	7 319	11 029
Other financial assets		0	40 416	0	2 583
Receivables	8	275 323	294 352	17 596	18 813
Prepayments		6 934	6 165	443	394
Inventories	9	871 588	849 440	55 705	54 289
Biological assets		2 940	3 679	188	235
Total current assets		1 271 299	1 366 626	81 251	87 343
Financial assets		255	255	16	16
Receivables	8	9 666	6 671	618	427
Investment property	10	547 114	542 753	34 967	34 688
Property, plant and equipment	11	53 464	41 812	3 417	2 672
Intangible assets	12	12 381	12 475	791	797
Total non-current assets		622 880	603 966	39 809	38 600
TOTAL ASSETS		1 894 179	1 970 592	121 060	125 943
Loans and borrowings	13	477 342	353 417	30 508	22 587
Liabilities	14	123 370	132 677	7 885	8 480
Deferred income		75 962	65 174	4 855	4 165
Provisions		5 419	5 917	346	378
Total current liabilities		682 093	557 185	43 594	35 610
Loans and borrowings	13	502 089	692 919	32 089	44 286
Liabilities	14	8 588	4 404	549	281
Deferred income tax liability		20	20	1	1
Provisions		4 291	4 291	274	274
Total non-current liabilities		514 988	701 634	32 913	44 842
TOTAL LIABILITIES		1 197 081	1 258 819	76 507	80 452
Share capital		952 842	952 842	60 898	60 898
Share premium		712 514	712 514	45 538	45 538
Statutory capital reserve		31 463	31 463	2 011	2 011
Other reserves		0	0	0	0
Retained earnings		-998 483	-984 668	-63 815	-62 932
Own shares (minus)		-3 992	-3 992	-255	-255
Total equity attributable to equity holders of the parent		694 344	708 159	44 377	45 260
Minority interests		2 754	3 614	176	231
Total equity		697 098	711 773	44 553	45 491
TOTAL LIABILITIES AND EQUITY		1 894 179	1 970 592	121 060	125 943

Condensed consolidated interim cash flow statement

	Note	EEK		EUR	
		2009 Q1	2008 Q1	2009 Q1	2008 Q1
in thousands					
Net profit / loss		-14 675	-16 729	-938	-1 070
Interest income and expense	6	5 014	-5 019	320	-321
Gains and losses on other financial assets	6	-52	507	-3	32
Impairment losses on financial assets	6	14	-13 264	1	-848
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets		1 094	1 325	70	85
Gain / loss on the sale of property, plant and equipment and intangible assets	3	263	-1	17	-1
Gain / loss on the sale of investment property	3	43	4	3	1
Change in the fair value of investment property and biological assets	3	0	12 437	0	795
Exchange gains and losses	6	-4 219	4 468	-270	286
Corporate income tax expense	6	0	366	0	23
Operating cash flow before working capital changes		-12 518	-15 906	-800	-1 018
Change in receivables and prepayments		19 659	20 767	1 256	1 327
Change in inventories		-30 430	-44 466	-1 945	-2 842
Change in biological assets		447	-16	29	-1
Change in payables and deferred income		21 727	6 313	1 389	403
NET CASH USED IN OPERATING ACTIVITIES		-1 115	-33 308	-71	-2 131
Acquisition of property, plant and equipment and intangible assets		-13 701	-7 242	-876	-463
Proceeds from sale of property, plant and equipment and intangible assets		341	89	22	6
Acquisition of investment property		-5 100	-516	-326	-33
Proceeds from sale of investment property		205	103	13	7
Acquisition of subsidiaries and interests in jointly controlled entities, net of cash acquired		0	-82 616	0	-5 280
Acquisition of other financial assets		0	-80 000	0	-5 113
Proceeds from sale of other financial assets		41 123	8 332	2 628	533
Loans granted		-942	-30 667	-60	-1 960
Repayment of loans granted		3 417	832	218	53
Interest received		2 284	11 052	146	706
NET CASH USED IN / FROM INVESTING ACTIVITIES		27 627	-180 633	1 765	-11 544
Proceeds from loans received		28 720	12 115	1 836	774
Repayment of loans and payment of finance lease liabilities		-98 978	-58 656	-6 326	-3 749
Change in overdraft		869	43	56	3
Change in group account liability		0	-804	0	-51
Interest paid		-15 050	-17 156	-962	-1 096
Dividends paid		0	-2 557	0	-163
Income tax paid on dividends		0	-2 338	0	-149
NET CASH USED IN / FROM FINANCING ACTIVITIES		-84 439	-69 353	-5 396	-4 431
NET CASH FLOW		-57 927	-283 294	-3 702	-18 106
Cash and cash equivalents at beginning of period		172 574	765 008	11 029	48 893
Decrease / increase in cash and cash equivalents		-57 927	-283 294	-3 702	-18 106
Effect of exchange rate fluctuations		-133	8	-9	0
Cash and cash equivalents at end of period		114 514	481 722	7 318	30 787

Condensed consolidated interim statement of changes in equity

	Equity attributable to equity holders of the parent							Minority interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Own shares (minus)	Retained earnings	Total		
in EEK, thousands									
At 31.12.2007	952 842	712 514	20 084	37	0	218 830	1 904 307	25 265	1 929 572
Dividends declared	0	0	0	0	0	0	0	-1 252	-1 252
Comprehensive income/loss for the period	0	0	0	-278	0	-15 287	-15 565	-1 442	-17 007
At 31.03.2008	952 842	712 514	20 084	-241	0	203 543	1 888 742	22 571	1 911 313
At 31.12.08	952 842	712 514	31 463	0	-3 992	-984 668	708 159	3 614	711 773
Comprehensive income/ loss for the period	0	0	0	0	0	-13 815	-13 815	-860	-14 675
At 31.03.2009	952 842	712 514	31 463	0	-3 992	-998 483	694 344	2 754	697 098
in EUR, thousands									
	Equity attributable to equity holders of the parent								
	Share capital	Share premium	Statutory capital reserve	Other reserves	Own shares (minus)	Retained earnings	Total	Minority interests	Total equity
At 31.12.2007	60 897	45 538	1 284	3	0	13 986	121 708	1 615	123 323
Dividends declared	0	0	0	0	0	0	0	-80	-80
Comprehensive income/loss for the period	0	0	0	-18	0	-977	-995	-92	-1 08794
At 31.03.2008	60 897	45 538	1 284	-15	0	13 009	120 713	1 443	122 156
At 31.12.08	60 898	45 538	2 011	0	-255	-62 932	45 260	231	45 491
Comprehensive income/loss for the period	0	0	0	0	0	-883	-883	-55	-938
At 31.03.2009	60 898	45 538	2 011	0	-255	-63 815	44 377	176	44 553

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 and three months of 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, using the same accounting policies and measurement bases which were applied in preparing the consolidated financial statements for 2008.

The financial statements have been prepared in thousands Estonian kroons (EEK). Based on NASDAQ OMX requirements, the main statements and notes have also prepared in thousands euros, unless another currency is referenced to. As the Estonian kroon is bound to the euro at a rate of 1 euro = 15.6466 Estonian kroons, no currency exchange differences are created, however, arithmetical inaccuracies up to 1 euro may occur due to approximation.

In May 2008, IASB issued its first collection of changes in standards, which was aimed at eliminating contradictions and making the wording more accurate. The collection contains separate transfer provisions for every standard and most of the changes will be applied to financial periods starting from July 2009 or later. According to the Group, these changes do not affect the financial statements to a considerable extent.

Change in IAS 40 "Investment Property" is important for the Group. According to the change, the investment property reflected under Property, Plant and Equipment and Assets under Construction have to be classified as property investment immediately after the commencement of construction works. If the fair value of such a project cannot be assessed on a reliable basis, such investment can be reflected in acquisition cost until completing the construction or until the fair value can be assessed on a reliable basis. As new provisions will enter into force from 1 July, the Group has not assessed the impact of possible changes.

Changes in the presentation of information in 2009

In connection with changes in IAS I "Presentation of Financial Statements", which will come into force as of 1 January 2009, the Group's first quarter 2009 interim report was replaced of the consolidate income statement by consolidate statement of comprehensive income. In connection with the compilation of the consolidate comprehensive income statement, the presentation of the report on changes in equity also changed. Pursuant to IAS I, the term "balance sheet" used previously is replaced by the term "statement of the financial position". The presentation of basic reports and the new terms do not affect the recognition of transactions and balances or the accounting principles.

2. Segment reporting by business segments

Segment	Development		Services		Construction		Eliminations		Consolidated	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1	2009 Q1	2008 Q1	2009 Q1	2008 Q1	2009 Q1	2008 Q1
in EEK, thousands										
Sales revenue outside the Group	27 823	25 599	8 160	30 204	58 339	51 718	0	0	94 322	107 521
<i>Change</i>	9%		-73%		13%				-12%	
Other business revenue outside the Group	736	3 864	62	285	509	245	0	0	1 307	4 394
Revenue and other income from other segments	1 552	265	2 529	2 106	82	37 542	-4 163	-39 913	0	0
Total revenue and other income	30 111	29 728	10 751	32 595	58 930	89 505		-39 913	95 629	111 915
Segment result	-287	-16 062	-5 217	-8 157	-3 351	4 243	-133	-4 634	-8 988	-24 610
Unallocated expenses	0	0	0	0	0	0	0	0	-4 930	-5 061
EBIT	0	0	0	0	0	0	0	0	-13 918	-29 671
incl. investment property revaluation	0	-12 437	0	0	0	0	0	0	0	-12 437
incl. depreciation of fixed assets	-321	-321	-236	-497	-476	-176	0	0	-1 092	-1 308
Financial income	0	0	0	0	0	0	0	0	7 772	14 011
Financial expenses	0	0	0	0	0	0	0	0	-8 529	-703
Income tax expense	0	0	0	0	0	0	0	0	0	-366
Net profit / loss	0	0	0	0	0	0	0	0	-14 675	-16 729

Segment	Development		Services		Construction		Eliminations		Consolidated	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1	2009 Q1	2008 Q1	2009 Q1	2008 Q1	2009 Q1	2008 Q1
in EUR, thousands										
Sales revenue outside the Group	1 778	1 636	522	1 714	3 729	3 305	0	0	6 028	6 872
<i>Change</i>	9%		-70%		13%				-12%	
Other business revenue outside the Group	47	247	4	18	33	16	0	0	84	281
Revenue and other income from other segments	99	17	162	135	5	2 399	-266	-2 551	0	0
Total revenue and other income	1 924	1 900	688	1 867	3 767	5 720	-266	-2 551	6 112	7 153
Segment result	-18	-1 027	-333	-605	-214	271	-9	-296	-574	-1 573
Unallocated expenses	0	0	0	0	0	0	0	0	-315	-323
EBIT	0	0	0	0	0	0	0	0	-890	-1 896
incl. investment property revaluation	0	-795	0	0	0	0	0	0	0	-795
incl. depreciation of fixed assets	-21	-21	-15	-31	-30	-11	0	0	-70	-84
Financial income	0	0	0	0	0	0	0	0	497	895
Financial expenses	0	0	0	0	0	0	0	0	-545	-45
Income tax expense	0	0	0	0	0	0	0	0	0	-23
Net profit / loss	0	0	0	0	0	0	0	0	-938	-1 069

3. Other operating items

INCOME	EEK		EUR	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1
in thousands				
Gain or loss from change in fair value of property investment (Note 10)	0	3 580	0	229
Gain on sale of investment property	43	0	3	0
Gain from the sales of property, plant and equipment	263	1	17	0
Other income	1 002	813	64	52
Total other operating income	1 308	4 394	84	281

EXPENSES	EEK		EUR	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1
in thousands				
Losses on fair value adjustments to investments property (Note 10)	0	-16 017	0	-1 024
Loss of sale of investment property	0	-4	0	0
Loss from depreciation and liquidation of property, plant and equipment	-288	-17	-18	-1
Interest on arrears and penalty charges	-65	-168	-4	-11
Other expenses	-122	-306	-8	-19
Total other operating expenses	-475	-16 512	-30	-1 055

4. Selling and distribution costs

	EEK		EUR	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1
in thousands				
Promotion expenses	-558	-3 755	-36	-240
Brokerage	-107	-92	-7	-6
Market surveys	-3	-5	0	0
Personnel expenses	-69	-423	-4	-27
Other selling and distribution costs	-142	-397	-9	-26
Total selling and distribution costs	-879	-4 672	-56	-299

5. Administrative expenses

	EEK		EUR	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1
in thousands				
Personnel expenses	-10 836	-16 415	-693	-1 049
Office expenses	-4 538	-7 827	-290	-501
Legal and consulting fees	-2 424	-5 007	-155	-320
Depreciation, amortisation and impairment losses	-524	-892	-33	-57
Allowance for doubtful receivable	0	-852	0	-54
Vehicle expenses	-1 468	-2 332	-94	-149
Other expenses	-812	-750	-52	-48
Total administrative expenses	-20 602	-34 075	-1 317	-2 178

6. Financial items

	EEK		EUR	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1
in thousands				
Interest income	3 465	12 922	221	825
Foreign exchange gains	4 219	48	270	3
Income on other non-current financial assets	80	1 041	5	67
Total finance income	7 772	14 011	497	895

	EEK		EUR	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1
in thousands				
Interest expenses	-8 487	-7 903	-542	-505
Expenses on other non-current financial assets	-28	-1 548	-2	-99
Foreign exchange losses	0	-4 516	0	-289
Impairment losses on financial assets	-14	13 264	-1	848
Total finance expenses	- 8 529	-703	-545	-45

7. Earnings per share

Usual net profit (loss) per share has been calculated by dividing the net profit of the period with the weighted average of outstanding shares. According to clause 283 of the Commercial Code, own shares do not grant to a public limited company any shareholder's rights, thus, they are not included in calculating the weighted average of ordinary shares.

As of 31 March 2009, the company has 450 000 own shares.

	EEK		EUR	
	2009 Q1	2008 Q1	2009 Q1	2008 Q1
Weighted average number of ordinary shares outstanding (pcs.)	94 834 150	95 284 150	94 834 150	95 284 150
Profit / loss attributable to equity holders of the parent (in thousands)	-13 815	-15 287	-883	-977
Earnings per share (in kroons per share)	-0.15	-0.16	-0.01	-0.01

Diluted net profit (loss) is calculated by taking into account potentially issued shares. As of the balance sheet date (31 March 2009), the Group had no potentially issued ordinary shares, wherefore the diluted net profit (loss) of the quarter was equal to the regular net profit.

8. Receivables

	EEK		EUR	
	31.03.2009	31.12.2008	31.03.2009	31.12.2008
in thousands				
Trade receivables				
Receivables from customers	85 642	96 263	5 474	6 152
Allowance for doubtful receivables	-6 075	-5 936	-388	-379
Total trade receivables	79 567	90 327	5 086	5 773
Other short-term receivables				
Receivables from jointly controlled entities (Note 15)	19 354	17 090	1 237	1 092
Loans granted	93 894	94 563	6 001	6 044
Other short-term receivables	30 470	28 765	1 947	1 839
Miscellaneous expenses	143 718	140 418	9 185	8 975
Accrued income				
Interest receivable	189	1 329	12	85
Due from customers under long-term construction contracts	10 028	7 612	641	486
VAT prepayments and reclaims	41 735	53 034	2 667	3 390
Other accrued income	86	1 632	5	104
Total accrued income	52 038	63 607	3 325	4 065
Total current receivables	275 323	294 352	17 596	18 813

	EEK		EUR	
	31.03.2009	31.12.2008	31.03.2009	31.12.2008
tuhandetes				
Receivables from jointly controlled entities (Note 15)	5 785	5 750	370	368
Long-term loan receivables	3 539	254	226	16
Other non-current receivables	342	667	22	43
Total non-current receivables	9 666	6 671	618	427

9. Inventories

	EEK		EUR	
	31.03.2009	31.12.2008	31.03.2009	31.12.2008
in thousands				
Properties purchased and developed for resale	809 240	785 906	51 720	50 229
Other goods purchased for resale	1 779	4 806	114	307
Materials and finished goods	56	62	4	4
Prepayments to suppliers	60 513	58 666	3 867	3 749
Total inventories	871 588	849 440	55 705	54 289

10. Investment property

	EEK	EUR
in thousands		
As at 31.12.2007	999 999	63 912
Acquisitions	520	33
Disposals	-4	0
Transfer to inventories	16 120	1 030
Gain or loss on change in fair value (Annex 3)	-12 437	-795
As at 31.03.2008	1 004 198	64 180
As at 31.12.2008	542 753	34 688
Acquisitions	5 100	326
Disposals	-739	-47
As at 31.03.2009	547 114	34 967

11. Property, plant and equipment

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total property, plant and equipment
in EEK, thousands					
Carrying amount at 31.12.2007	26 940	5 134	7 983	101 806	141 863
Additions	306	50	457	6 117	6 930
Capitalised borrowings costs	0	0	0	4 619	4 619
Disposals	0	-23	-100	0	-123
Transfer to non-current assets held for sale	-1 701	0	0	0	-1 701
Transfer to investment property	0	0	0	-16 120	-16 120
Depreciation charge	-425	-388	-378	0	-1 191
Carrying amount at 31.03.2008	25 120	4 773	7 962	96 422	134 277
<i>incl. acquisition costs</i>	<i>35 629</i>	<i>9 233</i>	<i>13 971</i>	<i>96 422</i>	<i>155 255</i>
<i>incl. accumulated amortisation</i>	<i>-10 509</i>	<i>-4 460</i>	<i>-6 009</i>	<i>0</i>	<i>-20 978</i>
Carrying amount 31.12.2008	22 115	2 496	6 537	10 664	41 812
Additions	10 190	28		3 483	13 701
Disposals		-45	-1 004		-1 049
Depreciation charge	-271	-370	-359	0	-1 000
Carrying amount 31.03.2009	32 034	2 109	5 174	14 147	53 464
<i>incl. acquisition costs</i>	<i>44 140</i>	<i>7 717</i>	<i>14 050</i>	<i>14 147</i>	<i>80 054</i>
<i>incl. accumulated amortisation</i>	<i>-12 106</i>	<i>-5 608</i>	<i>-8 876</i>	<i>0</i>	<i>-26 590</i>

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total property, plant and equipment
in EUR, thousands					
Carrying amount 31.12.2007	1 722	328	510	6 507	9 067
Additions	19	3	29	391	442
Capitalised borrowings costs	0	0	0	295	295
Additions through business combinations	0	-1	-6	0	-7
Disposals	-109	0	0	0	-109
Disposals through divestment of subsidiaries	0	0	0	-1 030	-1 030
Depreciation charge	-27	-25	-24	0	-76
Carrying amount 31.03.2008	1 605	305	509	6 163	8 582
<i>incl. acquisition costs</i>	<i>2 277</i>	<i>590</i>	<i>893</i>	<i>6 162</i>	<i>9 922</i>
<i>incl. accumulated amortisation</i>	<i>-672</i>	<i>-285</i>	<i>-384</i>	<i>0</i>	<i>-1 340</i>
Carrying amount 31.12.2008	1 413	159	418	682	2 672
Additions	651	2	0	223	876
Disposals	0	-3	-64	0	-67
Depreciation charge	-17	-24	-23	0	-64
Carrying amount 31.03.2009	2 047	135	331	904	3 417
<i>incl. acquisition costs</i>	<i>2 821</i>	<i>493</i>	<i>898</i>	<i>904</i>	<i>5 116</i>
<i>incl. accumulated amortisation</i>	<i>-774</i>	<i>-358</i>	<i>-567</i>	<i>0</i>	<i>-1 699</i>

12. Intangible assets

	Total	Software	Total intangible assets
in EEK, thousands			
Carrying amount 31.12.2007	23 957	1 548	25 505
Additions	0	92	92
Fair value adjustment	0	-3	-3
Depreciation charge	0	-118	-118
Carrying amount 31.03.2008	23 957	1 519	25 476
Carrying amount 31.12.2008	11 855	620	12 475
Transfers	-465	465	0
Depreciation charge	0	-94	-94
Carrying amount 31.03.2009	11 390	991	12 381
<i>incl. acquisition costs</i>	<i>11 390</i>	<i>1 203</i>	<i>12 593</i>
<i>incl. accumulated amortisation</i>		<i>-212</i>	<i>-212</i>

	Goodwill	Software	Total intangible assets
in EUR, thousands			
Carrying amount 31.12.2007	1 531	99	1 630
Additions	0	6	6
Depreciation charge	0	-8	-8
Carrying amount 31.03.2008	1 531	97	1 628
Carrying amount 31.12.2008			
	758	40	798
Transfers	-30	30	0
Depreciation charge	0	-6	-6
Carrying amount 31.03.2009	728	64	791
<i>incl. acquisition costs</i>	<i>728</i>	<i>77</i>	<i>805</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-14</i>	<i>-14</i>

13. Loans and borrowings

	31.03.2009		31.12.2008	
	Total	Including current portion	Total	Including current portion
in EEK, thousands				
Debt securities	46 369	46 369	59 303	59 303
Bank loan	858 722	394 461	911 946	256 095
Finance lease liabilities	4 740	1 242	5 462	1 708
Other loans	69 600	35 270	69 625	36 311
Total	979 431	477 342	1 046 336	353 417

	31.03.2009		31.12.2008	
	Total	Including current portion	Total	Including current portion
in EUR, thousands				
Debt securities	2 964	2 964	3 790	3 790
Bank loan	54 882	25 211	58 284	16 367
Finance lease liabilities	303	79	349	109
Other loans	4 448	2 254	4 450	2 321
Total	62 597	30 508	66 873	22 587

14. Payables and other liabilities

Payables	EEK		EUR	
	31.03.2009	31.12.2008	31.03.2009	31.12.2008
in thousands				
Trade payables	67 892	75 454	4 339	4 822
Miscellaneous payables				
Liabilities from securities transactions	1 211	1 236	77	79
Miscellaneous payables	20 320	16 329	1 299	1 044
Total other payables	21 531	17 565	1 376	1 123

Tax payable				
Value added tax	1 811	3 099	116	198
Income tax on dividends	1 661	0	106	0
Personal income tax	1 757	2 053	112	131
Social tax	3 392	3 569	217	228
Other taxes	1 097	2 228	70	142
Total taxes payable	9 718	10 949	621	699
Accrued expenses				
Interest payable	10 273	10 054	657	643
Payables to employees	7 790	8 871	498	567
Dividends payable	1 232	1 232	79	79
Other accrued expenses	4 934	8 552	315	547
Total accrued expenses	24 229	28 709	1 549	1 836
Total payables	123 370	132 677	7 885	8 480

Non-current liabilities	EEK		EUR	
	31.03.2009	31.12.2008	31.03.2009	31.12.2008
in thousands				
Liabilities from securities transactions	5 607	248	358	16
Deposits received	1 498	1 402	96	89
Miscellaneous long-term liabilities	1 483	2 754	95	176
Total other liabilities	8 588	4 404	549	281

15. Transactions with related parties

	EEK		EUR	
	Q1 2009 or 31.03.2009	Q1 2008 or 31.12.2008	Q1 2009 or 31.03.2009	Q1 2008 or 31.12.2008
12 months or 31.12				
in thousands				
Transactions with jointly controlled entities				
Sales revenue	202	217	13	14
Services purchased	339	12	22	1
Short-term loan receivables	16 936	50 552	1 082	3 231
Long-term loan receivables	4 971	50 225	318	3 210
Trade receivables	1 185	1 185	76	76
Short-term interest receivables	1 233	1 233	79	79
Long-term interest receivables	814	670	52	43
Payables	0	5 568	0	356
Transactions with companies having joint control over Group companies				
Equity acquisition ¹	10 190	0	651	0
Other short-term receivables	0	1 809	0	116
Short-term loan receivables	1 296	49 253	83	3 148
Dividends payable	1 232	4 238	79	271
Trade payables	92	92	6	6

Interest payable	20	1 063	1	68
Long-term loan liabilities	43 993	38 387	2 812	2 453
Long-term interest liabilities	1 090	670	70	43
Transactions with key staff of the Group and the Group's management				
Sales revenue	26	5 308	2	339
Services purchased	298	0	19	0
Trade receivables	2 436	2 436	156	156
Short-term loan receivables	1 710	1 710	109	109
Interest payable	424	416	27	27
Miscellaneous long-term liabilities				
Sales revenue	0	170	0	11
Services purchased	298	73	19	5
Short-term loan receivables	12 321	12 321	787	787
Interest receivable	1 847	1 847	118	118
Other short-term receivables	1 279	1 279	82	82
Short-term loan receivables	298	298	19	19
Other payables	16 750	30 599	1 071	1 956
Long-term interest liabilities	0	1 145	0	73
Long-term loan liabilities	0	7 335	0	469

¹ On 9 March 2009 Arco Ehitus, a subsidiary of Arco Vara, concluded a sales agreement under the law of obligations for acquisition by instalments of the office building at Odra Street 16 / Jakobi Street 29 in Tallinn. The present owner of the office building is OÜ Euro Shipping related to Richard Tomingas, member of the supervisory board of Arco Vara. Arco Ehitus has been the main tenant of the building for the last five years and paid lease to OÜ Euro Shipping.

There are other tenants in the building. The cost of the transaction was 10 190 thousand kroons (651 thousand euros), the major part of which will be paid at the end of 2011. According to an independent valuator from Pindi Kinnisvara, the market value of the property was 10 700 thousand kroons (684 thousand euros).

The remuneration of the Group's management board for the 1st quarter of 2009, including associated taxes, totalled 1 million kroons (0.06 million euros). In 2008, the corresponding figure was amounted to 1.5 million kroons (0.1 million euros).

In 1st quarter 2009 the remuneration of management board has been reduced by 10%.

16. Contingent liabilities

Arco Vara AS and Arco Ehitus OÜ creditors claims towards OÜ Tempera Ehitus.

On 26.02.2009 Harju County Court proclaimed bankruptcy of OÜ Tempera Ehitus.

On 04.03.2009 Arco Vara AS filed proof of claim. Arco Vara's creditor claim is in amount of 2 343 thousand kroons (150 thousand euros) based on credit agreement signed on 07.08.2008.

On 09.03.2008 Arco Ehitus OÜ filed proof of claim. Arco Ehitus's creditor claim is in amount of 2 371 thousand kroons (152 thousand euros) based on a given loan and object management and construction management agreements.

First general body of creditors was held on 25th March 2009. General body of creditors decided not to approve Maire Arm as trustee in bankruptcy. On 3rd of April 2009 all creditors jointly presented to the Court a list of trustees in bankruptcy they are in favour. On 09.04.2009 Court appointed Katrin Prükk as a new trustee in bankruptcy.

Bankruptcy report states that debtor has debt obligations in around 13 588 thousand kroons (868 thousand euros) but there is lack of any kind of tangible assets. According to prior mention the Board believes that it will be unlikely that debtor will manage to acquit a debt to Arco Vara or Arco Ehitus.

Since last reporting period significant changes or development in bankruptcy process has not happened. Currently the bankruptcy proceedings are pending.

Arco Investeeringute AS action towards AS Ühendatud Kapital

On 26.02.2008 Arco Investeeringute AS, Sigma Real Estate Ltd. and AS Ühendatud Kapital signed a Letter of Intent ("LOI") in order to set the main principles and conditions for the acquisition of 50% stake in Cypros holding company that should manage and develop shopping centre projects in Ukraine. According to LOI Arco Investeeringud made capital payments in value of 10 000 thousand USD (111 052 thousand kroons; 7 098 thousand euros) that Arco has the right to get back. The proceeds were guaranteed by AS Ühendatud Kapital, an Estonian entity. Taking into account that AS Ühendatud Kapital doesn't agree to Arco Investeeringud compromise to sign additional collateral and longer payment schedule, Arco's management has decided to execute AS Ühendatud Kapital guarantee.

On 19.02.2009 Arco Investeeringute AS filed an action to The Arbitration Court Of The Estonian Chamber Of Commerce And Industry to collect arrears from AS Ühendatud Kapital in value 10 907 thousand USD (121 124 thousand kroons; 7 741 thousand euros) and an application to secure an action. The Board of The Arbitration Court Of The Estonian Chamber Of Commerce And Industry forwarded the Arco's application to secure an action with its decision to Harju Country Court and the Court with its ruling has fully satisfied an action.

To secure an Arcos action the Harju Country Court made notation concerning prohibition of any shares and stocks of AS Ühendatud Kapital subsidiary companies, seized debtors all pecuniary means in all banks of Estonia and put judicial mortgage on registered immovable property of debtor.

On 12.03.2009 AS Ühendatud Kapital filed appealing against Harju Country Court ruling finding that means used by Court to secure an action are extremely burdensome. Arco Investeeringute AS has made an objection.

At the time of conducting current report the Court has not yet made decision and also the proceedings in the Arbitration Court Of The Estonian Chamber Of Commerce And Industry have not started.

Adoption of a detail plan for Narva mnt 67

On 19.05.2008 resident of the Liivaoja residential area brought an action for annulment of Resolution No 72 Adoption of a Detail Plan for Narva mnt 67 in the City Centre passed by Tallinn City Council on 17.04.2008, filing also a request for the application of provisional legal protection. According to the complainant, the detail plan adopted for the property known as the Tivoli plot is unlawful and violates the rights of the complainant.

Since the property belongs to Arco Investeeringute AS, the Group is involved in the proceedings as a third party.

On 08.07.2008 Tallinn Administrative Court ruled that the request for provisional legal protection would be satisfied and execution of Tallinn City Council Resolution 72 of 17.04.2008 would be suspended until the completion of litigation and entry into force of a judicial decision.

On 18.07.2008 both the Tallinn City Council and Arco Investeeringute AS filed an appeal with Tallinn Circuit Court in which they requested annulment of the ruling on provisional legal protection.

The Tallinn Circuit Court heard the appeal against the court ruling on 11.08.2008 and dismissed the appeals by Tallinn City Council and Arco Investeeringute AS.

The Group's management finds the implementation of provisional legal protection unjustified as:

The court has been biased in defining the public interest and has not considered the interest of a third party in suspending the validity of the detail plan.

- The complainant does not follow the principles of good faith.
- Traffic arrangement of the detail plan is in compliance with the comprehensive plan, the plans of neighbouring areas and the relevant standard EVS 843:2003 "Town streets", the traffic solution is adequately motivated in the decision.
- The parking development plan is not administrative legislation of general application but a good practice not obligatory to comply with.
- The arguments of environmental impact assessment are adequate.

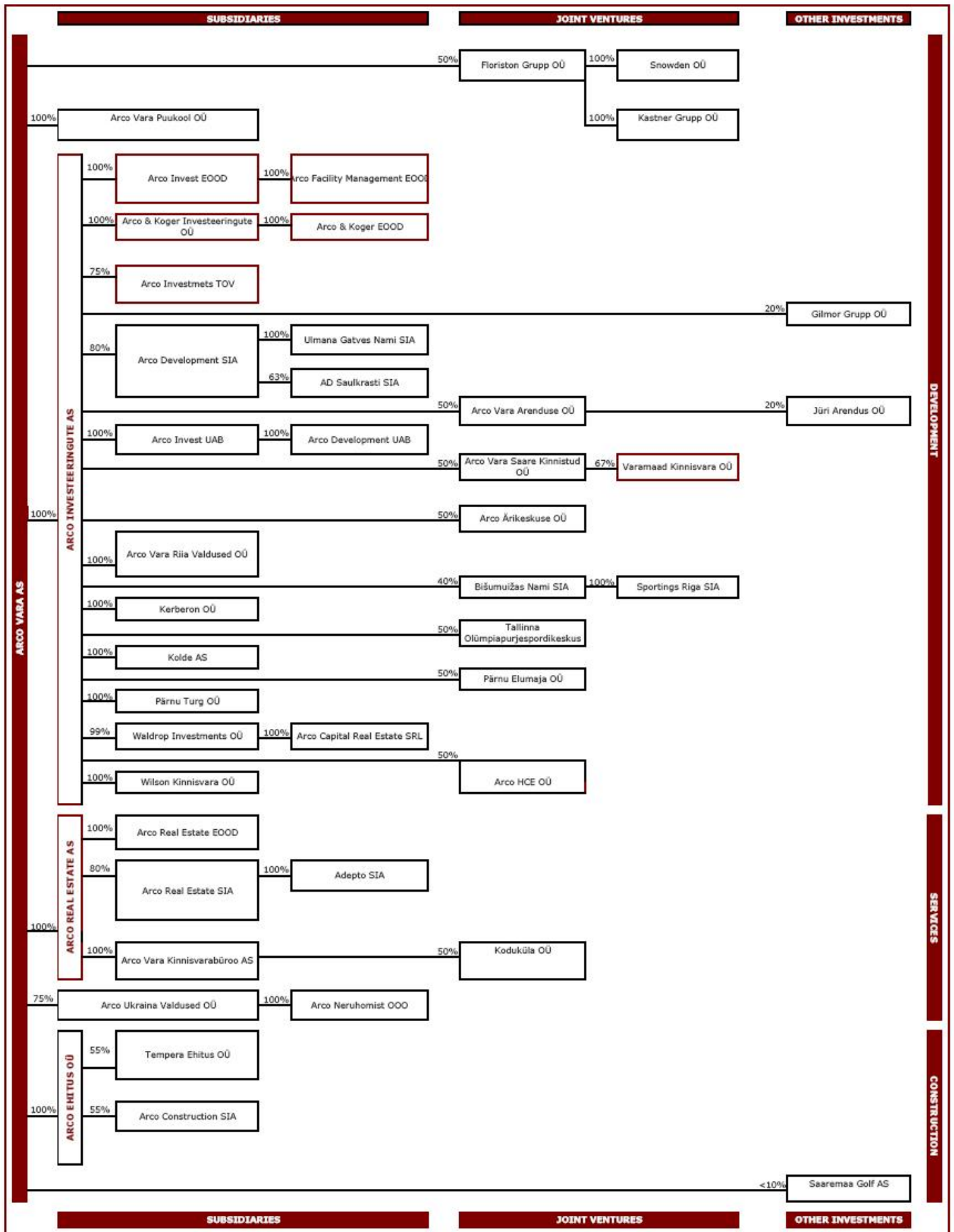
On 14.10.2008 Arco Investeeringute AS submitted a request for annulment of the ruling on provisional legal protection to Tallinn Circuit Court. Arco Investeeringute AS and Tallinn City Council agreed to make a compromise in regard of adding parking spaces to the area subject to the plan, the opinions on the shortcomings of the detail plan as indicated in the ruling on provisional legal protection were also explained and reasoned by documents as well as factually. Yet, the court did not annul the ruling on provisional legal protection.

On 05.05.2009. Tallinn Administrative Court with its judgment satisfied complaint and annul decision of the Tallinn City Council which adopted the Detail Plan for Narva mnt 67. On its judgment Court referred to its previous statements. Tallinn City Council And Arco Investeeringute AS both have decided to file and appeal to appellation court finding the Tallinn Administrative Court decision to be unmotivated.

The Group's management believes that in the long term the dispute will have an outcome allowing the implementation of the detail plan, particularly as the Group intends to develop the plot in the long term.

After the balance sheet date the conduction of an appeal is under process.

17. Company's structure



Statement by the management board

The management board of Arco Vara AS has prepared the condensed consolidated interim financial statements for the first quarter presented on pages 2-33.

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and they give 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.

The condensed consolidated interim financial statements give a correct and fair overview of the important events of the first 3 months and their impact to the financial statements and contains a description of main risks and unclarities.

During preparation of the statements, all important circumstances occurred until the preparation date (22 May 2009) have been assessed.

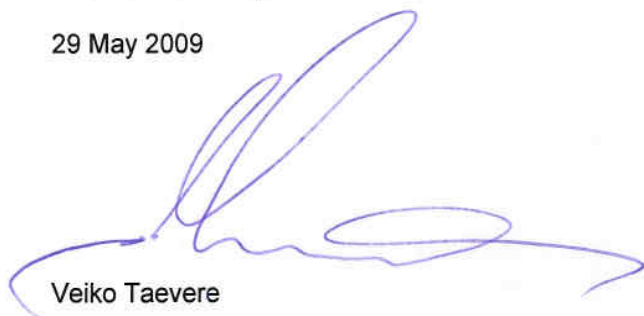


Lembit Tampere
Chair of the management board

29 May 2009

Heigo Metsoja
Member of the management board

29 May 2009



Veiko Taevere
Member of the management board

29 May 2009