



Arco Vara AS

Interim report 2 quarter and 6 months 2009



ARCO REAL ESTATE

ESTONIA • LATVIA • LITHUANIA • UKRAINE • BULGARIA

SECOND QUARTER AND SIX MONTHS 2009
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

Business name: Arco Vara AS

Registry code: 10261718

Address: Jõe 2b, 10151 Tallinn, Estonia

Tel. no: +372 6 144 630

Fax: +372 6 144 631

E-mail: info@arcovara.ee

Corporative Internet 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 2009 – 31 December 2009

Reporting period: 1 January 2009 – 30 June 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

TABLE OF CONTENTS

MANAGEMENT REPORT FOR THE 2ND QUARTER AND SIX MONTHS 2009.....	3
CONDENSED CONSOLIDATED INCOME STATEMENT.....	18
STATEMENT OF FINANCIAL POSITION.....	20
CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT.....	21
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGE IN EQUITY.....	22
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.....	23
1. SIGNIFICANT ACCOUNTING POLICIES.....	23
2. SEGMENT REPORTING BY BUSINESS SEGMENTS.....	24
3. COST OF SALES.....	26
4. OTHER OPERATING ITEMS.....	26
5. MARKETING EXPENSES.....	27
6. ADMINISTRATIVE EXPENSES.....	28
7. FINANCIAL ITEMS.....	29
8. BASIC AND DILUTED EARNINGS PER SHARE.....	30
9. RECEIVABLES.....	30
10. INVENTORIES.....	31
11. TRANSACTIONS WITH PARTS OF SUBSIDIARIES, JOINT AND RELATED COMPANIES.....	31
12. INVESTMENT PROPERTY.....	31
13. PROPERTY, PLANT AND EQUIPMENT.....	32
14. INTANGIBLE ASSETS.....	33
15. LOANS AND BORROWINGS.....	34
16. PAYABLES AND OTHER LIABILITIES.....	34
17. TRANSACTIONS WITH RELATED PARTIES.....	35
18. CONTINGENT LIABILITIES.....	36
19. EVENTS AFTER THE REPORTING PERIOD.....	37
20. STRUCTURE OF THE GROUP.....	38
STATEMENT BY THE MANAGEMENT BOARD.....	39

Management report for the 2nd quarter and six months 2009

GENERAL INFORMATION

Arco Vara AS and other companies of its Group (hereinafter Group) are engaged in various aspects of the real estate development business that can be divided into three business lines: Service Division, Development Division and Construction Division.

As of end of the 1st half-year 2009, the Group comprised 29 subsidiaries (2008 HY1: 33), 13 joint companies (2008 HY1: 18) and 1 associate (2008 HY1: 1).

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 more than in summer and winter 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-consumers. 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	
		30.06.2009	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	
		30.06.2009	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 ¹	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 ¹	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 ¹	Latvia	49,83	40
Sporting Riga SIA ¹	Latvia	49,83	40
Related company			
Gilmor Grupp OÜ (in the process of liquidation) ¹	Estonia	20	20
Jūri Arendus OÜ ¹	Estonia	20	20
Building segment			
Subsidiaries			
Arco Ehitus OÜ	Estonia	100	100
Arco Construction SIA ¹	Latvia	55	55

¹ Shareholding through subsidiaries.

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 ja 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.

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.

Arco Investeeringute AS, a subsidiary of Arco Vara AS, increased its shareholding in the joint company Bišumuiža Nami SIA from 40% to 49.38%. The shareholding was increased in kind. After the transaction, the 50.0% owner of Bišumuiža Nami SIA is SIA Linstow Baltic, owner of 49.38 % shares is Arco Investeeringute AS, and owner of 0.62% shares is SIA Mazais Baltezers. As a result of the transaction SIA Mazais Baltezers has a termless option to buy from Arco Investeeringute AS a 9.38% shareholding at nominal price.

Changes in the Group structure after the balance sheet date:

Arco Investeeringute AS, a subsidiary of Arco Vara AS, increased its shareholding in the Latvian subsidiary c Arco Development SIA from 80% to 99.99%. The shareholding was increased in kind.

The division of Arco Vara Puukool OÜ, a 100% subsidiary of Arco Vara, by separation entered into force on 18 August. This transaction separated the principal business of Arco Vara from its ancillary activities, i.e. property development from production of forestry plants. The newly separated entity, Arco Vara Ärikinnistute OÜ, being a 100% subsidiary of Arco Vara was filed with the commercial registry. Arco Vara Ärikinnistute OÜ owns in the city of Tartu one-half of the property situated in Tartu at Turu 34a.

MAIN INDICATORS OF THE 1ST HALF-YEAR

- Revenue and other income for the first half-year months totalled 277.0 million kroons (17.7 million euros), 19.7% down year-over-year
- EBIT amounted to -51.1 million kroons (-3.3 million euros), 3.9% up year-over-year.
- Net loss was -27.0 million kroons (-1.7 million euros), 40.0% down year-over-year.
- Equity ratio was 36.0% (2008 HY1: 56.1%). ROE was negative (2008 HY1: neg.). ROIC was negative (2008 HY1: 0.3%)
- In the construction division, new agreements in the amount of 116.1 million kroons (7.4 million euros) were concluded, 2008 HY1: 209.1 million kroons (13.4 million euros).
- At the end of 1st half-year, order backlog in the construction business stood at 142.6 million kroons (9.1 million euros) against 338.0 million kroons (21.6 million euros) in 2008 HY1.
- During the half-year, 25 apartments and plots were sold (2008 HY1: 47).

	EEK				EUR			
	HY1 2009	HY1 2008	Q2 2009	Q2 2008	HY1 2009	HY1 2008	Q2 2009	Q2 2008
In millions								
Revenue and other income	277,0	344,8	181,3	232,9	17,7	22,0	11,6	14,9
EBIT	-51,1	-49,2	-37,1	-19,5	-3,3	-3,1	-2,4	-1,2
<i>incl. net revaluation of investment property and inventory</i>	-34,5	-16,9	-34,5	-4,4	-2,2	-1,1	-2,2	-0,3
Profit / loss before tax	-26,2	-33,5	-11,6	-17,2	-1,7	-2,1	-0,7	-1,1
<i>incl. profit or loss from transfer of financial assets</i>	0,0	-19,5	0,0	-19,5	0,0	-1,2	0,0	-1,2
Net profit / loss	-27,0	-44,7	-12,4	-28,0	-1,7	-2,9	-0,8	-1,8
EPS (in kroons and euros)	-0,28	-0,54	-0,13	-0,38	-0,02	-0,03	-0,01	-0,02
Total assets at period end	1 896,7	3 267,0			121,2	208,8		
Invested capital at period end	1 676,7	3 019,0			107,2	192,9		
Net debt at period end	875,4	815,4			55,9	52,1		
Equity at period end	683,7	1 832,7			43,7	117,1		
Average loan term (in years)	1,9	1,9			1,9	1,9		
Average interest rate of loans (per year)	5,7%	7,2%			5,7%	7,2%		
ROIC (rolling 4 quarters)	neg.	0,3%			neg.	0,3%		
ROE (rolling 4 quarters)	neg.	neg.			neg.	neg.		
Number of staff at period end	257	569			257	569		

Comments by the CEO

Within the first half-year of 2009, 25 apartments or plots were sold and 21 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. Within six months, 16 apartments have been sold in the Kodukolde project in Tallinn and 7 apartments in the BM-1 project in Latvia.

The strategy of Arco Vara development division is to finish the unfinished apartments in the Kodukolde project and the plots in the Merivälja2 projects in Tallinn, the apartments in the Bišumiža-1 project in Riga, the apartments and business areas in the Boulevard Residence Madrid and Manastirski projects in Sofia with more favourable construction prices. The finished residential and business areas are to be sold by releasing invested equity and reducing the liabilities of the Group. In order to stay in competition and accelerate sales pace, we have reduced plot and apartment prices of Arco Vara projects in the 2nd quarter, too. As a result of this, we have written down the book value of some projects.

In the construction division, new agreements in the amount of 116.1 million kroons (7.4 million euros) were concluded during the six months, thereof 13.0 millions kroons (0.8 million euros) in the 2nd quarter. The result was by times lower than the target set for the 2nd quarter. Considering the great need for working capital, the cash flows of the division will be tense until autumn, when receivables will be due.

With the restructuring of the service division, we have considerably reduced administration costs of the division and reduced the loss by double. The number of employees has been reduced by 81 persons within six months and by 257 persons year-over-year. During the first half-year, the division has sold most of the real estate objects historically acquired for short-term investments, which has helped to break even the cash flows of the division.

During the first half-year, the work organisation of some smaller offices outside the capital city was changed, where we gave up the classical office-based work organisation and applied the home office system by maintaining our full service selection at the same time. In other offices, more cost effective work organisation solutions are being implemented in cooperation with employees.

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.

In summary, without revaluations and redeeming the extraordinary principal amounts, the company would have earned both net profit and positive cash flow. Apart from real estate revaluation, the group managed to earn 19.0 million kroons (1.2 million euros) gross profit in the first half-year (2008 HY1: 50.7 million kroons; 3.2 million euros) and 7.5 million kroons (0.5 million euros) net profit (2008 HY1: -27.8 million kroons; -1.8 million euros), whereof the net profit without revaluations made up 22.1 million kroons (1.4 million euros) in the 2nd quarter. The cost cutting programme has been more successful than expected and when comparing with the cost basis of the 1st quarter 2008, the cost level of the first half-year of the present year is approx. 65 million kroons (4.1 million euros) lower. Apart from principal amount redemptions to banks, the cash flows of the company would have been positive by approx. 10 million kroons (0.6 million euros). Irrespective of the successful cost cutting programme and net profit before revaluations, the biggest risk is the liquidity of the Group. To improve this, important projects have to be sold. After the balance sheet date, targeted auctions of several important projects are going on both to local and international investors.

REVENUE AND PROFIT

	EUR							
	HY1 2009	HY1 2008	Q2 2009	Q2 2008	HY1 2009	HY1 2008	Q2 2009	Q2 2008
In millions								
Revenue and other income								
Services	20,2	65,5	9,5	32,8	71,0	116,6	-17,8	-26,8
Development	148,7	139,9	118,6	110,2	9,5	32,8	71,0	116,6
Construction	129,9	206,1	71,0	116,6	-17,8	-26,8	0,0	181,3
Eliminations	-21,9	-66,7	-17,8	-26,7	0,0	181,3	232,9	0,0
Total revenue and other income	276,9	344,8	181,3	232,9	17,7	22,0	11,6	14,9
EBIT								
Services	-10,6	-18,0	-5,4	-9,8	-0,7	-1,2	-0,3	-0,6
Development	-36,9	-22,2	-36,6	-6,1	-2,4	-1,4	-2,3	-0,4
Construction	-4,7	3,9	-1,3	-0,3	-0,3	0,2	-0,1	0,0
Eliminations	0,4	-1,9	0,6	2,6	0,0	-0,1	0,0	0,2
Unallocated expenses	0,8	-11,0	5,7	-5,9	0,1	-0,7	0,4	-0,4
Total EBIT	-51,0	-49,2	-37,1	-19,5	-3,3	-3,2	-2,3	-1,2
Interest income and expense	-13,5	16,0	-8,5	11,0	-0,9	1,0	-0,5	0,7
Net other financial items	38,3	-0,4	34,0	-8,7	2,5	0,0	2,2	-0,6
Income tax expense	-0,8	-11,2	-0,8	-10,8	-0,1	-0,7	-0,1	-0,7
Net profit / loss	-27,0	-44,7	-12,3	-28,0	-1,8	-2,9	-0,7	-1,8

Due to the low inventory balance 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 Merivälja 2 project more than 50 plots with full infrastructure. The recent reservations and new sales will be reflected as turnover after the end of construction and getting authorisation for use.

The consolidated result of the half-year will most be affected by the weak results 1st quarter. When not considering the real estate revaluations, the 2nd quarter is considerably better than the first. After the balance sheet date, it is evident that the turnover at the beginning of the 3rd quarter has the same level as in the 2nd quarter. No considerable improvement in profitability in daily operations is forecasted for the 2nd half-year. Main cost cuttings have been made and the focus of the Group is now set on increasing the turnover and improving the liquidity through the sales of projects.

Apart from real estate revaluations, the net profit of the Group in the half-year was 7.5 million kroons (0.5 million euros) against a -27.8 million kroons (-1.8 million euros) net loss year-over-year. As of end of half year, the claim against AS Ühendatud Kapital with a book value of 66.5 million kroons (4.2 million euros) has not been additionally discounted. We expect the Tallinn Arbitrage to take a decision by October at the latest. After the decision, the company management will weigh the likeliness of receiving the claim again. In the 2nd quarter, the write down of the claim related to the joint company Bisumuižas Nami SIA in 2008 in the amount of 34.1 million kroons (2.2 million euros) was cancelled, because the equity of Bisumuižas Nami SIA on 31.12.2008 was -16.2 million kroons (- 1.0 million euros) and on 30.06.2009 45.9 million kroons (2.9 million euros).

In the 2nd quarter, considerable fair value adjustments were made as during the 2nd quarter, the company reduced sales prices in all residential projects on sale, which will reduce the revenues from the projects. The biggest write up was made in Latvia where the right of leasehold right recorded under inventory was reclassified to investment property as in the near future, no development activities are planned. It is a residential project on a land plot in size of 86 ha, located at the

Mazais Baltezers lake near Riga. According to the detailed plan, a total of 189 plots for houses with a total gross enclosed area of 172,380 m² can be built.

CASH FLOWS

	EEK		EUR	
	HY1 2009	HY1 2008	HY1 2009	HY1 2008
In millions				
Cash flows from operating activities	-8,2	-107,0	-0,5	-6,8
Cash flows from investing activities	21,7	-156,6	1,4	-10,0
Cash flows from financing activities	-68,2	-267,9	-4,4	-17,1
Net cash flow	-54,7	-531,5	-3,5	-34,0
Cash and cash equivalents at beginning of period	172,6	765,0	11,0	48,9
Effect of exchange rate fluctuations	-0,3	-0,3	0,0	0,0
Cash and cash equivalents at end of period	117,6	233,2	7,5	14,9

In January 2009, 40 million kroons from the loan principals related to the Tivoli and Laeva projects were paid back on an extraordinary basis, by releasing the Group from the obligation to keep liquid assets in an amount of 150 million kroons (9.6 million euros) in the SEB bank. On an extraordinary basis, smaller loans and principal amounts have been paid back, too. Apart from extraordinary loan redemptions, the cash flows of the Group would have been positive by approx. 10 million kroons (0.6 million euros) due to the successful cost cutting programme. These refunding transactions have decreased the general liquidity of the Group. The loans related to the Ahtri 3 project in the amount of 97.2 million kroons (6.2 million euros) in Sampo bank have been extended by paying back the principal in the amount of 3.0 million kroons (0.2 million euros) only. After the balance sheet date, a half of the commercial papers have been extended and restructured in the amount of 26 million kroons (1.6 million euros).

Major short-term liabilities:

- the Ahtri project loan of 97.2 million kroons (6.2 million euros),
- calculated principal redemptions in the amount of approx. 40 million kroons (2.6 million euros) from the sales of assets („Kodukolde“, „Merivälja2“ and „Boulevard Residence Madrid“),
- „Tivoli“ and „Laeva2“ project loans in the total amount of 114.5 million kroons (7.3 million euros)
- „Kodukolde“ project loan in the amount of 73.4 million kroons (4.7 million euros).

On a current basis, loans have been redeemed in the „Kodukolde“ project in Tallinn, Estonia and the „Bišumuiža-1“ project in Riga, Latvia. In spring, the relevant loans have been refunded and the new loan service level will remain under sales prices by leaving the Group more disposable funds. Most of the liabilities of the Group are in euros.

SERVICE DIVISION

Cost and business model optimisation started a year ago has had good results but is still not sufficient for earning net profit. By cash flow, the revenues and expenses of the division are in balance in the 1st quarter and do not need any subsidy from parent company. Having the liquidity of the company as its priority, the division sold in the 1st quarter objects that were acquired earlier as short-term investments, due to the market situation, the prices have sometimes been under the cost price. The information after the balance sheet date is that in July, Service Division in Estonia (operator of real estate agencies) made the first positive net profit this year – approx. 0.4 million kroons (0.0 million euros), the Latvian and the Bulgarian agencies in total broke even.

Due to the situation in real estate the number of employees in the division has reduced by 82%, i.e. 257 persons during

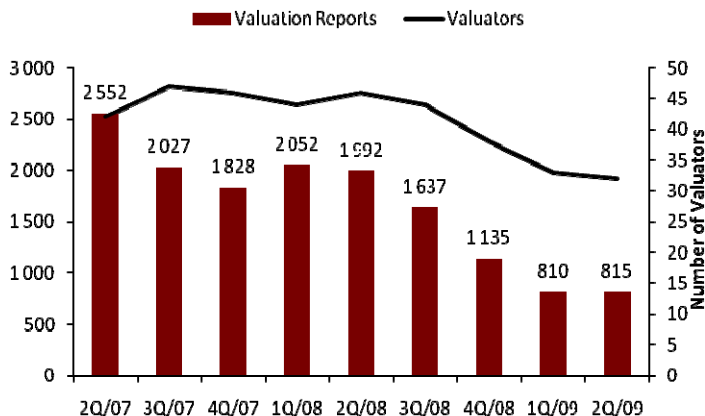
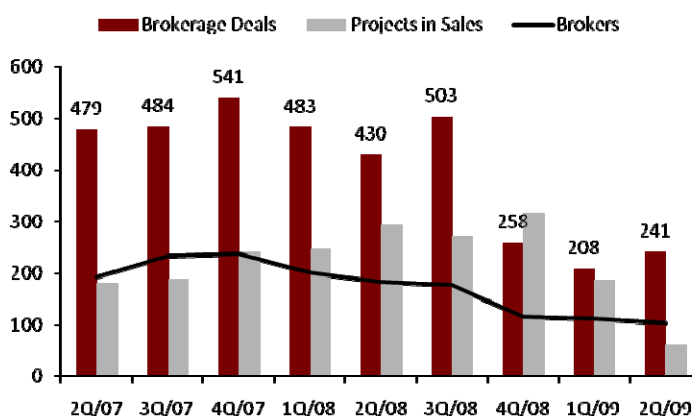
12 months. The number of brokerage transactions of the Group in 12 months has decreased by 57%, the number of valuation reports has decreased by 60%.

The nonrecurring operating costs of the division amounted to more than 2.0 million kroons (0.1 million euros) and were related to redundancy payments and sales of assets under their cost price.

As at the end of half-year the division employed 58 persons (2008 HY1: 315 persons).

	HY1 2009	HY1 2008	change, %	Q2 2009	Q2 2008	change, %
Number of brokered objects	449	913	-51%	241	430	-44%
Projects being sold, pcs.	60	270	-78%	60	293	-80%
Number of valuation reports	1 625	4 044	-60%	815	1 992	-59%
Number of appraisers*	32	46	-30%			
Number of real estate brokers*	102	183	-44%			
Average number of staff	58	315	-82%			

* Includes authorisation agreements



DEVELOPMENT DIVISION

During the 1st half-year, 25 apartments or plots were sold and 21 objects were reserved. Under the Boulevard Residence Madrid project in Sofia, a long-term rental agreement with the Austrian supermarket chain Billa was concluded for approx. 900 m². In May, Tallinn Administrative Court cancelled the Tivoli detailed plan (see Note 18). The Group has appealed.

The main risk factor for the development division is the refinancing of loans of land bank in Estonia. Although the cash flow of the Group is tense, we consider it to be sensible to finish the unfinished projects with more favourable construction prices in order to satisfy the demand with ready to be sold stock. No new investments are planned at the moment.

In order to manage the liquidity risk, the prices in current projects in the Baltics as well as in Sofia have been decreased in order to improve sales, and during the year we aim at selling both development projects and cash flow generating projects. For some employees, salaries and working times have been reduced. As at the end of March the division employed 41 persons (2008 HY1: 49 persons).

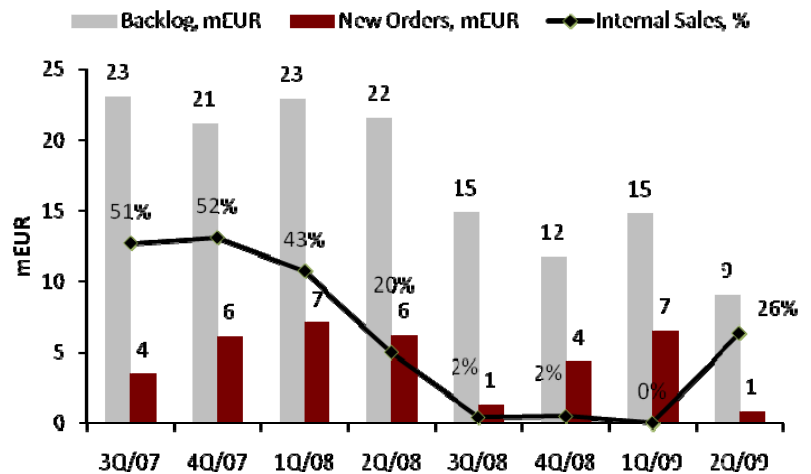
Further information on the projects: www.arcorealestate.com/arendus

CONSTRUCTION DIVISION

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

In the 1st half-year, the major new construction agreements were the Emajõe-Võhandu drinking water project and the Kohtla-Järve-Kiviõli sewerage project.

In the 1st half-year new construction contracts worth 116.1 million kroons (7.4 million euros) were concluded, thereof 13.0 million kroons (0.8 million euros) in the 2nd quarter. As at end of half-year, the residual cost of building contracts is 143 million kroons (9.1 million euros). As at the end of first half-year the division employed 143 persons (2008 HY1: 181 persons).



SUMMARY TABLE OF MAJOR PROJECTS

Type	Name	Location	Holding	Building rights according to business plan	Current state	Classification in the balance sheet
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	Thematic plan "Location of high rise buildings in Tallinn" adopted. Detailed plan under preparation.	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	Detailed plan for granting building rights adopted.	Investment property
Type	Name	Location	Holding	Rented area	Current state	Classification in the balance sheet
Cash flow	Enerpoint	Estonia, Kuressaare	100%	3,326 m ²	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%	17.981 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	Classification in the balance sheet
Apartments	Bišumuiža 1	Latvia, Riga	80%	Unsold/unreserved building rights 18.156 m ²	Building rights established, apartments are on sale.	Inventories
Apartments	Bišumuiža 2	Latvia, Riga	49,4%	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 16.933 m ² .	Right of superficies, building rights acquired. Construction and sales of apartments ongoing.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Unsold/unreserved building rights 12.577 m ²	Building rights acquired, construction and sales ongoing.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Unsold/unreserved building rights 23.952 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 61,206 m ² , 50 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 1.802 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 30.06.2009	Book values of projects presented in the summary table at 30.06.2009.	Balance sheet item at 30.06.2009	Book values of projects presented in the summary table at 30.06.2009.
In millions				
Total assets	1 896,7	1 398,5	121,2	89,4
Inventories	815,7	767,2	52,1	49,0
Investment property	656,4	631,3	42,0	40,3
Property, plant and equipment	30,8	0	2,0	0

SIGNIFICANT CHANGES IN DETAILED PLANS IN 3 MONTHS OF 2009:

Ilmarine: Thematic plan "Location of high rise buildings in Tallinn" was adopted, according to which more than 80.000 m² gross enclosed area can be built to the plot. The thematic plan obliges to solve the area as a whole, as a detailed plan for the whole area together with the adjacent street area. A precondition for this are agreements with the owners of the neighbouring immovables.

Tivoli: Tallinna Administrative Court cancelled the Tivoli detailed plan (see Note 18).

PM80: The detailed plan was adopted at a session of Tallinn City Administration on 13 May 2009. After the adoption, the detailed plan was displayed to public from 2 June to 16 June, during which no objections or suggestions were received. The detailed plan has to be approved by the Harju County Governor prior to adoption. The detailed plan changes the effective Tallinn comprehensive plan with regard to storeys.

Melon: The draft detailed plan is sent for endorsement to the Kesklinna Administrative Court in August 2009. Upon positive endorsement, preconditions for initiating a detailed plan have been fulfilled. The gross enclosed area of the additional building right applied for is 11,030 m².

TOP: At present, the strategic evaluation of environmental impact is ongoing.

STAFF

The average number of Group employees was 257 persons in 2nd quarter 2009 (2008 Q2: 569 persons). Payroll including associated taxes totalled 40.7 million kroons (2.6 million euros) against 79.7 million kroons (5.1 million euros) in 1st half-year 2008. Payroll, including taxes has decreased 49.0% on annual basis.

The remuneration of the Group's management board for the 1st half-year of 2009, including associated taxes, totalled 3.9 million kroons (0.24 million euros). In 2008, the same indicator amounted to 12.1 million kroons (0.77 million euros).

The remuneration of management board has been reduced by 10% in the 1st half-year.

SHARE AND SHAREHOLDERS

The total number of outstanding shares of the company is 95 284 150. At the end of 1st half-year, the aggregate number of shareholders was 2,000. At the end of the 1st half-year, the price of the share closed at 2.19 kroons (0.14 euros), by falling 22.3% during the half-year. 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 HY1 2009:

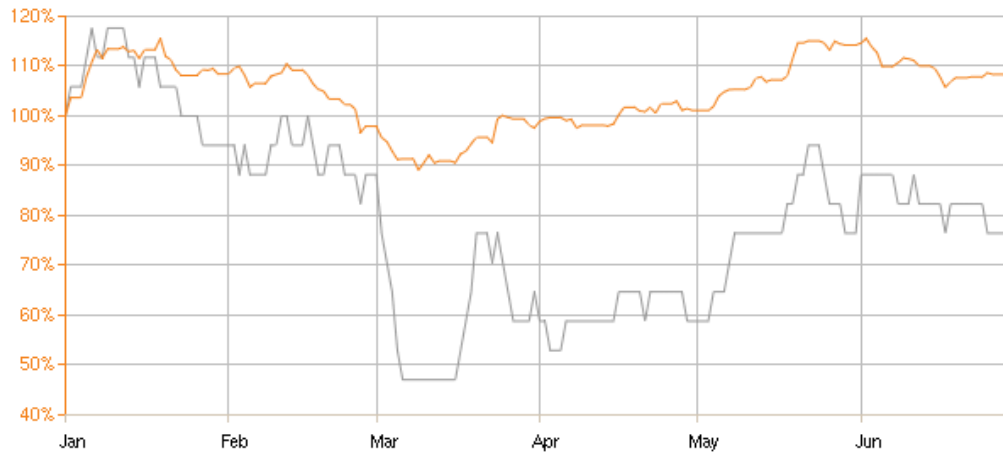
In Estonian kroons (EEK)



In euros (EUR)



Change in share price compared to the reference index OMX Tallinn in HY1 2009:



Index/Equity	01.01.2009	30.06.2009	+/-%
OMX Tallinn	274,83	299,35	8,92
ARCT	0,17 EUR	0,14 EUR	-17,65

Bigger shareholders on 30.06.2009	Number of shares	Shareholding %
FREIER PROJEKT OÜ	22 358 584	23,5%
OÜ Toletum	20 757 258	21,8%
OÜ HM Investeeringud	20 675 883	21,7%
SEB Ab Clients	11 355 362	11,9%
GAMMA HOLDING OÜ	3 980 000	4,2%
Central Securities Depository of Lithuania	1 645 292	1,7%
SEB KASVUFOND	1 330 050	1,4%
SEB PROGRESSIIVNE PF	684 471	0,7%
SEB PANK AS KAUPLEMINE	576 000	0,6%
Inter Baltic Invest oü	540 200	0,6%
Other	11 381 050	11,9%
TOTAL	95 284 150	100,0%

Share positions of the members of the management board and the supervisory board

Share positions of the members of the management board and the supervisory board	Position	Number of shares	Shareholding %
Lembit Tampere	Chairman of the management	0	0.00%
Veiko Taevere	Member of the management	0	0.00%
Heigo Metsoja	Member of the management	0	0.00%
Richard Tomingas (Toletum OÜ)	Chairman of the supervisory	20 757 258	21.8%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected)	Member of the supervisory	20 790 953	21.8%
Aare Tark	Member of the supervisory	0	0.00%
Kalev Tanner	Member of the supervisory	0	0.00%
Ragnar Meitern	Member of the supervisory	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. We are continuously monitoring the payment behaviour of our contract partners. In the 1st half-year, we have noticed some worsening in payment behaviour, but until now, we have not born substantial credit losses.

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. Cash flow management is tense due to the high refinancing 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 30.06.2009 1.9 years, which means that almost a half of the total loan balance needs refunding each year. Although the consolidated cash and cash equivalents balance of the Group is 117.6 million kroons (7.5 million euros), then 60.0 million kroons (3.8 million euros) is under the direct control of the company, while the rest is on the accounts of joint companies or project companies where payments to other group companies or parent company require an approval by the partner or the bank. This money can be used by relevant companies for their daily operations and investments. After the balance sheet date, the amount of money under the group's own control has decreased due to covering group's administration costs, building investments in the „Kolde“ project, and redemption of bonds. Balance as at end of August is 18 million kroons (1.1 million euros). The liquidity risk will certainly be the most serious risk for the next six months. After the balance sheet date, the Group has started organising targeted auctions of substantial assets to local and international investors.

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 half-year by 60 million kroons (3.8 million euros). As of 30.06.2009, the interest bearing liabilities of the Group amount to 986 million kroons (63 million euros). Actually paid interest expenses in the 1st half-year 2009 was 21.8 million kroons (1.4 million euros), compared to 2008 HY1, the weighted average interest expenses have decreased from 7.2% to 5.7%.

Currency risks

Sales agreements are usually concluded in local currencies: Estonian kroons (EEK), Latvian lats (LVL) and Bulgarian levis (LEV). A claim with a book value of 66.6 million kroons (4.3 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 = net profit attributable to equity holders of the parent / (weighted average number of ordinary outstanding shares of the period – own shares)

Current Ratio (current ratio of current liabilities) = at the end of current assets 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

28.08.2009

Veiko Taveere

Member of the management board

28.08.2009

Heigo Metsoja

Member of the management board

28.08.2009

Condensed consolidated interim financial statements

Condensed consolidated income statement

	Note	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in EEK, thousands					
Rendering of services		151 756	222 890	75 842	134 199
Sale of goods		33 034	90 589	14 626	71 759
Total revenue	2	184 790	313 479	90 468	205 958
Cost of sales	3	-274 865	-262 733	-187 273	-176 406
Gross profit		-90 075	50 746	-96 805	29 552
Other income	2,4	92 165	31 342	90 857	26 948
Selling and distribution costs	5	-1 999	-9 238	-1 120	-4 566
Administrative expenses	6	-37 979	-72 913	-17 377	-38 840
Other expenses	4	-13 171	-49 105	-12 696	-32 592
EBIT		-51 059	-49 168	-37 141	-19 498
Finance income	7	15 141	31 569	7 369	17 558
Finance expenses	7	9 692	-15 929	18 221	-15 228
Profit / loss before tax		-26 226	-33 528	-11 551	-17 168
Income tax expense		-809	-11 155	-809	-10 788
Profit / loss for the period		-27 035	-44 683	-12 360	-27 956
Other aggregated loss					
Exchange rate differences in converting foreign company		125	64	8	4
Aggregate profit / loss for the period		-26 910	-44 619	-12 352	-27 952
Profit distribution for the period:					
Parent company's participation in loss		-26 259	-51 865	-12 561	-36 640
Minority interest in loss		-651	7 246	209	8 688
		-26 910	-44 619	-12 352	-27 952
Aggregate profit distribution for the period:					
Parent company participation in aggregate loss		-26 259	-51 865	-12 561	-36 640
Minority interest in aggregate loss		-651	7 246	209	8 688
		-26 910	-44 619	-12 352	-27 952
Earning per share	8				
- basic		-0,28	-0,54	-0,13	0,38
- diluted		-0,28	-0,54	-0,13	0,38

	Note	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in EUR, thousands					
Rendering of services		9 699	14 245	4 847	8 577
Sale of goods		2 111	5 790	935	4 586
Total revenue	2	11 810	20 035	5 782	13 163
Cost of sales	3	-17 567	-16 792	-11 969	-11 274
Gross profit		-5 757	3 243	-6 187	1 889
Other income	2,4	5 890	2 003	5 807	1 722
Selling and distribution costs	5	-128	-590	-72	-292
Administrative expenses	6	-2 427	-4 660	-1 111	-2 482
Other expenses	4	-842	-3 138	-811	-2 083
EBIT		-3 264	-3 142	-2 374	-1 246
Finance income	7	968	2 018	471	1 122
Finance expenses	7	619	-1 018	1 165	-973
Profit / loss before tax		-1 677	-2 142	-738	-1 097
Income tax expense		-52	-713	-52	-689
Profit / loss for the period		-1 729	-2 855	-790	-1 786
Other aggregated loss					
Exchange rate differences in converting foreign company		8	4	1	0
Aggregate profit / loss for the period		-1 721	-2 851	-789	-1 786
Profit distribution for the period:					
Parent company's participation in loss		-1 678	-3 315	-803	-2 342
Minority interest in loss		-42	463	13	555
		-1 720	-2 852	-790	-1 787
Aggregate profit distribution for the period:					
Parent company participation in aggregate loss		-1 678	-3 315	-803	-2 342
Minority interest in aggregate loss		-42	463	13	555
		-1 720	-2 852	-790	-1 787
Earning per share	8				
- basic		-0,02	-0,03	-0,01	0,02
- diluted		-0,02	-0,03	-0,01	0,02

Statement of financial position

	Note	EEK		EUR	
		30.06.2009	31.12.2008	30.06.2009	31.12.2008
in thousands					
Cash and cash equivalents		117 580	172 574	7 515	11 029
Financial assets		32	40 416	2	2 583
Receivables	9	245 808	294 352	15 710	18 813
Prepayments		6 204	6 165	397	394
Inventories	10	815 692	849 440	52 132	54 289
Biological assets		1 299	3 679	83	235
Total current assets		1 186 615	1 366 626	75 839	87 343
Financial assets		295	255	19	16
Receivables	9	10 213	6 671	653	427
Investment property	12	656 436	542 753	41 954	34 688
Property, plant and equipment	13	30 836	41 812	1 971	2 672
Intangible assets	14	12 336	12 475	788	797
Total non-current assets		710 116	603 966	45 385	38 600
TOTAL ASSETS		1 896 731	1 970 592	121 224	125 943
Loans and borrowings	15	501 282	353 417	32 038	22 587
Liabilities	16	118 709	132 677	7 587	8 480
Deferred income		89 619	65 174	5 728	4 165
Provisions		11 703	5 917	748	378
Total current liabilities		721 313	557 185	46 101	35 610
Loans and borrowings	15	485 059	692 919	31 001	44 286
Liabilities	16	5 535	4 404	354	281
Deferred income tax liability		20	20	1	1
Provisions		1 100	4 291	70	274
Total non-current liabilities		491 714	701 634	31 426	44 842
TOTAL LIABILITIES		1 213 027	1 258 819	77 527	80 452
Share capital		952 842	952 842	60 898	60 898
Share premium		0	712 514	0	45 538
Statutory capital reserve		31 463	31 463	2 011	2 011
Other reserves		0	0	0	0
Retained earnings		-298 413	-984 668	-19 072	-62 932
Own shares		-3 992	-3 992	-255	-255
Total equity attributable to equity holders of the parent		681 900	708 159	43 582	45 260
Minority interests		1 804	3 614	115	231
Total equity		683 704	711 773	43 697	45 491
TOTAL LIABILITIES AND EQUITY		1 896 731	1 970 592	121 224	125 943

Condensed consolidated interim cash flow statement

	Note	EEK		EUR	
		HY1 2009	HY1 2008	HY1 2009	HY1 2008
in thousands					
Net profit / loss		-27 035	-44 683	-1 729	-2 855
Interest income and expense	7	13 480	-16 004	862	-1 023
Gains and losses on disposal of subsidiaries and interests in jointly controlled entities		0	19 476	0	1 245
Gains and losses on other financial assets	7	-2 667	1 465	-170	94
Impairment losses on financial assets	7	-31 634	-25 248	-2 022	-1 614
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3,4,6	2 382	3 700	152	235
Gain / loss on the sale of property, plant and equipment and intangible assets	3,4,6	-1 056	-38	-68	-1
Gain / loss on the sale of investment property	4	1 761	0	114	0
Change in the fair value of investment property and biological assets	4	-74 420	16 855	-4 756	1 077
Profit/loss from property and inventory revaluation	3	108 924	0	6 962	0
Exchange gains and losses	7	-4 012	4 671	-256	299
Corporate income tax expense		651	11 731	42	750
Operating cash flow before working capital changes		-13 626	-28 075	-869	-1 793
Change in receivables and prepayments		19 179	-48 687	1 226	-3 111
Change in inventories		-42 996	-47 214	-2 748	-3 018
Change in biological assets		2 190	474	140	30
Change in payables and deferred income		27 082	16 454	1 731	1 052
NET CASH USED IN OPERATING ACTIVITIES		-8 171	-107 048	-520	-6 840
Acquisition of property, plant and equipment and intangible assets		-7 599	-12 885	-486	-824
Proceeds from sale of property, plant and equipment and intangible assets		3 600	313	230	20
Acquisition of investment property		-5 100	-900	-326	-58
Proceeds from sale of investment property		205	29 000	13	1 853
Acquisition of subsidiaries and interests in jointly controlled entities		0	-126 299	0	-8 072
Proceeds from disposal of subsidiaries and interests in jointly controlled entities		0	1 005	0	64
Acquisition of other financial assets		0	-126 500	0	-8 085
Proceeds from sale of other financial assets		45 739	107 502	2 923	6 871
Loans granted		-23 480	-49 739	-1 501	-3 179
Repayment of loans granted		5 429	3 426	347	219
Interest received		2 921	18 460	187	1 180
NET CASH USED IN / FROM INVESTING ACTIVITIES		21 715	-156 617	1 387	-10 011
Proceeds from loans received		74 601	41 754	4 768	2 669
Repayment of loans and payment of finance lease liabilities		-120 987	-227 687	-7 732	-14 552
Change in overdraft		0	-14	0	-1
Change in group account liability		0	-798	0	-51
Interest paid		-21 819	-35 917	-1 394	-2 296
Dividends paid		0	-42 274	0	-2 702
Income tax paid on dividends		0	-2 916	0	-186
NET CASH USED IN / FROM FINANCING ACTIVITIES		-68 205	-267 852	-4 358	-17 119
NET CASH FLOW		-54 661	-531 517	-3 491	-33 970
Cash and cash equivalents at beginning of period		172 574	765 008	11 029	48 893
Decrease / increase in cash and cash equivalents		-54 661	-531 517	-3 493	-33 970
Effect of exchange rate fluctuations		-333	-333	-22	-21
Cash and cash equivalents at end of period		117 580	233 158	7 515	14 901

Condensed consolidated interim statement of change 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
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	-13 850	-13 850
Dividends declared	0	0	0		0	-37 160	-37 160	-1 252	-38 412
Transfer to capital reserve	0	0	11 379	0	0	-11 379	0	0	0
Aggregate profit / loss for the period	0	0	0	-37	0	-51 929	-51 966	7 246	-44 720
At 30.06.2008	952 842	712 514	31 463	0	0	118 362	1 815 181	17 409	1 832 590
At 31.12.08	952 842	712 514	31 463	0	-3 992	-984 668	708 159	3 614	711 773
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	-1 159	-1 159
Retained earnings from previous periods	0	-712 514	0	0	0	712 514	0	0	0
Aggregate profit / loss for the period	0	0	0	0	0	-26 259	-26 259	-651	-26 910
At 30.06.2009	952 842	0	31 463	0	-3 992	-298 413	681 900	1 804	683 704

	Equity attributable to equity holders of the parent							Minority interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves		Retained earnings	Total		
in EUR, thousands									
At 31.12.2007	60 898	45 538	1 284	2	0	13 986	121 708	1 615	123 323
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	-885	-885
Dividends declared	0	0	0	0	0	-2 375	-2 375	-80	-2 455
Transfer to capital reserve	0	0	727	0	0	-727	0	0	0
Aggregate profit / loss for the period	0	0	0	-2	0	-3 319	-3 321	463	-2 858
At 30.06.2008	60 898	45 538	2 011	0	0	7 565	116 012	1 113	117 125
At 31.12.08	60 898	45 538	2 011	0	-255	-62 932	45 260	231	45 491
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	-74	-74
Retained earnings from previous periods	0	-45 538	0	0	0	45 538	0	0	0
Aggregate profit / loss for the period	0	0	0	0	0	-1 678	-1 678	-42	-1 720
At 30.06.2009	60 898	0	2 011	0	-255	-19 072	43 582	115	43 697

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 second quarter and six 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.

Information on changes in presentation in 2009

Due to changes in the IAS1 standard „Presentation of Financial Statements“ effective since 1 January 2009, the condensed consolidated interim income statement has been replaced with the condensed consolidated income statement in the Q1 interim statement. Due to preparing a condensed consolidated income statement, the presentation of statement of change in equity was changed. According to IAS1, the earlier term „balance sheet“ has been replaced with „statement of financial position“. The presentation of basic statements and the new terms do not affect the presentation of transactions and balances or the accounting policies.

2. Segment reporting by business segments

Segment	Development		Services		Construction		Eliminations		Consolidated	
	HY1 2009	HY1 2008	HY1 2009	HY1 2008	HY1 2009	HY1 2008	HY1 2009	HY1 2008	HY1 2009	HY1 2008
in EEK, thousands										
Sales revenue outside the Group	54 471	107 862	16 697	60 769	109 782	144 848	0	0	180 950	313 479
<i>Change</i>	-49%		-73%		-24%				-42%	
Other business revenue outside the Group	92 606	30 516	157	521	289	305	0	0	93 052	31 342
Revenue and other income from other segments	1 672	1 569	3 355	4 116	19 851	60 985	-21 925	-66 670	2 953	0
Total revenue and other income	148 749	139 947	20 209	65 406	129 922	206 138	-21 925	-66 670	276 955	344 821
Segment result	-36 916	-22 201	-10 755	-18 004	-4 654	3 968	426	-1 940	-51 899	-38 177
Unallocated expenses	0	0	0	0	0	0	0	0	840	-10 991
EBIT	0	0	0	0	0	0	0	0	-51 059	-49 168
Net write down of inventory	-108 924	0	0	0	0	0	-14 573	0	-123 497	0
Net investment property revaluation	74 420	-16 855	0	0	0	0	0	0	74 420	-16 855
Depreciation of fixed assets	-195	-688	-420	-1 001	-245	-1 145	0	0	-1 327	-3 700
Financial income									15 141	31 569
Financial expenses									9 692	-15 929
Income tax expense									-809	-11 155
Net profit / loss									-27 035	-44 683

Segment	Development		Services		Construction		Eliminations		Consolidated	
	HY1 2009	HY1 2008	HY1 2009	HY1 2008	HY1 2009	HY1 2008	HY1 2009	HY1 2008	HY1 2009	HY1 2008
in EUR, thousands										
Sales revenue outside the Group	3 481	6 894	1 067	3 884	7 016	9 257	0	0	11 565	20 035
<i>Change</i>	-49%		-73%		-24%				-42%	
Other business revenue outside the Group	5 919	1 950	10	33	18	19	0	0	5 947	2 003
Revenue and other income from other segments	107	100	214	263	1 269	3 898	-1 401	-4 261	189	0
Total revenue and other income	9 507	8 944	1 291	4 180	8 303	13 174	-1 401	-4 261	17 701	22 038
Segment result	-2 359	-1 419	-687	-1 151	-297	254	27	-124	-3 317	-2 440
Unallocated expenses	0	0	0	0	0	0	0	0	54	-702
EBIT	0	0	0	0	0	0	0	0	-3 263	-3 142
Net write down of inventory	-6 962	0	0	0	0	0	-931	0	-7 893	0
Net investment property revaluation	4 756	-1 077	0	0	0	0	0	0	4 756	-1 077
Depreciation of fixed assets	-12	-44	-27	-64	-16	-73	0	0	-85	-236
Financial income									968	2 018
Financial expenses									619	-1 018
Income tax expense									-52	-713
Net profit / loss									-1 728	-2 856

Segment	Development		Services		Construction		Eliminations		Consolidated	
	Q2 2009	Q2 2008	Q2 2009	Q2 2008	Q2 2009	Q2 2008	Q2 2009	Q2 2008	Q2 2009	Q2 2008
in EEK, thousands										
Sales revenue outside the Group	26 648	82 263	8 537	30 565	51 443	93 130	0	0	86 628	205 958
<i>Change</i>	-68%		-72%		-45%				-58%	
Other business revenue outside the Group	91 870	26 652	95	236	-220	60	0	0	93 052	31 342
Revenue and other income from other segments	120	1 304	826	2 010	19 769	23 443	-17 762	-26 757	2 953	0
Total revenue and other income	118 638	110 219	9 458	32 811	70 992	116 633	-17 762	-26 757	181 326	232 906
Segment result	-36 629	-6 139	-5 538	-9 847	-1 303	-275	559	2 694	-42 911	-13 567
Unallocated expenses	0	0	0	0	0	0	0	0	5 770	-5 931
EBIT	0	0	0	0	0	0	0	0	-37 141	-19 498
Net write down of inventory	-108 924	0	0	0	0	0	-14 573	0	-123 497	0
Net investment property revaluation	74 420	-16 060	0	0	0	0	0	0	74 420	-16 060
Depreciation of fixed assets	-174	-667	-405	-970	-215	-1 134	0	0	-794	-2 771
									0	0
Financial income									7 436	17 558
Financial expenses									18 154	-15 226
Income tax expense									-809	-10 789
Net profit / loss									-12 360	-27 954

Segment	Development		Services		Construction		Eliminations		Consolidated	
	Q2 2009	Q2 2008	Q2 2009	Q2 2008	Q2 2009	Q2 2008	Q2 2009	Q2 2008	Q2 2009	Q2 2008
in EUR, thousands										
Sales revenue outside the Group	1 703	5 258	546	1 953	3 288	5 952	0	0	5 537	13 163
<i>Change</i>	-68%		-72%		-45%				-58%	
Other business revenue outside the Group	5 872	1 703	6	15	-14	4	0	0	5 947	2 003
Revenue and other income from other segments	8	83	53	128	1 263	1 498	-1 135	-1 710	189	0
Total revenue and other income	7 583	7 044	605	2 096	4 537	7 454	-1 135	-1 710	11 673	15 166
Segment result	-2 341	-392	-354	-629	-83	-18	36	172	-2 743	-867
Unallocated expenses	0	0	0	0	0	0	0	0	369	-379
EBIT	0	0	0	0	0	0	0	0	-2 374	-1 246
Net write down of inventory	-6 962	0	0	0	0	0	-931	0	-7 893	0
Investment property revaluation	4 756	-1 026	0	0	0	0	0	0	4 756	-1 026
Depreciation of fixed assets	-11	-43	-26	-62	-14	-72	0	0	-51	-177
Financial income									475	1 122
Financial expenses									1 160	-973
Income tax expense									-52	-690
Net profit / loss									-790	-1 787

3. Cost of sales

	EEK		EEK	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Acquisition costs of sold properties	-31 546	-77 328	-16 819	-62 042
Construction services purchased	-101 861	-117 532	-45 897	-77 686
Property administration costs	-9 184	-8 572	-4 189	-4 295
Personnel expenses	-18 965	-45 946	-9 308	-23 918
Vehicle expenses	-1 415	-4 550	-305	-2 389
Depreciation, amortisation and impairment losses (notes 13, 14)	-1 051	-1 561	-482	-1 145
Write down of inventory ¹	-108 924	0	-108 924	0
Other expenses	-1 919	-7 244	-1 349	-4 931
Total cost of sales	-274 865	-262 733	-187 273	-176 406

	EUR		EUR	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Acquisition costs of sold properties	-2 016	-4 942	-1 075	-3 965
Construction services purchased	-6 510	-7 512	-2 933	-4 965
Property administration costs	-587	-548	-268	-275
Personnel expenses	-1 212	-2 936	-595	-1 529
Vehicle expenses	-90	-291	-19	-153
Depreciation, amortisation and impairment losses (Notes 13, 14)	-67	-100	-31	-73
Write down of inventory ¹	-6 962	0	-6 962	0
Other expenses	-123	-463	-86	-314
Total cost of sales	-17 567	-16 792	-11 969	-11 274

¹ Dwelling development projects presented as inventories have been written down as the actual sales transactions are made at 10-20% lower level compared to the stand of 31.12.2008.

4. Other operating items

Other income

	EEK		EEK	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Gain or loss from change in fair value of property investment ¹ (Note 12)	84 703	29 916	84 703	26 336
Gain from property sales	1 759	0	1 716	0
Gain from the sales of property, plant and equipment	254	38	-9	36
Other income	5 449	1 388	4 447	576
Total other operating income	92 165	31 342	90 857	26 948

	EUR		EUR	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Gain or loss from change in fair value of property investment ¹ (Note 12)	5 414	1 912	5 414	1 683
Gain from property sales	112	0	110	0
Gain from the sales of property, plant and equipment	16	2	-1	2
Other income	348	89	284	37
Total other operating income	5 890	2 003	5 807	1 722

¹ Due to changes in plans of the management board, the property at Baltazers 3 was reclassified from inventories to investment property and revaluated to a fair value by an independent valuator.

Other expenses

	EEK		EEK	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Construction (Note 12)	-10 283	-46 775	-10 283	-30 758
Asset management	-81	0	-81	4
Loss from depreciation and liquidation of property, plant and equipment (Note 13,14)	-1 304	-17	-1 016	0
Fines and penalties	-302	-1 851	-237	-1 682
Other expenses	-1 201	-462	-1 079	-156
Total other operating expenses	-13 171	-49 105	-12 696	-32 592

	EUR		EUR	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Construction (Note 12)	-657	-2 989	-657	-1 966
Asset management	-5	0	-5	0
Loss from depreciation and liquidation of property, plant and equipment (Note 13,14)	-83	-1	-65	0
Fines and penalties	-19	-118	-15	-107
Other expenses	-77	-30	-69	-10
Total other operating expenses	-841	-3 138	-811	-2 083

5. Marketing expenses

	EEK		EEK	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Promotion expenses	-1 188	-7 117	-630	-3 362
Brokerage	-513	-6	-406	86
Market surveys	-12	-88	-9	-83
Personnel expenses	-77	-1 201	-8	-778
Other selling and distribution costs	-209	-826	-67	-429
Total selling and distribution costs	-1 999	-9 238	-1 120	-4 566

	EUR		EUR	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Promotion expenses	-76	-455	-40	-215
Brokerage	-33	0	-26	5
Market surveys	-1	-6	-1	-5
Personnel expenses	-5	-77	-1	-50
Other selling and distribution costs	-13	-53	-4	-27
Total selling and distribution costs	-128	-591	-72	-292

6. Administrative expenses

	EEK		EEK	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Personnel expenses	-21 615	-34 833	-10 779	-18 418
Office expenses	-7 643	-15 802	-3 105	-7 975
Legal and consulting fees	-3 391	-12 336	-967	-7 329
Depreciation, amortisation and impairment losses (Notes 13, 14)	-1 327	-2 140	-803	-1 248
Allowance for doubtful receivable	18	-1 710	18	-858
Vehicle expenses	-2 764	-4 634	-1 276	-2 302
Other expenses	-1 257	-1 458	-465	-710
Total administrative expenses	-37 979	-72 913	-17 377	-38 840

	EUR		EUR	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Personnel expenses	-1 381	-2 226	-689	-1 177
Office expenses	-488	-1 010	-198	-510
Legal and consulting fees	-217	-788	-62	-468
Depreciation, amortisation and impairment losses (Notes 13, 14)	-85	-137	-51	-80
Allowance for doubtful receivable	1	-109	1	-55
Vehicle expenses	-177	-296	-82	-147
Other expenses	-80	-94	-30	-45
Total administrative expenses	-2 427	-4 660	-1 111	-2 482

7. Financial items

Finance income

	EEK		EEK	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Interest income	8 427	30 503	4 954	17 581
Foreign exchange gains	4 036	17	-183	-41
Income on other non-current financial assets	2 678	1 049	2 598	18
Total finance income	15 141	31 569	7 369	17 558

	EUR		EUR	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Interest income	539	1 950	317	1 124
Foreign exchange gains	258	1	-12	-3
Income on other non-current financial assets	171	67	166	1
Total finance income	968	2 018	471	1 122

Finance expenses

	EEK		EEK	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Losses on sale of investments in subsidiaries	0	-1 534	0	-1 534
Gains on sale of investment property	0	-17 942	0	-17 942
Interest expenses	-21 907	-14 499	-13 410	-6 596
Expenses on other non-current financial assets	-11	-2 514	17	-966
Foreign exchange losses	-24	-4 688	-34	-172
Impairment losses on financial assets ¹	31 634	25 248	31 648	11 982
Total finance expenses	9 692	-15 929	18 221	-15 228

	EUR		EUR	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
in thousands				
Losses on sale of investments in subsidiaries	0	-98	0	-98
Gains on sale of investment property	0	-1 146	0	-1 146
Interest expenses	-1 400	-927	-857	-422
Expenses on other non-current financial assets	-1	-161	1	-62
Foreign exchange losses	-2	-300	-2	-11
Impairment losses on financial assets ¹	2 022	1 614	2 023	766
Total finance expenses	619	-1 018	1 165	-973

¹ In the 2nd quarter 2009, the write down of the claim related to the joint company Bisumuizas Nami SIA in 2008 in the amount of 34,167 thousand kroons (2,183 thousand euros) was cancelled, because the equity of Bisumuizas Nami SIA on 31.12.2008 was -16,174 thousand kroons (- 1,034 thousand euros) and on 30.06.2009 45,864 million kroons (2,931 thousand euros).

8. Basic and diluted earnings per share

Basic 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 30.06.2009, the company has 450,000 own shares.

	EEK		EEK	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
Weighted average number of ordinary shares outstanding (pcs.)	94 834 150	95 284 150	94 834 150	95 284 150
Depreciation, amortisation and impairment losses	-26 259	-51 865	-12 561	-36 640
Goodwill adjustments and goodwill recording as revenues	-0,28	-0,54	-0,13	0,38

	EUR		EUR	
	HY1 2009	HY1 2008	Q2 2009	Q2 2008
Weighted average number of ordinary shares outstanding (pcs.)	94 834 150	95 284 150	94 834 150	95 284 150
Depreciation, amortisation and impairment losses	-1 678	-3 315	-803	-2 342
Goodwill adjustments and goodwill recording as revenues	-0,02	-0,03	-0,01	0,02

Diluted net profit (loss) is calculated by taking into account potentially issued shares. As of the balance sheet date (30.06.2009), the Group had no potentially issued ordinary shares, wherefore the diluted net profit (loss) of the quarter was equal to the regular net profit.

9. Receivables

	EEK		EUR	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008
in thousands				
Trade receivables				
Receivables from customers	61 509	96 263	3 931	6 152
Allowance for doubtful receivables	-6 062	-5 936	-387	-379
Total trade receivables	55 447	90 327	3 544	5 773
Other short-term receivables				
Losses on sale of investments in joint ventures	19 752	17 090	1 262	1 092
Loans granted	93 426	94 563	5 971	6 044
Other short-term receivables	22 396	28 765	1 431	1 838
Miscellaneous expenses	135 574	140 418	8 664	8 974
Accrued income				
Interest receivable	4 063	1 329	260	85
Due from customers under long-term construction contracts	18 419	7 612	1 177	486
VAT prepayments and reclaims	21 106	53 034	1 349	3 389
Other accrued income	11 199	1 632	716	104
Total accrued income	54 787	63 607	3 502	4 064
Total current receivables	245 808	294 352	15 710	18 811

10. Inventories

	EEK		EUR	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008
in thousands				
Properties purchased and developed for resale	774 004	785 906	49 468	50 229
Other goods purchased for resale	12 090	4 806	773	307
Materials and finished goods	1 265	62	81	4
Prepayments to suppliers	28 333	58 666	1 811	3 749
Total inventories	815 692	849 440	52 133	54 289

11. Transactions with parts of subsidiaries, joint and related companies

Increasing the shareholding in Bišumuiža Nami SIA

Arco Investeeringute AS, a subsidiary of Arco Vara AS, increased its shareholding in the joint company Bišumuiža Nami SIA from 40% to 49.38%. The shareholding was increased in kind. After the transaction, the 50.0% owner of Bišumuiža Nami SIA is SIA Linstow Baltic, owner of 49.38 % shares is Arco Investeeringute AS, and owner of 0.62% shares is SIA Mazais Baltezers. As a result of the transaction SIA Mazais Baltezers has a termless option to buy from Arco Investeeringute AS a 9.38% shareholding at nominal price.

Impact of increase in shareholding to the Group:

	EEK	EUR
in thousands		
Cash and cash equivalents	1 464	94
Receivables	119	8
Inventories	27 734	1 773
Current liabilities	55	4
Non-current liabilities	20 551	1 313

12. Investment property

	EEK	EUR
in thousands		
As at 31.12.2007	999 999	63 912
Acquisitions	1 004	64
Disposals	-29 004	-1 854
Transfer from property, plant and equipment (Note 13)	20 029	1 280
Gain or loss on change in fair value (Annex 4)	-16 855	-1 077
As at 30.06.2008	975 173	62 325
As at 31.12.2008	542 753	34 688
Acquisitions	25 128	1 606
Transfer from property, plant and equipment (Note 13)	14 135	903
Gain or loss on change in fair value (Annex 4)	74 420	4 756
As at 30.06.2009	656 436	41 953

13. 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 31.12.2007	26 940	5 134	7 983	101 806	141 863
Additions	306	556	948	19 808	21 618
Capitalised borrowings costs	0	0	0	9 006	9 006
Additions through business combinations	0	2 559	59	0	2 618
Disposals	0	-68	-295	0	-363
Disposals through divestment of subsidiaries	0	-58	-281	0	-339
Transfer to non-current assets held for sale	-1 701	0	0	0	-1 701
Transfer to investment property (Note 12)	0	0	0	-20 029	-20 029
Depreciation charge (Notes 3, 4, 6)	-1 080	-905	-1 432	0	-3 417
Carrying amount 30.06.2008	24 465	7 218	6 982	110 591	149 256
<i>incl. acquisition costs</i>	<i>35 629</i>	<i>12 765</i>	<i>13 854</i>	<i>110 591</i>	<i>172 839</i>
<i>incl. accumulated amortisation</i>	<i>-11 164</i>	<i>-5 547</i>	<i>-6 872</i>	<i>0</i>	<i>-23 583</i>
Carrying amount 31.12.2008	22 115	2 496	6 537	10 664	41 812
Additions	4 088	28	0	3 483	7 599
Disposals	-1 148	-45	-1 004	0	-2 197
Transfer to investment property (Note 12)	0	0	0	-14 135	-14 135
Depreciation charge (Notes 3, 4, 6)	-1 097	-378	-768	0	-2 243
Carrying amount 30.06.2009	23 958	2 101	4 765	12	30 836
<i>incl. acquisition costs</i>	<i>35 948</i>	<i>7 656</i>	<i>14 050</i>	<i>12</i>	<i>57 666</i>
<i>incl. accumulated amortisation</i>	<i>-11 990</i>	<i>-5 555</i>	<i>-9 285</i>	<i>0</i>	<i>-26 830</i>
in EUR, thousands					
Carrying amount 31.12.2007	1 722	328	510	6 507	9 067
Additions	20	36	61	1 265	1 382
Capitalised borrowings costs	0	0	0	575	575
Additions through business combinations	0	164	4	0	168
Disposals	0	-4	-19	0	-23
Disposals through divestment of subsidiaries	0	-4	-18	0	-22
Transfer to non-current assets held for sale	-109	0	0	0	-109
Transfer to investment property (Note 12)	0	0	0	-1 280	-1 280
Depreciation charge (Note 3, 4, 6)	-69	-58	-92	0	-219
Carrying amount 30.06.2008	1 564	461	446	7 068	9 539
<i>incl. acquisition costs</i>	<i>2 277</i>	<i>816</i>	<i>885</i>	<i>7 068</i>	<i>11 046</i>
<i>incl. accumulated amortisation</i>	<i>-714</i>	<i>-355</i>	<i>-439</i>	<i>0</i>	<i>-1 508</i>
0					
Carrying amount 31.12.2008	1 413	159	417	682	2 671
Additions	261	2	0	223	486
Disposals	-73	-3	-64	0	-140
Transfer to investment property (Note 12)	0	0	0	-903	-903
Depreciation charge (Note 3, 4, 6)	-70	-24	-49	0	-143
Carrying amount 30.06.2009	1 531	134	304	2	1 971
<i>incl. acquisition costs</i>	<i>2 297</i>	<i>489</i>	<i>897</i>	<i>2</i>	<i>3 685</i>
<i>incl. accumulated amortisation</i>	<i>-766</i>	<i>-355</i>	<i>-593</i>	<i>0</i>	<i>-1 714</i>

14. Intangible assets

	Goodwill	Software	Total intangible assets
in EEK, thousands			
Carrying amount 31.12.2007	23 957	1 548	25 505
Additions	0	265	265
Additions through business combinations	4 310	0	4 310
Disposals through divestment of subsidiaries and interests in jointly controlled entities	-4 014	-195	
Depreciation charge (Notes 4, 6)	0	-283	-283
Carrying amount 30.06.2008	24 253	1 335	29 797
<i>incl. acquisition costs</i>	24 253	2 717	26 970
<i>incl. accumulated amortisation</i>	0	-1 382	-1 382
Carrying amount 31.12.2008	11 855	620	12 475
Transfers	-465	465	0
Depreciation charge (Notes 4, 6)	0	-139	-139
Carrying amount 30.06.2009	11 390	946	12 336
<i>incl. acquisition costs</i>	11 390	1 203	12 593
<i>incl. accumulated amortisation</i>	0	-257	-257

	Goodwill	Software	Total intangible assets
in EUR, thousands			
Carrying amount 31.12.2007	1 531	99	1 630
Additions	0	17	17
Additions through business combinations	275	0	275
Disposals through divestment of subsidiaries and interests in jointly controlled entities	-257	-12	-269
Depreciation charge (Notes 4, 6)	0	-18	-18
Carrying amount 30.06.2008	1 550	85	1 635
<i>incl. acquisition costs</i>	1 550	173	1 723
<i>incl. accumulated amortisation</i>	0	-88	-88
Carrying amount 31.12.2008	758	39	797
Transfers	-30	30	0
Depreciation charge (Notes 4, 6)	0	-9	-9
Carrying amount 30.06.2009	728	60	788
<i>incl. acquisition costs</i>	728	77	805
<i>incl. accumulated amortisation</i>	0	-16	-16

15. Loans and borrowings

	30.06.2009		31.12.2008	
	Total	Including current portion	Total	Including current portion
in EEK, thousands				
Debt securities (Note 19)	46 744	46 744	59 303	59 303
Bank loan	892 266	424 461	911 946	256 095
Finance lease liabilities	4 478	1 159	5 462	1 708
Other loans	42 853	28 918	69 625	36 311
Total	986 341	501 282	1 046 336	353 417
	30.06.2009		31.12.2008	
	Total	Including current portion	Total	Including current portion
in EUR, thousands				
Debt securities (Note 19)	2 987	2 987	3 790	3 790
Bank loan	57 026	27 128	58 284	16 367
Finance lease liabilities	286	74	349	109
Other loans	2 740	1 849	4 450	2 321
Total	63 039	32 038	66 873	22 587

16. Payables and other liabilities

	EEK		EUR	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008
in thousands				
Trade payables	60 675	75 454	3 879	4 822
Miscellaneous payables				
Carrying amount at 31.12.06	0	0	0	0
Liabilities from securities transactions	15 464	1 236	988	79
Miscellaneous payables	3 797	16 329	243	1 044
Total other payables	19 261	17 565	1 231	1 123
Tax payable				
Value added tax	1 275	3 099	81	198
Income tax on dividends	0	0	0	0
Personal income tax	1 940	2 053	124	131
Social tax	3 858	3 569	247	228
Other taxes	2 289	2 228	146	142
Total taxes payable	9 362	10 949	598	700
Accrued expenses				
Interest payable	12 472	10 054	797	643
Payables to employees	7 719	8 871	493	567
Dividends payable	1 252	1 232	80	79
Other accrued expenses	7 968	8 552	509	547
Total accrued expenses	29 411	28 709	1 879	1 836
Total payables	118 709	132 677	7 587	8 481

17. Transactions with related parties

	EEK		EUR	
	HY1 2009 or 30.06.2009	HY1 2008 or 31.12.2008	HY1 2009 or 30.06.2009	HY1 2008 or 31.12.2008
in thousands				
Transactions with jointly controlled entities				
Sales revenue	6	1 962	0	125
Services purchased	0	-19	0	-1
Short-term loan receivables	18 722	13 855	1 197	885
Long-term loan receivables	5 750	5 750	367	367
Trade receivables	1 030	1 030	66	66
Short-term interest receivables	0	2 205	0	141
Transactions with companies having joint control over Group companies				
Services purchased	0	-334	0	-21
Other short-term receivables	8 623	13 348	551	853
Short-term loan receivables	3 740	16 377	239	1 047
Dividends payable	1 232	0	79	0
Trade payables	0	368	0	24
Interest payable	0	968	0	62
Long-term loan liabilities	5 750	0	367	0
Transactions with key staff of the Group and the Group's management				
Sales revenue	0	9 810	0	627
Trade receivables	0	262	0	17
Short-term loan receivables	313	85	20	5
Interest payable	13	0	1	0
Miscellaneous long-term liabilities				
Equity acquisition	10 190	0	651	0
Sales revenue	0	170	0	11
Services purchased	298	-2	19	0
Other short-term receivables	2 849	0	182	0
Other short-term liabilities	15 465	0		
Short-term loan receivables	10 008	11 424	640	730
Long-term loan liabilities	5 998	31 151	383	1 991

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 previous owner of the office building was 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 rent 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. Pindi Kinnisvara, an independent valuator, estimated the market value of the property on 19.02.2009 to 10,700 thousand kroons (684 thousand euros).

The remuneration of the Group's management board for the 1st half-year of 2009, including associated taxes, totalled 3,886 thousand kroons (248 thousand euros). In 2008, the same indicator amounted to 12,053 thousand kroons (770 thousand euros).

The remuneration of management board has been reduced by 10% in the 1st half-year of 2009.

18. Contingent liabilities

Arco Vara AS and Arco Ehitus OÜ claims against OÜ Tempera Ehitus

On 26.02.2009 OÜ Tempera Ehitus OÜ was declared bankrupt by a decision of the Harju County Court.

On 04.03.2009 Arco Vara AS submitted its statement of claim. The amount of Arco Vara AS claim is 2,343 thousand kroons (150 thousand euros), based on the credit agreement of 07.08.2008.

On 09.03.2009 Arco Ehitus OÜ submitted its statement of claim. The total amount of Arco Ehituse OÜ claim is 2,371 thousand kroons (152 thousand euros), based on the loan agreement and the site management and construction service agreement.

On 25.03.2009 the first creditors meeting was held. The general meeting decided to not appoint Maire Arm as official liquidator. On 03.04.2009 the creditors submitted a joint list of preferred liquidators. On 09.04.2009 the court appointed Katrin Prükk as new official liquidator.

Based on the liquidator's report, the total liabilities of the debtor amount to 13,588 thousand kroons (868 thousand euros), but there is no tangibles. Therefore, the management board considers it unlikely that Arco Vara AS and Arco Ehitus OÜ are paid the debts of OÜ Tempera Ehitus (bankrupt).

Compared to the previous reporting period, there have been no changes or developments in the proceeding. At present, the bankruptcy proceedings are going on.

Arco Investeeringute AS action against AS Ühendatud Kapital

Arco Investeeringute AS, Sigma Real Estate Ltd and AS Ühendatud Kapital have concluded a memorandum of understanding on 26 February 2009. The purpose of the memorandum is to set out basic conditions and principles for acquisition of a 50% interest in a Cypriot business that owned and maintained the development of trade centres in Ukraine by Arco Vara AS. Based on the memorandum, Arco Investeeringud AS has made a prepayment and given subordinated loans in a total amount of 10,000 US dollars (111,052 thousand kroons; 7,098 thousand euros), that Arco Vara AS is entitled to recall and that is secured by a guarantee by AS Ühendatud Kapital. Considering that AS Ühendatud Kapital and Sigma Real Estate Ltd did not agree with a compromise proposal by Arco Investeeringute AS to set a supplementary security and postpone the debt, the realisation of AS Ühendatud Kapital guarantee was started.

On 19.02.2009, Arco Investeeringute AS filed a statement of claim at the Court of Arbitration of the Estonian Chamber of Commerce and Industry to collect 10,907 thousand US dollars (121,124 thousand kroons; 7,741 million euros) from AS Ühendatud Kapital, and an application for securing the claim. The Council of the Court of Arbitration of Estonian Chamber of Commerce and Industry forwarded the application of Arco Vara AS to secure the claim to the Harju County Court and the court issued an order according to which the claim is secured to full extent requested in the application.

In order to secure the claim by Arco Vara AS the Harju County Court set prohibition notations to the disposal of shares, attached the financial assets of the debtor in Estonian credit institutions, and established a mortgage to the properties of the company.

On 12.03.2009 AS Ühendatud Kapital filed an appeal against the court ruling to the Harju County Court by claiming that the claim security methods applied by the Harju County Court are extremely cumbersome. Arco Investeeringute AS contests the appeal.

At the moment of preparing this statement, the court has not made any decision with regard to the appeal against the court ruling, also, no actual proceeding in the Court of Arbitrage of the Estonian Chamber of Commerce and Industry has taken place.

Adoption of a detail plan for Narva mnt 67

On 19 May 2008 a 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 April 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 8 July 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 July 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 August 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:

- Long-term loan receivables (note 12)
- 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 October 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 5 May 2009, the Tallinn Administrative Court made a decision in favour of the claim and cancelled the decision by Tallinn City Council by which the detail plan of Narva mnt 67 was established. The decision of the court was based on its earlier standpoints. Both the Tallinn City Council and Arco Investeeringute AS have decided to appeal as they consider the decision of Tallinn Administrative Court unmotivated.

On 3 June 2009, Tallinn City Council and on 4 June 2009, Arco Investeeringute AS filed an appeal against the decision of Tallinn Administrative Court of 05.05.2009. As of preparation of the present statement, the court has not set a session time.

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

At the time of preparing the present statement, the court proceeding is ongoing.

19. Events after the reporting period

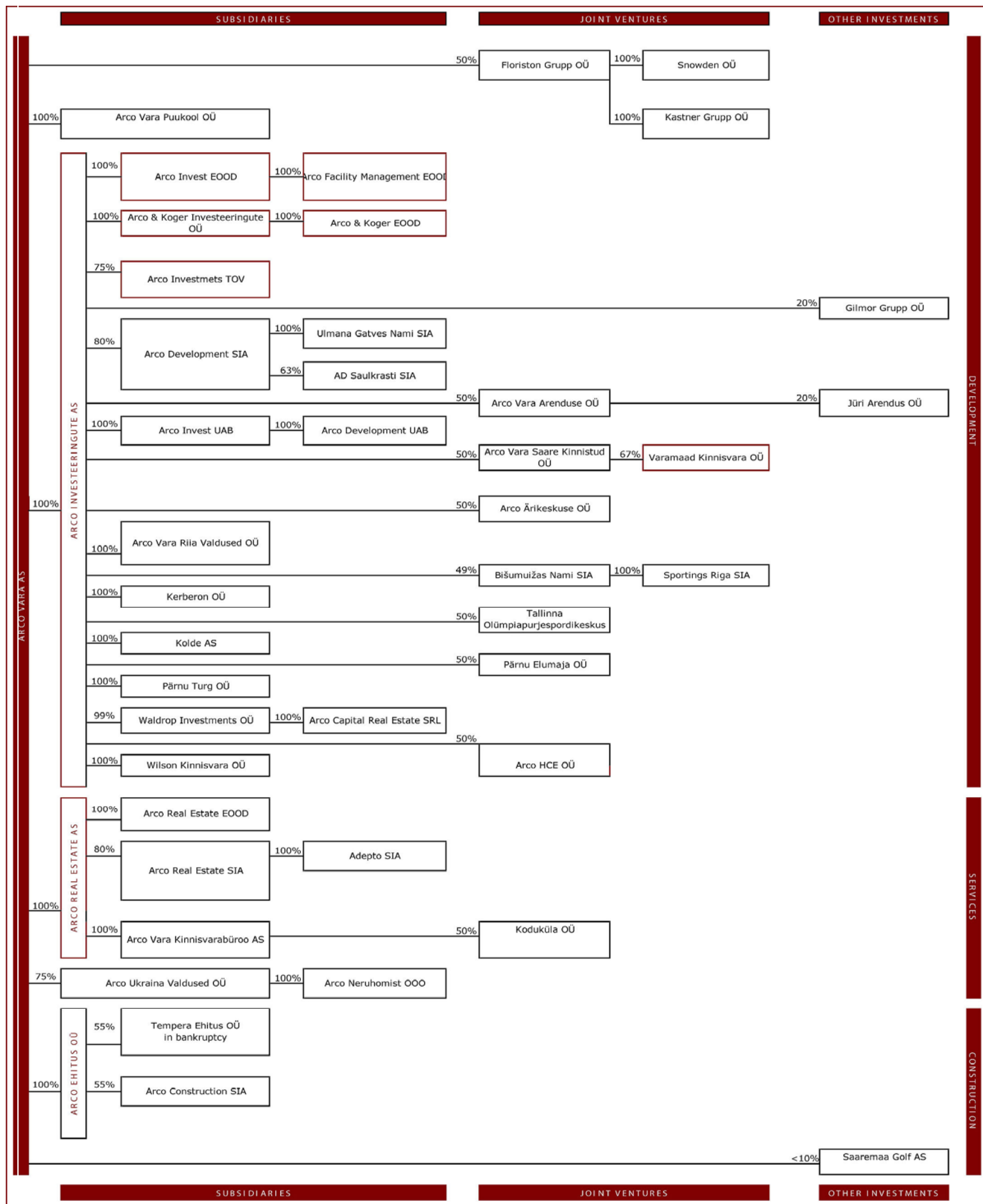
On 10.07.2009, Arco Vara AS redeemed commercial papers in the amount of 26,208 million kroons (1,675 thousand euros), incl. interests. The rest of the balance in the amount of 26,208 thousand kroons (1,675 thousand euros) was extended against a supplementary security until 31.05.2010 with an interest rate of 16% per annum.

On 21.07.2009, Arco Investeeringute AS, a subsidiary of Arco Vara AS increased its shareholding in the Latvian subsidiary Arco Development SIA from 80% to 99.99%. The shareholding was increased in kind.

The division of Arco Vara Puukool OÜ, a 100% subsidiary of Arco Vara, by separation entered into force on 18 August. This transaction separated the principal business of Arco Vara from its ancillary activities, i.e. property development from production of forestry plants. The newly separated entity, Arco Vara Ärikinnistute OÜ, being a 100% subsidiary of Arco Vara was filed with the commercial registry. Arco Vara Ärikinnistute OÜ owns in the city of Tartu one-half of the property situated in Tartu at Turu 34a.

20. Structure of the group

At 30.06.2009



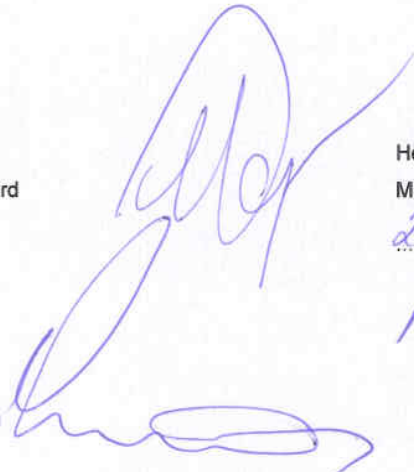
Statement by the management board


The management board of Arco Vara AS has prepared the condensed consolidated interim financial statements for the second quarter and six months presented on pages 2-39.


The interim statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The interim statements 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 half-year 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 (27 August 2009) have been assessed.

Lembit Tampere
Chair of the management board

28 August 2009

Heigo Metsoja
Member of the management board

27 August 2009

Veiko Taevere
Member of the management board

28 August 2009