

Arco Vara AS

Interim report 4 quarter and
12 months 2009



ARCO REAL ESTATE

FOURTH QUARTER AND TWELVE MONTHS 2009
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

Business name: Arco Vara AS

Registry code: 10261718

Established: 1992

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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 – 31 December 2009

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

Management board: Lembit Tampere

Auditor: Ernst & Young Baltic AS

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Management report for the fourth quarter and twelve months of 2009

GENERAL INFORMATION

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

As of end of the 4th quarter 2009, the Group comprised 24 subsidiaries (2008 Q4: 34), 8 joint ventures (2008 Q4: 17) and 4 associates (2008 Q4: 1).

The performance of all divisions of the Group is subject to seasonal fluctuations. The transaction volumes of the Service Division are usually higher in autumn and spring 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 and Bulgaria.

Mission, objective and common values

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

The **objective** 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 quality

Respect – we respect our client's personality

Responsibility – we keep our promises

Management and Supervisory Board Members of Arco Vara AS

Lembit Tampere, Member of the Board of Arco Vara AS

Lembit Tampere graduated the Concordia International University in international business administration in 1997, and has studied further at the College Wisconsin, USA.

Mr Tampere worked from 1997-2004 at the Union Bank of Estonia as Project Manager in the Corporate Finance Division. Starting from 2003, he was a Member of the Board in ECE Capital OÜ, and the Director of Corporate Banking at SBM Pank AS. Starting from 2008, Mr Tampere is the Chairman of the Board of Arco Vara.

Richard Tomingas, Chairman of the Supervisory Board of Arco Vara AS

Richard Tomingas has studied civil engineering in the Tallinn Polytechnical Institute in 1987-1990. He has graduated business administration in the Estonian Business School in 2005.

Mr Tomingas is one of the major shareholders of Arco Vara and has worked for the company since 1992. From 1992-1993 he was the Manager of the Arco Vara AS Kuressaare office. Since 1992, Mr Tomingas is a Member of the Supervisory Board of Arco Vara AS and since 2008, the Chair of the Supervisory Board of Arco Vara AS.

Hillar-Peeter Luitsalu, Member of the Supervisory Board of Arco Vara AS

Hillar-Peeter Luitsalu has studied sports sciences in the Tallinn Pedagogical Institute. He has graduated the University of Tartu in law in 1995.

Mr Luitsalu is one of the major shareholders of Arco Vara. From 1996-2005, he was a Member of the Supervisory Board of Arco Vara Kinnisvarabüroo, from 1999-2004, a Member of the Board of Arco Vara AS, and since 2004, a Member of the Supervisory Board of Arco Vara AS.

Aare Tark, Member of the Supervisory Board of Arco Vara AS

Aare Tark has graduated the University of Tartu in law in 1983.

Since 1991, Mr Tark is the senior partner in the law office Tark&Co. In 1994, 1995 and 1998-2001, he was the Chairman of the Estonian Bar Association. Starting from 2003, Aare Tark is a Member of the Legal Ethics and Practice Committee of the Estonian Bar Association. Since 2007, he is a Member of the Supervisory Board of Arco Vara.

Kalev Tanner, Member of the Supervisory Board of Arco Vara AS

Kalev Tanner has graduated the Tallinn University of Technology in 1984, the University of Vermont in 1990, and the J. L. Kellogg Graduate School of Management in MBA in 1994.

From 1994–1998 Mr Tanner worked as investment banker in Goldman Sachs' branches in New York and London, from 1998-2001 as Director General in AS Cresco and as a Member of the Supervisory Board in AS Tallinna Börs. Since 2003, he has served as a Senior Adviser of the private equity company BaltCap, and is the founder and CEO of OÜ Sparkling Group, company operating in luxury hotels and restaurants, and OÜ IG Partners, a venture capital and advisory services company. Since 2007, Mr Tanner is the Chairman of the Supervisory Council of insurance company IIZI Kindlustusmaakler AS and since the same year, a Member of the Supervisory Board of Arco Vara AS.

Ragnar Meitern, Member of the Supervisory Board of Arco Vara AS

Ragnar Meitern has graduated the State University of New Jersey in 1996.

Since 1996, Mr Meitern has been working in the team of the Citygroup investment banking. From 1998-2000, he served as an investment manager at the investment fund Stanton Capital Corporation, New York Starting from 2006, he has been working at the Citigroup investment bank in Dubai. Since 2008, he is a Member of the Supervisory Board of Arco Vara.

STRUCTURE OF THE GROUP

Company	Country of location	Shareholding of the Group	
		31.12.2009	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	sold	75
Arco Vara Kinnisarabüroo ¹	Estonia	100	100
Adepto SIA ¹	Latvia	80	80
Arco Real Estate SIA ¹	Latvia	80	80
Arco Neruhomist TOV ¹	Ukraine	sold	75

Company	Country of location	Shareholding of the Group	
		31.12.2009	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	sold	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	63	50,4
Arco Development SIA ¹	Latvia	99,9	80
Ulmana Gatves Nami SIA ¹	Latvia	99,9	80
Arco Invest UAB ¹	Leedu	100	100
Arco Development UAB ¹	Leedu	100	100
Arco Capital SRL ¹	Rumneeia	100	100
Arco Investments TOV	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	sold	50
Chalwell OÜ ¹	Estonia	merged	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

Steadman OÜ ¹	Estonia	merged	50
Tallinna Olümpiapurjespordikeskus AS ¹	Estonia	sold	50
Varamaad Kinnisvara OÜ ¹	Estonia	33,4	33,4
Bišumuižas Nami SIA ^{1,2}	Latvia	49,83	40
Sporting Rīga SIA ^{1,2}	Latvia	49,83	40
Related company			
Floriston Grupp OÜ ¹	Estonia	12,5	50
Kastner Grupp OÜ ¹	Estonia	12,5	50
Snowden OÜ ¹	Estonia	12,5	50
Gilmor Grupp OÜ (likvideerimisel)	Estonia	liquidated	20
Jüri Arendus OÜ	Estonia	20	20
Construction segment			
Subsidiaries			
Arco Ehitus OÜ	Estonia	100	100
Arco Construction SIA ¹	Latvia	sold	55
Tempera Ehitus OÜ	Estonia	in bankruptcy	55

¹ Shareholding through subsidiaries.

CHANGES IN THE GROUP STRUCTURE

On 16.01.2009, 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.

On 26.02.2009 OÜ Tempera Ehitus OÜ was declared bankrupt by a decision of the Harju County Court. Tempera Ehitus OÜ is not consolidated.

On 15.04.2009, 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 22.05.2009, 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.

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.

On 18.08.2009 the division of Arco Vara Puukool OÜ, a 100% subsidiary of Arco Vara, by separation entered into force. 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 AS 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.

On 18.09.2009, Arco Vara AS transferred its 100% holding in Arco Vara Puukool OÜ (a 100% Arco Vara AS subsidiary), with a holding of 0.04 million kroons (0.003 million euros), see also Note 11.

On 21.10.2009, Arco Vara transferred 100% of its holdings in Tallinna Olümpiapurjespordikeskuse AS and Arco Ärikeskuse OÜ, which made up 50% of the holding or share capital of both companies, and 75% of its holding in Floriston Grupp OÜ, which made up 37.5% of the holding of the company. Arco Vara will maintain a 12.5% holding in Floriston Grupp OÜ.

The holding was transferred to enterprises related to Marcel Vichmann and Olav Miil.

On 08.12.2009, Arco Vara AS transferred 75% of its holding in Arco Ukraina Valduste OÜ with a holding of 0.15 million kroons (0,009 million euros), see also Note 11.

On 29.12.2009, Arco Ehitus OÜ, a subsidiary of Arco Vara AS, transferred 55% of its holding in Arco Construction SIA with a holding of 0.08 million kroons (0.005 million euros), see also Note 11.

MAIN INDICATORS OF THE 12 MONTHS

- Revenue and other income for the twelve months totalled 541.6 million kroons (34.6 million euros), 21.5% down year-over-year.
- Operating loss amounted to 271.6 million kroons (17.4 million euros), which is 74.1% less than last year
- Net loss amounted to 324.4 million kroons (20.7 million euros), 72.0% less than last year
- Equity ratio was 27.8% (12 months 2008: 36.1%). ROE was negative (12 months 2008: negative). ROIC was negative (12 months 2008: negative).
- In the construction division, new agreements in the amount of 171.0 million kroons (10.9 million euros) were concluded, 12 months 2008: 299.0 million kroons (19.1 million euros).
- At the end of the reporting period, the construction business order backlog was 80 million kroons (5.1 million euros), 12 months 2008: 185.0 million kroons (11.8 million euros).
- Within 12 months, 82 apartments or plots were sold in Arco Vara projects (12 months 2008: 98).

	EEK				EUR			
	12 months 2009	12 months 2008	Q4 2009	Q4 2008	12 months 2009	12 months 2008	Q4 2009	Q4 2008
In millions								
Revenue and other income	541.6	690.4	156.6	150.4	34.6	44.1	10.0	9.6
EBIT	-271.6	-1 049.7	-43.4	-943.0	-17.4	-67.1	-8	-60.3
<i>incl. revaluation of investment property and inventory</i>	-232.1	-993.9	-25.7	-931.6	-14.8	-63.5	-1.6	-59.5
Profit / loss before tax	-325.3	-1 151.3	-96.6	-1 059.6	-20.8	-73.6	-6.2	-67.7
<i>incl. profit or loss from transfer of financial assets</i>	-3.6	-41.3	1.2	-4.7	-0.2	-2.6	0.1	-0.3
Net profit / loss	-324.4	-1 160.1	-94.9	-1 057.6	-20.7	-74.1	-6.1	-67.6
EPS 1 (in kroons and euros)	-3.42	-12.18	-1.00	-11.0	-0.22	-0.78	-0.06	-0.71
Total assets at period end	1 379.2	1 970.6			88.1	125.9		
Invested capital at period end	1 188.7	1 760.7			76.0	112.5		
Net loans at period end	734.4	842.0			46.9	53.8		
Equity at period end	384.1	709.7			24.5	45.4		
Average loan term (in years)	0.9	2.5			0.9	2.5		
Average interest rate of loans (per year)	5.3%	7.0%			5.3%	7.0%		
ROIC (rolling 4 quarters)	neg	neg			neg	neg		
ROE (rolling 4 quarters)	neg	neg			neg	neg		
Number of staff at period end	163	396			163	396		

Comments by the CEO

Within 12 months 2009, 82 apartments or plots were sold in Arco Vara projects, thereby 41 of them in the fourth quarter. In Latvia, 12 Bišumuiža apartments and 11 residential plots in the project near the Mazais Baltezers lake. In Estonia, 44 Kodukolle apartments and 16 Merivälja apartments were sold. 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. A long-term lease agreement was concluded with a financial intermediary company that will lease 4 700 m² office space.

The strategy of Arco Vara development division is to finish the unfinished apartments in the Bišumuiža-1 project in Riga, the apartments and business areas in the Boulevard Residence Madrid and Manastirski projects in Sofia with more favourable construction prices. In autumn, the construction of the Kodukolle and Merivälja projects in Tallinn was completed. The finished residential areas help to release invested equity and reduce the liabilities of the Group. In order to stay in competition and accelerate sales pace, we were forced to reduce plot and apartment prices in all Arco Vara projects in the first half-year.

The restructuring of the service division has considerably reduced its administration costs, and the operating loss of the quarter has reduced to 1.0 million kroons (0.063 million euros). Reduction of the number of employees has stopped and the staff makes up 47% on year-over-year basis. Within 12 months, the division has sold most of its real estate objects acquired for short-term investments. This has helped the division to manage by itself. The work organisation of some smaller offices outside the capital city was changed by giving up the classical office-based work organisation and applying the home office system by maintaining our full service selection and network 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. This allows increasing service provision with unlimited means in these countries, with a future focus on Estonia, Latvia and Bulgaria.

In the construction division, new agreements in the amount of 171 million kroons (10.9 million euros) were concluded during the twelve months, thereof 34.0 millions kroons (2.2 million euros) in the 4th quarter. After the balance sheet date, Arco Ehitus OÜ has been announced as best tenderer either alone or in a consortium in tender with a total value of 129.9 million kroons (8.3 million euros).

In summary: The overall result of 12 months was most influenced by fair value adjustments. The gross profit without revaluation was 49.7 million kroons (3.2 million euros), whereof in the fourth quarter 14.3 million kroons (0.9 million euros). The net profit without revaluation of inventory, property investment, financial assets, and goodwill, and without the loss of transfer of holdings and assets amounted to -58.7 million kroons (-3.7 million euros), whereof the net profit of the fourth quarter made up -23.2 million kroons (-1.4 million euros).

The savings in fixed costs on the year-over-year basis have exceeded the original expectations of the management two times. The Group considers the relation between construction prices and sales perspective good enough to start the last stage of the Kodukolde (96 apartments) and Tivoli (approx. 150 apartments) developments. The Group is carrying on negotiations with potential partners and banks in order to find a favourable financing structure for both projects.

In order to improve liquidity, the Group has, on a current basis, sold smaller property investments and holdings in three joint ventures where the working capital was not under the full control of the Group. By selling the holdings, the company improved its liquidity position by 55 million kroons (3.5 million euros). Due to adapting the Arco Vara AS management structure to the reduced operations and cost saving policy, the number of Members of the Board was reduced and two Members of the Board were removed in the 3rd quarter. As Member of the Board of Arco Vara, Lembit Tampere continues his work.

REVENUE AND PROFIT

	EEK				EUR			
	12 months 2009	12 months 2008	Q4 2009	Q4 2008	12 months 2009	12 months 2008	Q4 2009	Q4 2008
In millions								
Revenue and other income								
Services	38.0	104.7	9.4	14.2	2.4	6.7	0.6	0.9
Development	266.6	246.4	48.2	50.7	17.0	15.7	3.1	3.2
Construction	277.2	416.8	102.3	93.5	17.7	26.6	6.5	6.0
Eliminations	-40.3	-77.5	-3.2	-8.0	-2.6	-5.0	-0.2	-0.5
Total revenue and other income	541.5	690.4	156.7	150.4	34.6	44.1	10.0	9.6
EBIT								
Services	-16.6	-47.9	-7.1	-17.2	-1.1	-3.1	-0.5	-1.1
Development	-260.1	-985.1	-87.3	-917.2	-16.6	-63.0	-5.6	-58.6
Construction	-10.1	6.3	-7.3	-1.4	-0.6	0.4	-0.5	-0.1
Eliminations	33.7	-2.6	60.0	-2.4	2.2	-0.2	3.8	-0.2
Unallocated expenses	-18.5	-20.4	-1.7	-4.8	-1.3	-1.1	0.0	-0.3
Total EBIT	-271.6	-1 049.7	-43.4	-943.0	-17.4	-67.0	-2.8	-60.3
Interest income and expense	-33.5	5.1	-9.5	-17.5	-2.1	0.3	-0.6	-1.1
Net other financial items	-20.2	-106.7	-43.7	-99.1	-1.3	-6.8	-2.8	-6.3
Income tax expense	0.9	-8.8	1.7	2.0	0.1	-0.6	0.1	0.1
Net profit / loss	-324.4	-1 160.1	-94.9	-1 057.6	-20.7	-74.1	-6.1	-67.6

The overall result of 12 months was most influenced by fair value adjustments. In the 4th quarter, the loss related to the transfer of holdings in three substantial joint ventures was reflected as fair value adjustment. As a result of the transaction, investment property was written down by 134.4 million kroons (8.6 million euros) and financial assets by 4.5 million kroons (0.3 million euros) as of end of 9 months. The total net adjustments and losses on sale within 12 months amounted to 265.7 million kroons (-17.0 million euros). Main cost cuttings have been made and striving towards reduced costs has become a routine practice in all

of our business units: we are aiming at saving fixed costs additionally by 15.0 million kroons (1.0 million euros) on an annual basis. The main focus is now set on increasing the turnover, completing the Madrid project, and improving the liquidity through the sales of projects and stock. In the fourth quarter, the claim against AS Ühendatud Kapital with the new book value of 32.6 million kroons (2.1 million euros) was additionally discounted. Construction division EBIT in the 4th quarter without asset and goodwill write down was 1.6 million kroons (0.1 million euros). Service division EBIT in the 4th quarter without asset write down was -1.0 million kroons (-0.1 million euros).

The biggest write up of the year was made in Latvia where the right of superficies under inventory was reclassified to investment property as in the near future, no development activities are planned and buyers for the development projects are searched for. It is a residential plot project with an area 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. In the fourth quarter, the claim against AS Ühendatud Kapital with the new book value of 32.6 million kroons (2.1 million euros) was additionally discounted.

CASH FLOWS

	EEK				EUR			
	12 months 2009	12 months 2008	Q4 2009	Q4 2008	12 months 2009	12 months 2008	Q4 2009	Q4 2008
In millions								
Cash flows from operating activities	-23.6	-127.6	26.2	-26.2	-1.5	-8.2	1.7	-1.7
Cash flows from investing activities	95.5	-62.6	50.0	66.1	6.1	-4.0	3.2	4.2
Cash flows from financing activities	-173.4	-402.2	-68.0	-78.8	-11.1	-25.7	-4.3	-5.0
Net cash flow	-101.5	-592.4	8.2	-38.9	-6.5	-37.9	0.5	-2.5
Cash and cash equivalents at beginning of period	172.6	765.0	62.6	211.5	11.0	48.9	4.0	13.5
Effect of exchange rate fluctuations	0.3	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents at end of period	71.4	172.6	71.4	172.6	4.5	11.0	4.5	11.0

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. Holdings in three joint ventures were sold, as a result of which the Group improved its liquidity by 55 million kroons (3.5 million euros).

We have extended and restructured a half of our commercial papers in the amount of 26 million kroons (1.6 million euros), whereof approx. 8 million kroons (0.5 million euros) have been paid as a result of the sales of security assets.

Major short-term liabilities during the next 12 months:

- the Ahtri project loan of 94.3 million kroons (6.0 million euros),
- „Tivoli” and „Laeva2” project loans in the total amount of 105.5 million kroons (6.7 million euros)
- „Kodukolde“ project loan in the amount of 46.0 million kroons (2.9 million euros).

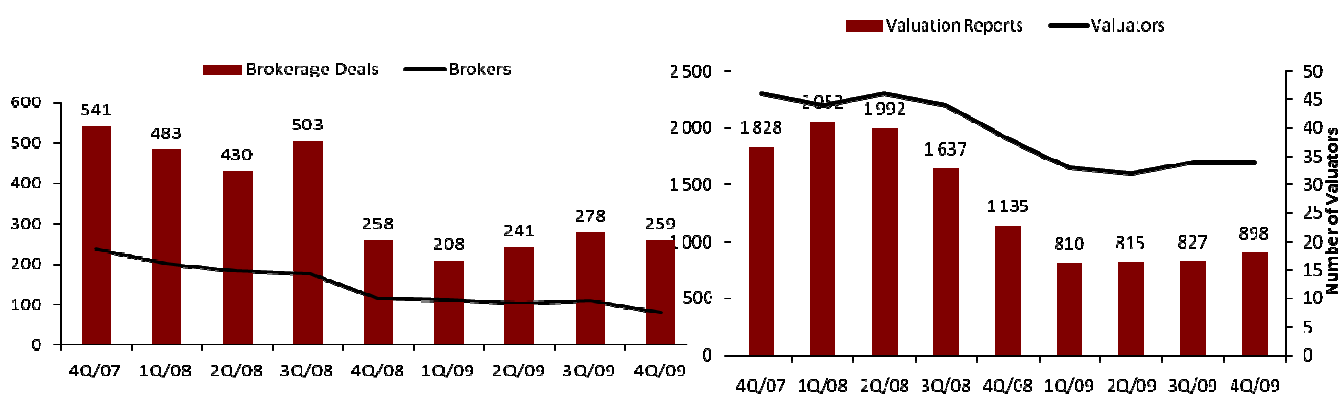
- The loan for the Bišumuiža-1 (BM-1) development project in Riga in the amount of 48.2 million kroons (3.1 million euros),
- Calculated principal returns from the sales of booked spaces in the „Boulevard Residence Madrid“ project on Sofia as the house will be finished by the 1st half-year 2010 at the latest, in an amount of 120.7 million kroons (7.7 million euros),
- Commercial papers in the amount of 18 million kroons (1.2 million euros).

On a current basis, loans have been redeemed in the „Kodukolde“ and Merivälja 2 projects in Tallinn and the „Bišumuiža-1“ in Riga as well as in projects creating cash flow. Most of the liabilities of the Group are in euros.

SERVICE DIVISION

Cost and business model optimisation has had good results but is still not sufficient for earning net profit on a current basis. By cash flow, the revenues and expenses of the division are in balance during the 12-month period and do not need any subsidy from parent company. Having the liquidity of the company as its priority, the division sold during the 12 months objects that were acquired earlier as short-term investments, due to the market situation, the prices have sometimes been under the book value. Division total EBIT was amounted to -7.1 million kroons (-0.4 million euros), whereof year-end investment property adjustments made up -6.1 million kroons (-0.4 million euros). Thus, quarter EBIT from the main activities -1.0 million kroons (-0.1 million euros) which is historically one of the best results. Optimisation of the cost structure and preparation of the business model and processes for the further improvement of the market situation is going on in the division.

The number of brokerage transactions of the Group in 12 months has decreased by 41%, but the fall has stabilized recently. The number of valuation reports has decreased on year-over-year basis by 51%, but has demonstrated a slight increase during the last three quarters. As at the end of the 12-month period, the division employed 66 persons (12 months 2008: 139 persons).

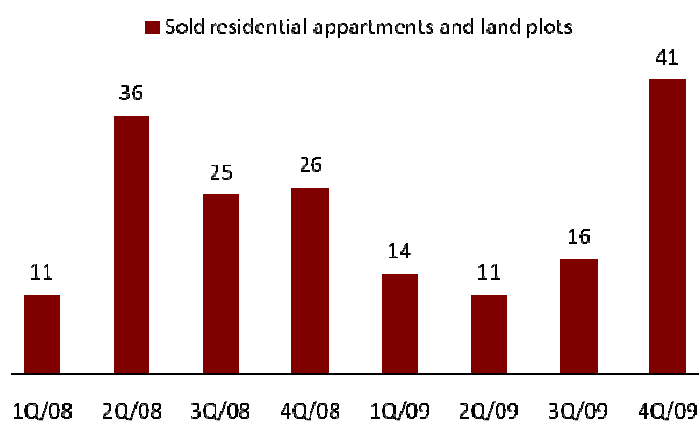


	12 months 2009	12 months 2008	change, %	2009 Q4	2008 Q4	change, %
Number of brokered objects	986	1 674	-41%	259	503	-49%
Projects being sold, pcs.	151	282	-47%	171	272	-37%
Number of valuation reports	3 350	6 816	-51%	898	1 637	-45%
Number of appraisers*	34	38	-11%			
Number of real estate brokers*	79	114	-31%			
Average number of staff	66	139	-53%			

* Includes authorisation agreements

DEVELOPMENT DIVISION

Within 12 months, 82 apartments or plots were sold in Arco Vara projects, thereby 41 of them in the fourth quarter. By the time of publishing the report, 18 units have been sold within two first months of the year and 4 additional transactions are in process. 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, and a long-term lease agreement with a financial intermediary company for 4 700 m² office space. Additionally, the trial on the establishment of the detailed plan of the Tivoli project was disposed and the Tallinn Administrative Court decision annulled. Based on the decision, the original detailed plan will remain into force without changes.



The main risk factor for the development division is the refinancing of land bank loans in Estonia. Although the cash flow of the Group is tense, we consider it to be sensible to finish the unfinished projects thanks to more favourable construction prices in order to satisfy the demand with ready to be sold stock as well as improve the security assets of loans. Top priority for 2010 is completion of Madrid project where after the balancing date corresponding loans were prolonged. On a current basis, preparations are made in the Kodukolde and Tivoli projects in Tallinn, and negotiations held with banks on refinancing the construction. In the near future, the faster sales pace will bring the inventory to a minimum and in order to create turnover, building of new apartments has to be started.

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In order to manage the liquidity risk, the prices have been decreased in the ongoing projects in the Baltics and Sofia to improve sales, and holdings in three substantial joint ventures sold. For some employees, salaries and working times have been reduced. As at the end of the 12-month period, the division employed 23 persons (12 months 2008: 44 persons).

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

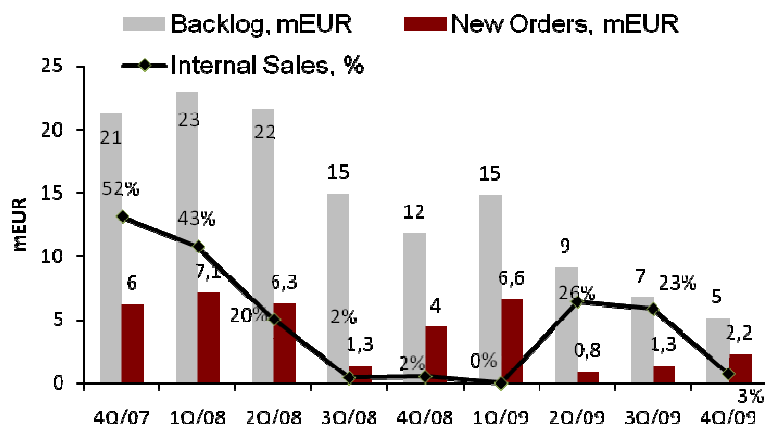
CONSTRUCTION DIVISION

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 institutions or local governments.

During twelve months, the major new construction agreements

were the Emajõe-Võhandu drinking water project and the Kohtla-Järve-Kiviõli sewerage project. After the balance sheet date, Arco Ehitus OÜ has been announced as best tenderer either alone or in a consortium or as subcontractor in tenders with a total value of 129.9 million kroons (8.3 million euros) (Kose pumping stations, Järvamaa Vocational Education Centre, Tartu Aviation College, Jõgeva city and parish pipework, Türi pipework).

Within twelve months, new agreements in the amount of 171 million kroons (10.9 million euros) were concluded, thereof 34 millions kroons (2.2 million euros) in the 4th quarter. The backlog volume at the end of the year is 80.0 million kroons (5.1 million euros). At the year-end the division employed 59 persons (12 months 2008: 191 persons). On 29.12.2009, the holding in Arco Construction SIA was sold, as a result the number of employees in the Construction Division reduced by about 80 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. Establishing the detailed plan for increasing the building rights is in the end phase. In the new plan, above-ground building rights are 51,100 m ²	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 established.	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	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
Type	Name	Location	Holding	Building rights according to business plan	Current state	Classification in the balance sheet
Apartments	Bišumuiža 1	Latvia, Riga	100%	Unsold/unreserved building rights 17,825 m ²	Building rights established, apartments are on sale. In	Inventories

					2010, the completion of the second-phase apartments will be started.	
Apartments	Bišumuiža 2	Latvia, Riga	49,4%	87 770 m ²	Designing has been postponed.	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 12 504 m ² .	Right of superficies, building rights acquired. Apartments are on sale. Designing of the two last stages ongoing.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Unsold/unreserved building rights 12 150 m ²	Building rights acquired, construction and sales ongoing.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Unsold/unreserved building rights 23 593 m ²	Building rights acquired, construction and sales ongoing.	Inventories
Apartments	Tivoli	Estonia, Tallinn	100%	58 470 m ²	Detailed plan established.	Inventories
Plots	Baltezers-2	Latvia, Riga	100%	Plots for one-family dwellings	All plots sold. Sales of one plot is reflected in the turnover of January 2010.	Investment property
Plots	Baltezers-3	Latvia, Riga	100%	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	100%	41 plots unsold	Building rights acquired. Construction finished, sales ongoing.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold/unbooked 41 451 m ² , 35 plots	Construction of roads and utility lines finished, sales of plots 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 31.12.2009	Book values of projects presented in the summary table at 31.12.2009.	Balance sheet item at 31.12.2009	Book values of projects presented in the summary table at 31.12.2009.
In millions				
Total assets	1 379.2	1 063.8	88.1	68.0
Inventories	776.6	749.2	49.6	47.9
Investment property	329.0	314.6	21.0	20.1
Property, plant and equipment	10.5	0.0	0.7	0.0

SIGNIFICANT CHANGES IN DETAILED PLANS IN 12 MONTHS OF 2009:

Tivoli: A detailed plan was established by the Tallinn City Council on 17 April 2008. The building rights set out by the detailed plan were as follows: the gross enclosed area of up to five-storey apartment houses is 51.400 m², the area of business areas 7 000 m², additionally, the detailed plan provides for up to 780 (21,150 m²) underground parking places.

A resident of the neighbouring residential district contested the detailed plan in court and the court of first instance has annulled the decision of establishing the detailed plan. The City of Tallinn and Arco Investeeringute AS as interested party appealed the decision. The session of the court of second instance was held at the end of October 2009 and resulted in disposal of the trial and annulment of the Tallinn Administrative Court decision. Based on the decision, the original detailed plan will remain into force without changes.

Ahtri: The property has a valid detailed plan and building rights. Due to a new architectural solution and a change in the intended purpose, an application was submitted on 21 August 2008 to the Tallinn City Planning Department for initiating drafting of a new detailed plan. A new detailed plan was initiated on 7 May 2008 and it provides for ground based building rights 51 110 m² gross enclosed area. The detailed plan was adopted on 16 September 2009. The detailed plan was displayed to public from 21.10-04.11.2009 during which one remark was submitted by AS Tallinna Sadam. AS Tallinna Sadam wants to achieve an agreement on the fee for the use of a street land property with a size of 600 m² that has been established in the valid detailed plan. Negotiations will be started at the beginning of 2010.

As long as there is no new detailed plan, the building rights of the previous plan are in force.

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 was adopted by the Harju county governor and was established by the Tallinn City Council on 26 November 2009. The valid detailed plan changed the effective Tallinn comprehensive plan with regard to storeys.

STAFF

The number of Group employees was 163 persons in the 4th quarter 2009 (2008 Q4: 396 persons). Payroll including associated taxes totalled 73.9 million kroons (4.7 million euros) against 129.3 million kroons (8.3 million euros) in 2008. Payroll, including taxes has decreased 42.9% on annual basis.

The remuneration of the Group's management board for the 12 month of 2009, including associated taxes, totalled 5.3 million kroons (0.3 million euros). In 2008, the same indicator amounted to 21.9 million kroons (1.4 million euros).

Starting from 5 September 2009, the Group has one board member – Lembit Tampere. On 29.12.2009, the holding in Arco Construction SIA was sold, as a result the number of employees in the Construction Division reduced by about 80 persons.

SHARE AND SHAREHOLDERS

The total number of outstanding shares of the company is 95 284 150. As of end of 31.12.2009, the company has 2 444 shareholders and the share price was closed at 2.66 kroons (0.17 euros) level, staying at the same level of 31.12.2008. The company holds 450 000 of its own shares with the average acquisition value of 8.87 kroons (0.57 euros).

On 11.12.2009 Arco Vara AS extraordinary shareholders meeting decided to reduce the number of shares by 20 times (note 17) in order to reduce the share volatility and increase the efficiency of pricing. As a result of the transaction Arco Group consolidated asset volume, liabilities or equity balance didn't change. Hence theoretically the transaction shouldn't change the market capitalisation of the Group. After the cancelation, the new number of the shares is 4 741 707.

Diagrams of share price changes of the shares of Arco Vara AS, and changes of transaction volumes during 2009:

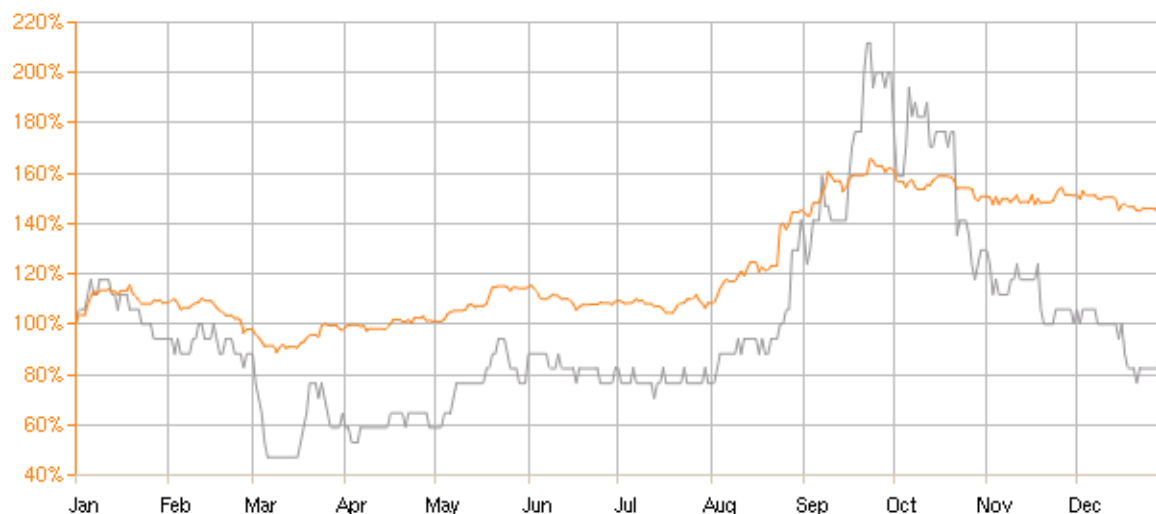
In Estonian kroons (EEK).



In euros (EUR)



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



Index/share	01.01.2009	31.12.2009	+/-%
—OMX Tallinn	274.83	404.58	47.21
—ARC1T	0.17 EUR	0.17 EUR	0

Bigger shareholders on 31.12.2009	Number of shares	Shareholding %
FREIER PROJEKT OÜ	22 358 584	23.5%
OÜ TOLETUM	20 757 258	21.8%
HM INVESTEERINGUD OÜ	20 722 383	21.7%
GAMMA HOLDING OÜ	5 040 022	5.3%
SEB Ab Clients	4 633 048	4.9%
Central Securities Depository of Lithuania	3 104 166	3.3%
SEB PANK AS KAUPLEMINE	1 169 000	1.2%
LOKOTAR INVEST OÜ	680 001	0.7%
Other	16 819 688	17.6%
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	Position	Number of	Shareholding %
Lembit Tampere	Member of the	0	0.0%
Richard Tomingas (Toletum OÜ)	Chair of the supervisory	20 757 258	21.8%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	Member of the supervisory board	20 884 710	21.9%
Aare Tark	Member of the	0	0.0%
Kalev Tanner	Member of the	0	0.0%
Ragnar Meitern	Member of the	0	0.0%
Total		41 641 968	43.7%

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. Within 12 months, we have noticed some worsening in payment behaviour, and have born some credit loss in the last quarter.

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 one week. 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 31.12.2009 0.9 years, which means that on average, all loans need refunding each year. Although the consolidated cash and cash equivalents balance of the Group at the end of 12-month period is 71.4 million kroons (4.6 million euros), 33.9 million kroons (2.2 million euros) of it are 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. These resources can be used by relevant companies for their daily operations and investments. The liquidity risk will certainly be the most serious risk for the next twelve months.

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 exposed 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 twelve months by approx. 249.2 million kroons (15.9 million euros). As of 31.12.2009, the interest bearing liabilities of the Group amount to 805.8 million kroons (51.5 million euros). Actually paid interest expenses within twelve months of 2009 was 47.3 million kroons (3.0 million euros) and in the last quarter 10.2 million kroons (0.6 million euros). Compared to 12 months 2008, the weighted average interest cost has reduced from 7.0% to 5.3%.

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 32.6 million kroons (2.1 million euros; 3.0 million dollars) 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 short-term deposits in Estonian kroons.

FORMULAE

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

Member of the management board

26.02.2010



Condensed consolidated interim financial statements

Condensed consolidated income statement

	Note	12 months 2009	12 months 2008	Q4 2009	Q4 2008
in EEK, thousands					
Rendering of services		309 449	487 478	84 637	118 650
Sale of goods		95 274	172 301	43 908	33 482
Total revenue		404 723	659 779	128 545	152 132
Cost of sales	3	-497 126	-1 010 810	-121 327	-580 097
Gross profit		-92 403	-351 031	7 218	-427 965
Other operating income	4	136 865	30 644	28 087	-1 720
Selling and distribution costs	5	-4 417	-12 344	-1 097	-568
Administrative expenses	6	-87 455	-125 584	-30 064	-15 639
Other operating expenses	4	-224 150	-591 402	-47 529	-497 092
EBIT		-271 560	-1 049 717	-43 385	-942 984
Finance income	7	8 946	76 089	-6 615	19 948
Finance expenses	7	-62 666	-177 702	-46 568	-136 534
Profit / loss before tax		-325 280	-1 151 330	-96 568	-1 059 570
Income tax expense		868	-8 811	1 677	1 976
Profit / loss for the period		-324 412	-1 160 141	-94 891	-1 057 594
Profit distribution for the period:	8				
<i>Parent company's participation in loss</i>		-324 412	-1 154 959	-95 001	-1 047 882
<i>Minority interest in loss</i>		0	-5 182	110	-9 712
		-324 412	-1 160 141	-94 891	-1 057 594
Other aggregated loss					
Exchange rate differences in converting foreign company		303	47	19	-581
Aggregate profit / loss for the period		-324 109	-1 160 094	-94 872	-1 058 175
<i>Parent company participation in aggregate loss</i>		-324 109	-1 154 912	-94 982	-1 048 463
<i>Minority interest in aggregate loss</i>		0	-5 182	110	-9 712
Earning per share	8				
- basic		-3,42	-12,18	-1,00	-11,05
- diluted		-3,42	-12,18	-1,00	-11,05

	Note	12 months 2009	12 months 2008	Q4 2009	Q4 2008
in EUR, thousands					
Rendering of services		19 777	31 156	5 409	7 583
Sale of goods		6 089	11 012	2 806	2 140
Total revenue		25 866	42 168	8 215	9 723
Cost of sales	3	-31 772	-64 603	-7 754	-37 075
Gross profit		-5 906	-22 435	461	-27 352
Other operating income	4	8 747	1 959	1 795	-110
Selling and distribution costs	5	-282	-789	-70	-36
Administrative expenses	6	-5 589	-8 026	-1 921	-1 000
Other operating expenses	4	-14 326	-37 797	-3 038	-31 770
EBIT		-17 356	-67 088	-2 773	-60 268
Finance income	7	572	4 863	-423	1 275
Finance expenses	7	-4 005	-11 357	-2 976	-8 726
Profit / loss before tax		-20 789	-73 582	-6 172	-67 719
Income tax expense		55	-563	107	126
Profit / loss for the period	8	-20 734	-74 145	-6 065	-67 593
Profit distribution for the period:					
<i>Parent company's participation in loss</i>		-20 734	-73 815	-6 072	-66 972
<i>Minority interest in loss</i>		0	-331	7	-621
Other aggregated loss					
Exchange rate differences in converting foreign company		19	3	1	-37
Aggregate profit / loss for the period		-20 715	-74 142	-6 064	-67 630
<i>Parent company participation in aggregate loss</i>		-20 714	-73 812	-6 070	-67 009
<i>Minority interest in aggregate loss</i>		0	-331	7	-621
Earning per share	8				
- basic		-0,22	-0,78	-0,06	-0,71
- diluted		-0,22	-0,78	-0,06	-0,71

Consolidated statement of financial position

	Note	EEK		EUR	
		31.12.2009	31.12.2008	31.12.2009	31.12.2008
in thousands					
Cash and cash equivalents		71 392	172 574	4 563	11 029
Financial assets		0	40 416	0	2 583
Receivables	9	164 075	294 352	10 486	18 813
Prepayments		4 889	6 165	312	394
Inventories	10	776 601	849 440	49 634	54 289
Biological assets		0	3 679	0	235
Total current assets		1 016 957	1 366 626	64 995	87 343
Financial assets		15 613	255	998	16
Receivables	9	6 304	6 671	403	427
Investment property	12	328 988	542 753	21 026	34 688
Property, plant and equipment	13	10 545	41 812	674	2 672
Intangible assets	14	812	12 475	52	797
Total non-current assets		362 262	603 966	23 153	38 600
TOTAL ASSETS		1 379 219	1 970 592	88 148	125 943
Loans and borrowings	15	601 443	353 417	38 439	22 587
Liabilities	16	94 550	132 677	6 043	8 480
Deferred income		82 164	65 174	5 251	4 165
Provisions		12 650	5 917	808	378
Total current liabilities		790 807	557 185	50 541	35 610
Loans and borrowings	15	198 099	692 919	12 661	44 286
Liabilities	16	5 163	4 404	330	281
Deferred income tax liability		0	20	0	1
Provisions		1 100	4 291	70	274
Total non-current liabilities		204 362	701 634	13 061	44 842
TOTAL LIABILITIES		995 169	1 258 819	63 602	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
Retained earnings		-596 263	-984 668	-38 108	-62 932
Own shares		-3 992	-3 992	-255	-255
Total equity attributable to equity holders of the parent	17	384 050	708 159	24 546	45 260
Minority interests		0	3 614	0	231
Total equity		384 050	711 773	24 546	45 491
TOTAL LIABILITIES AND EQUITY		1 379 219	1 970 592	88 148	125 943

Condensed consolidated interim cash flow statement

	Note	12 months 2009	12 months 2008	12 months 2009	12 months 2008
in thousands					
Net profit / loss		-324 412	-1 160 141	-20 734	-74 145
Interest income and expense	7	33 505	-5 080	2 141	-325
Gains and losses on disposal of subsidiaries and interests in jointly controlled entities		3 617	41 295	231	2 639
Gains and losses on other financial assets	7	-2 032	-2 429	-130	-155
Impairment losses on financial assets	7	15 685	72 435	1 002	4 629
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3,4,6	6 831	7 412	437	474
Goodwill adjustments and recognition of negative goodwill as revenues		10 896	8 720	696	557
Gain / loss on the sale of property, plant and equipment and intangible assets	3,4,6	1 550	-248	99	-16
Gain / loss on the sale of investment property	4	-1 088	-1 535	-70	-98
Change in the fair value of investment property and biological assets	4	89 941	555 629	5 748	35 511
Profit/loss from property and inventory revaluation	3	142 148	434 272	9 085	27 755
Exchange gains and losses	7	2 945	-4 608	188	-295
Corporate income tax expense		0	12 744	0	814
Operating cash flow before working capital changes		-20 414	-41 534	-1 307	-2 655
Change in receivables and prepayments		59 543	-12 481	3 805	-798
Change in inventories		-103 439	-99 831	-6 611	-6 380
Change in biological assets		2 190	0	140	0
Change in payables and deferred income		38 513	26 273	2 461	1 679
NET CASH USED IN OPERATING ACTIVITIES		-23 607	-127 573	-1 512	-8 154
Acquisition of property, plant and equipment and intangible assets		-1 961	-39 108	-125	-2 499
Proceeds from sale of property, plant and equipment and intangible assets		5 729	729	366	47
Acquisition of investment property		-3 132	-4 222	-200	-270
Proceeds from sale of investment property		8 581	32 218	548	2 059
Acquisition of subsidiaries and interests in jointly controlled entities		-585	-45 875	-37	-2 932
Proceeds from disposal of subsidiaries and interests in jointly controlled entities		38 105	-2 912	2 435	-186
Acquisition of other financial assets		0	-202 665	0	-12 953
Proceeds from sale of other financial assets		40 416	294 621	2 583	18 830
Loans granted		-2 111	-130 158	-135	-8 319
Repayment of loans granted		5 878	2 422	376	155
Interest received		4 618	32 328	295	2 066
NET CASH USED IN / FROM INVESTING ACTIVITIES		95 538	-62 622	6 106	-4 002
Proceeds from loans received		120 998	312 739	7 733	19 988
Repayment of loans and payment of finance lease liabilities		-241 699	-570 911	-15 447	-36 488
Change in overdraft		0	-14	0	-1
Repurchase of own shares		0	-3 992	0	-255
Interest paid		-47 261	-82 271	-3 021	-5 258
Dividends paid		-5 454	-42 274	-349	-2 702
Income tax paid on dividends		0	-15 516	0	-992
NET CASH USED IN / FROM FINANCING ACTIVITIES		-173 416	-402 239	-11 084	-25 708
NET CASH FLOW		-101 485	-592 434	-6 490	-37 864
Cash and cash equivalents at beginning of period		172 574	765 008	11 029	48 893
Decrease / increase in cash and cash equivalents		-101 485	-592 434	-6 486	-37 864
Effect of exchange rate fluctuations		303		19	0
Cash and cash equivalents at end of period		71 392	172 574	4 562	11 029

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	Own shares (minus)	Retained earnings	Total		
in EEK, thousands								
At 31.12.2007	952 842	712 514	20 084	0	218 867	1 904 307	25 265	1 929 572
Dividends declared	0	0	0	0	-37 160	-37 160	-1 252	-38 412
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	-15 217	-15 217
Transfer to capital reserve	0	0	11 379	0	-11 379	0	0	0
Purchase of own shares	0	0	0	-3 992	0	-3 992	0	-3 992
Aggregate profit / loss for the period	0	0	0	0	-1 154 996	-1 154 996	-5 182	-1 160 178
At 31.12.08	952 842	712 514	31 463	-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	-3 614	-3 614
Retained earnings from previous periods	0	-712 514	0	0	712 514	0	0	0
Aggregate profit / loss for the period	0	0	0	0	-324 109	-324 109	0	-324 109
At 31.12.2009	952 842	0	31 463	-3 992	-596 263	384 050	0	384 050

	Equity attributable to equity holders of the parent						Minority interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Own shares (minus)	Retained earnings	Total		
in EUR, thousands								
At 31.12.2007	60 898	45 538	1 284	0	13 988	121 708	1 615	123 323
Dividends declared	0	0	0	0	-2 375	-2 375	-80	-2 455
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	-973	-973
Transfer to capital reserve	0	0	727	0	-727	0	0	0
Purchase of own shares	0	0	0	-255	0	-255	0	-255
Aggregate profit / loss for the period	0	0	0	0	-73 818	-73 818	-331	-74 149
At 31.12.08	60 898	45 538	2 011	-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	-231	-231
Retained earnings from previous periods	0	-45 538	0	0	45 538	0	0	0
Aggregate profit / loss for the period	0	0	0	0	-20 714	-20 714	0	-20 714
At 31.12.2009	60 898	0	2 011	-255	-38 108	24 546	0	24 546

Look for additional information in Note 17.

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 fourth quarter and twelve 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. These changes have no influence to the Group as at the moment of preparing the report, the Group has no substantial property investments under the item "Under construction".

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 starting from 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.

As reference, the data from the audited annual report are used in the columns for 2008 and 12 months, which may be different from the 4th quarter report published in 2008. In the column Adjusted 2008 the amounts published in the statement for 2008, in the column 2008¹, the amounts of 2008 Q4 are reflected.

2. Segment reporting by business segments

Segment	Development		Services		Construction		Eliminations		Consolidated	
	12 months 2009	12 months 2008	12 months 2009	12 months 2008	12 months 2009	12 months 2008	12 months 2009	12 months 2008	12 months 2009	12 months 2008
in EEK, thousands										
Sales revenue outside the Group	131 359	212 569	30 415	93 708	242 950	353 504	0	0	404 724	659 781
<i>Change</i>	-38%		-68%		-31%				-39%	
Other business revenue outside the Group	135 051	29 109	797	1 817	1 014	346	0	0	136 862	31 272
Revenue and other income from other segments	230	4 697	6 831	9 211	33 238	62 914	-40 297	-77 452	2	-630
Total revenue and other income	266 640	246 375	38 043	104 736	277 202	416 764	-40 297	-77 452	541 588	690 423
Segment result	-260 093	-985 082	-16 574	-47 884	-10 112	6 274	33 689	-2 581	-253 090	-1 029 273
Unallocated expenses	0	0	0	0	0	0	0	0	-18 470	-20 444
EBIT	0	0	0	0	0	0	0	0	-271	-1 049
Net write down of inventory	-176 762	0	-1 308	0	0	0	34 745	0	-143 325	0
Net investment property revaluation	-82 394	-541 223	-3 145	-4 641	-1 576	0	0	0	-89 930	-555 629
Depreciation of fixed assets	-914	-7 959	-830	-1 646	-2 668	-37	0	0	-3 827	-6 340
Revaluation of financial assets and recognition of negative financial assets as revenues Goodwill recognition as revenues	0	0	0	0	-10 895	-632	0	0	-10 895	-632
Financial income	0	0	0	0	0	0	0	0	8 946	56 141
Financial expenses	0	0	0	0	0	0	0	0	-62 666	-177 702
Income tax expense	0	0	0	0	0	0	0	0	868	-8 811
Net profit / loss	0	0	0	0	0	0	0	0	-324 412	-1 160 141

Segment	Development		Services		Construction		Eliminations		Consolidated	
	12 months 2009	12 months 2008	12 months 2009	12 months 2008	12 months 2009	12 months 2008	12 months 2009	12 months 2008	12 months 2009	12 months 2008
in EUR, thousands										
Sales revenue outside the Group	8 395	13 586	1 944	5 989	15 527	22 593	0	0	25 867	42 168
<i>Change</i>	-38%		-68%		-31%		0	0	-39%	
Other business revenue outside the Group	8 631	1 860	51	116	65	22	0	0	8 747	1 999
Revenue and other income from other segments	15	300	437	589	2 124	4 021	-2 575	-4 950	0	-40
Total revenue and other income	17 041	15 746	2 432	6 694	17 716	26 636	-2 575	-4 950	34 614	44 127
Segment result	-16 623	-62 958	-1 059	-3 060	-646	401	2 153	-165	-16 175	-65 783
Unallocated expenses	0	0	0	0	0	0	0	0	-1 180	-1 307
EBIT	0	0	0	0	0	0	0	0	-17 356	-67 089
Net write down of inventory	-11 297	0	-84	0	0	0	2 221	0	-9 160	0
Net investment property revaluation	-5 266	-34 590	-201	-297	-101	0	0	0	-5 748	-35 511
Depreciation of fixed assets	-58	-509	-53	-105	-171	-2	0	0	-245	-405
Revaluation of financial assets and recognition of negative financial assets as revenues Goodwill recognition as revenues	0	0	0	0	-696	-40	0	0	-696	-40
Financial income	0	0	0	0	0	0	0	0	572	3 588
Financial expenses	0	0	0	0	0	0	0	0	-4 005	-11 357
Income tax expense	0	0	0	0	0	0	0	0	55	-563

Net profit / loss	0	0	0	0	0	0	0	0	-20 734	-74 147
Segment	Development		Services		Construction		Eliminations		Consolidated	
	2009 Q4	2008 Q4	2009 Q4	2008 Q4	2009 Q4	2008 Q4	2009 Q4	2008 Q4	2009 Q4	2008 Q4
in EEK, thousands										
Sales revenue outside the Group	43 924	48 375	6 406	10 712	101 188	93 047	0	0	151 518	152 134
<i>Change</i>	-9%		-40%		9%				0%	
Other business revenue outside the Group	4 143	-1 985	579	640	390	253	0	0	5 112	-1 092
Revenue and other income from other segments	174	4 291	2 391	2 878	679	167	-3 242	-7 966	2	-630
Total revenue and other income	48 241	50 681	9 376	14 230	102 257	93 467	-3 242	-7 966	156 632	150 412
Segment result	-87 294	-917 202	-7 109	-17 230	-7 253	-1 390	60 025	-2 375	-41 631	-938 197
Unallocated expenses	0	0	0	0	0	0	0	0	-1 754	-4 787
EBIT	0	0	0	0	0	0	0	0	-43 385	-942 984
Net write down of inventory	-31 908	0	-1 308	0	0	0	34 745	0	1 529	0
Net investment property revaluation	-11 391	-480 000	-3 145	-4 641	-1 258	0	0	0	-15 794	-484 641
Depreciation of fixed assets	-74	-6 901	-176	-260	-1 338	1 723	0	326	-421	-1 081
Revaluation of financial assets and recognition of negative financial assets as revenues Goodwill recognition as revenues	0	0	0	4 539	-7 534	0	0	0	-7 534	4 539
Financial income	0	0	0	0	0	0	0	0	-6 615	0
Financial expenses	0	0	0	0	0	0	0	0	-46 568	-136 534
Income tax expense	0	0	0	0	0	0	0	0	1 677	1 976
Net profit / loss	0	0	0	0	0	0	0	0	-94 891	-1 057 594

Segment	Development		Services		Construction		Eliminations		Consolidated	
	2009 Q4	2008 Q4	2009 Q4	2008 Q4	2009 Q4	2008 Q4	2009 Q4	2008 Q4	2009 Q4	2008 Q4
in EUR, thousands										
Sales revenue outside the Group	2 807	3 092	409	685	6 467	5 947	0	0	9 684	9 723
<i>Change</i>	-9%		-40%		9%				0%	
Other business revenue outside the Group	265	-127	37	41	25	16	0	0	327	-70
Revenue and other income from other segments	11	274	153	184	43	11	-207	-509	0	-40
Total revenue and other income	3 083	3 239	599	910	6 535	5 974	-207	-509	10 011	9 613
Segment result	-5 579	-58 620	-454	-1 101	-464	-89	3 836	-152	-2 661	-59 962
Unallocated expenses	0	0	0	0	0	0	0	0	-112	-306
EBIT	0	0	0	0	0	0	0	0	-2 773	-60 268
Net write down of inventory	-2 039	0	-84	0	0	0	2 221	0	98	0
Investment property revaluation	-728	-30 678	-201	-297	-80	0	0	0	-1 009	-30 974
Depreciation of fixed assets	-5	-441	-11	-17	-86	110	0	21	-27	-69
Revaluation of financial assets and recognition of negative financial assets as revenues Goodwill recognition as revenues	0	0	0	290	-482	0	0	0	-482	290
Financial income	0	0	0	0	0	0	0	0	-423	0
Financial expenses	0	0	0	0	0	0	0	0	-2 976	-8 726
Income tax expense	0	0	0	0	0	0	0	0	107	126
Net profit / loss	0	0	0	0	0	0	0	0	-6 065	-67 593

3. Cost of sales

	EEK		EEK	
	12 months 2009	12 months 2008	Q4 2009	Q4 2008
in thousands				
Acquisition costs of sold properties	-87 313	-149 848	-40 477	-39 424
Construction services purchased	-205 216	-309 019	-60 366	-87 679
Property administration costs	-16 619	-15 336	-2 487	-3 144
Personnel expenses	-35 128	-75 146	-7 274	-11 684
Vehicle expenses	-4 641	-4 837	-1 061	1 499
Depreciation, amortisation and impairment losses (notes 13, 14)	-1 782	-2 419	-282	-579
Write down of inventory	-142 148	-438 291	-7 081	-438 291
Other expenses	-4 279	-15 914	-2 299	-795
Total cost of sales	-497 126	-1 010 810	-121 327	-580 097

	EUR		EUR	
	12 months 2009	12 months 2008	Q4 2009	Q4 2008
in thousands				
Acquisition costs of sold properties	-5 580	-9 577	-2 587	-2 520
Construction services purchased	-13 116	-19 750	-3 858	-5 604
Property administration costs	-1 062	-980	-159	-201
Personnel expenses	-2 245	-4 803	-465	-747
Vehicle expenses	-297	-309	-68	96
Depreciation, amortisation and impairment losses (notes 13, 14)	-114	-155	-18	-37
Write down of inventory	-9 085	-28 012	-452	-28 011
Other expenses	-273	-1 017	-147	-51
Total cost of sales	-31 772	-64 603	-7 754	-37 075

¹ Dwelling development projects presented as inventories have been written down as the actual sales transactions are made at 15-25% lower level compared to the stand of 31.12.2008.

4. Other operating items

	EEK		EEK		12 months 2008 ¹
	12 months 2009	adjusted 2008	Q4 2009	Q4 2008	
in thousands					
Gain or loss from change in fair value of property investment ¹ (Note 12)	118 938	21 664	17 400	-7 135	16 103
Gain from property sales	7 458	1 547	6 376	930	1 548
Gain or loss from change in fair value of biological assets	0	1 568	0	1 568	1 568
Gain from the sales of property, plant and equipment	249	90	0	48	89
Other income	10 220	5 775	4 311	2 869	4 671
Total other operating income	136 865	30 644	28 087	-1 720	23 979
	EUR		EUR		12 months 2008 ¹
	12 months 2009	adjusted 2008	Q4 2009	Q4 2008	
in thousands					
Gain or loss from change in fair value of property investment ¹ (Note 12)	7 602	1 385	1 112	-456	1 029
Gain from property sales	477	99	408	59	99
Gain or loss from change in fair value of biological assets	0	100	0	100	100
Gain from the sales of property, plant and equipment	16	6	0	3	6
Other income	652	369	275	184	299

Total other operating income	8 747	1 959	1 795	-110	1 533
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¹ 2008 12 months' data in the Q4 2008 statement.

² Due to the changes in projects development plans of the management board, the property at Baltazers 3 was reclassified from inventories to investment property and revaluated to a fair value.

Other operating expenses

	EEK		EEK		12 months 2008 ¹
	12 months 2009	adjusted 2008	Q4 2009	Q4 2008	
in thousands					
Gain or loss from change in fair value of property investment (Note 12)	-208 879	-577 293	-36 020	-486 167	-561 967
Asset management	-6 370	-12	-6 289	-12	-12
Eliminations	-1 799	-7 946	-495	-7 866	-1 714
Fines and penalties	-1 458	-4 780	-792	-2 366	-4 780
Other expenses	-5 644	-1 371	-3 933	-681	-1 371
Total other operating expenses	-224 150	-591 402	-47 529	-497 092	-569 844

	EUR		EUR		12 months 2008 ¹
	12 months 2009	adjusted 2008	Q4 2009	Q4 2008	
in thousands					
Gain or loss from change in fair value of property investment (Note 12)	-13 350	-36 895	-2 302	-31 071	-35 916
Loss from property sales	-407	-1	-402	-1	-1
Eliminations	-115	-508	-32	-503	-110
Fines and penalties	-93	-305	-51	-151	-305
Other expenses	-361	-88	-251	-44	-88
Total other operating expenses	-14 326	-37 797	-3 038	-31 770	-36 420

¹ 2008 12 months' data in the Q4 2008 statement.

² Loss from change in fair value of property investment includes, amongst others, the loss from the transfer of holding in a transaction where the Group transferred its 50% holding in AS Tallinna Olümpiapurjespordikeskus, a 37.5% holding in OÜ Floriston Grupp, and a 50% holding in OÜ Arco Ärikeskus. The influence of the transaction to the loss was recognised in the results of the 12-month period as property impairment loss in the relevant project related companies in a total amount of 134 407 thousand kroons (8 590 thousand euros).

5. Selling and distribution costs

	EEK		EEK	
	12 months 2009	12 months 2008	Q4 2009	Q4 2008
in thousands				
Promotion expenses	-2 384	-10 337	-580	-1 349
Brokerage	-845	-59	-266	-18
Market surveys	-37	-192	-11	-5
Personnel expenses	-870	-709	-237	880
Other selling and distribution costs	-281	-1 047	-3	-76
Total selling and distribution costs	-4 417	-12 344	-1 097	-568

	EUR		EUR	
	12 months 2009	12 months 2008	Q4 2009	Q4 2008
in thousands				
Promotion expenses	-152	-661	-37	-86
Brokerage	-54	-4	-17	-1
Market surveys	-2	-12	-1	0
Personnel expenses	-56	-45	-15	56

Other selling and distribution costs	-18	-67	0	-5
Total selling and distribution costs	-282	-789	-70	-36

6. Administrative expenses

	EEK		EEK		12 months 2008 ¹
	12 months 2009	Adjusted 2008	Q4 2009	Q4 2008	
in thousands					
Personnel expenses	-37 898	-60 729	-8 223	-8 867	-60 803
Office expenses	-16 214	-29 049	-5 615	-6 309	-28 217
Legal and consulting fees	-8 153	-1 956	-3 346	13 469	-1 976
Depreciation, amortisation and impairment losses (Notes 12, 13)	-3 247	-4 246	-1 342	-734	-17 775
Goodwill adjustments	-10 896	-8 895	-7 171	-3 724	-347
Allowance for doubtful receivable	-2 730	-3 029	-2 653	-1 313	-98 589
Vehicle expenses	-4 951	-8 847	-878	-1 745	-8 848
Other expenses	-3 366	-8 833	-836	-6 416	-8 881
Total administrative expenses	-87 455	-125 584	-30 064	-15 639	-225 436

	EUR		EUR		12 months 2008 ¹
	12 months 2009	Adjusted 2008	Q4 2009	Q4 2008	
in thousands					
Personnel expenses	-2 422	-3 881	-526	-567	-3 886
Office expenses	-1 036	-1 857	-359	-403	-1 803
Legal and consulting fees	-521	-125	-214	861	-126
Depreciation, amortisation and impairment losses (Notes 12, 13)	-208	-271	-86	-47	-1 136
Goodwill adjustments	-696	-568	-458	-238	-22
Allowance for doubtful receivable	-174	-194	-170	-84	-6 301
Vehicle expenses	-316	-565	-56	-112	-565
Other expenses	-216	-565	-52	-410	-568
Total administrative expenses	-5 589	-8 026	-1 921	-1 000	-14 407

¹ 2008 12 months' data in the Q4 2008 statement.

7. Financial items

Finance income

	EEK		EEK		12 months 2008 ¹
	12 months 2009	Adjusted 2008	Q4 2009	Q4 2008	
in thousands					
Gains on sale of investments in subsidiaries	1 154	4 487	1 154	4 487	5 890
Gains on sale of investments in jointly controlled entities	0	0	0	0	14 875
Interest income	4 957	53 264	-3 766	8 160	49 694
Foreign exchange gains	150	12 203	-4 003	2 216	14 370
Change in fair value of minority interest sales option	0	6 122	0	6 122	0
Income on other non-current financial assets	2 685	13	0	-1 037	8 830
Total finance income	8 946	76 089	-6 615	19 948	93 659

	EUR		EUR		12 months 2008 ¹
	12 months 2009	Adjusted 2008	Q4 2009	Q4 2008	
in thousands					
Gains on sale of investments in subsidiaries	74	287	74	287	376
Gains on sale of investments in jointly controlled entities	0	0	0	0	951
Interest income	317	3 404	-241	522	3 176
Foreign exchange gains	10	780	-256	142	919

Change in fair value of minority interest sales option	0	391	0	391	0
Income on other non-current financial assets	171	1	0	-67	564
Total finance income	572	4 863	-423	1 275	5 986

Finance expenses

	EEK		EEK		12 months 2008 ¹
	12 months 2009	Adjusted 2008	Q4 2009	Q4 2008	
in thousands					
Losses on sale of investments in subsidiaries	-4 771	-4 728	0	-3 195	-24 441
Losses on sale of investments in jointly controlled entities	0	-41 054	0	-5 968	-39 454
Interest expenses	-38 462	-48 184	-5 707	-25 672	-66 959
Expenses on other non-current financial assets	-653	-3 706	-1 104	-1 155	22 203
Foreign exchange losses	-3 095	-7 595	3 484	-2 851	-9 806
Impairment losses on financial assets ²	-15 685	-72 435	-43 241	-97 693	-7 411
Total finance expenses	-62 666	-177 702	-46 568	-136 534	-125 868

	EUR		EUR		12 months 2008 ¹
	12 months 2009	Adjusted 2008	Q4 2009	Q4 2008	
in thousands					
Losses on sale of investments in subsidiaries	-305	-302	0	-204	-1 562
Losses on sale of investments in jointly controlled entities	0	-2 624	0	-380	-2 522
Interest expenses	-2 458	-3 080	-365	-1 641	-4 279
Expenses on other non-current financial assets	-42	-237	-71	-75	1 419
Foreign exchange losses	-198	-485	223	-182	-627
Impairment losses on financial assets ²	-1 002	-4 629	-2 763	-6 244	-475
Total finance expenses	-4 005	-11 357	-2 976	-8 726	-8 046

¹ 2008 12 months' data in the Q4 2008 statement.

² Impairment losses on financial assets in 2009 include the impairment of the annulled claim from 2008 related to the joint company Bisumuizas Nami SIA in the amount of 19 012 thousand kroons (1 215 thousand euros as well as the impairment of the claim of Ühinenud Kapital in the amount of 33 259 thousand kroons (2 126 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.

Aggregate profit distribution for the period:	EEK		EEK	
	12 months 2009	12 months 2008	Q4 2009	Q4 2008
Weighted average number of ordinary shares outstanding (pcs.)	94 834 150	94 834 150	94 834 150	94 834 150
Profit attributable to equity holders of the parent (in thousands)	-325 578	-1 154 959	-96 167	-1 047 882
Earnings per share (in kroons)	-3.43	-12.18	-1.01	-11.05

	EUR		EUR	
	12 months 2009	12 months 2008	Q4 2009	Q4 2008
Exchange rate differences in converting foreign company	94 834 150	94 834 150	94 834 150	94 834 150

Profit attributable to equity holders of the parent (in thousands)	-20 808	-73 815	-6 146	-66 972
Earnings per share (in kroons)	-0.22	-0.78	-0.06	-0.71

As of 31.12.2009, the company has 450000 own shares.

Diluted net profit (loss) is calculated by taking into account potentially issued shares. As of the balance sheet date (31.12.2009), 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

Short-term receivables

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
in thousands				
Trade receivables				
Receivables from customers	56 387	96 263	3 604	6 152
Allowance for doubtful receivables	-2 972	-5 936	-190	-379
Total trade receivables	53 415	90 327	3 414	5 773
Other short-term receivables				
Receivables from jointly controlled entities	14 811	17 090	947	1 092
Loans granted	61 159	94 563	3 909	6 044
Other short-term receivables	10 696	28 765	684	1 839
Total other short-term receivables	86 666	140 418	5 540	8 975
Accrued income				
Interest receivable	3 720	1 329	238	85
Due from customers under long-term construction contracts	293	7 612	19	487
VAT prepayments and reclaims	12 102	53 034	773	3 389
Other accrued income	7 879	1 632	504	104
Total accrued income	23 994	63 607	1 534	4 065
Total current receivables	164 075	294 352	10 488	18 813

Non-current receivables

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
in thousands				
Receivables from jointly controlled entities		5 750	0	367
Long-term loan receivables	1 632	254	104	16
Other non-current receivables	4 672	667	298	44
Total non-current receivables	6 304	6 671	402	427

10. Inventories

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
in thousands				
Properties purchased and developed for resale	758 649	785 906	48 487	50 229
Other goods purchased for resale	3 168	4 806	202	307
Materials and finished goods	1 918	62	123	4
Prepayments to suppliers	12 866	58 666	822	3 749
Total inventories	776 601	849 440	49 634	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	12 615	806
Current liabilities	55	4
Non-current liabilities	20 551	1 313

Transfer of holdings of Arco Vara Puukooli OÜ

Arco Vara AS transferred its 100% holding in Arco Vara Puukool OÜ. This was aimed at removing additional activities from the main activities of the Group. Arco Vara Puukool OÜ was specialised to the production of forest plants. The 100% holding of Arco Vara Puukool OÜ was obtained by Metsamarket OÜ (member of the Board: Lehar Lindre). It is a transaction with a related person for the purposes of the Tallinn Stock Exchange rules (section „Requirements for Issuers“). Lehar Lindre was a member of the board in the 100% subsidiary Arco Vara Puukool OÜ.

Transfer of the holding in Arco Ukraina Valduste OÜ

Arco Vara AS transferred its 86.6% holding on Arco Ukraina Valduste OÜ. The transaction was made in several stages, the first of which was increasing the holding in kind, as the result of which the holding of Arco Vara AS was increased to 86.6%. The purpose of the transaction was to opt out of unprofitable activity, the holding up of which required additional financing. Therefore, Arco Vara does not consider its presence in

Ukraine having prospects in the coming years. Arco Ukraina Valduste OÜ was the holding company of Arco Vara real estate company in Kiev, Ukraine.

The 89,66% holding in Arco Ukraina Valduste OÜ was obtained by Bagatini OÜ that was a minor shareholder of the transferred company and that, as the result of the transaction owns 100% of Arco Ukraina Valduste OÜ. It is a transaction with a related person for the purposes of the Tallinn Stock Exchange rules (section „Requirements for Issuers“). Juri Nikitin, the owner and manager of Bagatini OÜ is also one of the board members of Arco Ukraina Valduste OÜ.

Transfer of holdings of Arco Construction SIA

Arco Vara AS 100% subsidiary Arco Ehitus OÜ sold its shares of Arco Construction SIA (55 % subsidiary of Arco Ehitus OÜ). The majority holding in Arco Construction SIA was obtained at the beginning of 2007 with the purpose to build the development projects of the Group and to earn profit from the quick growth on the Latvian construction market. Through dividend income, the Group has to full amount earned back its investments made earlier for the acquisition for acquiring the company. During the next years, the Group investments into the Latvian development projects would have been up to 15.0 millions (1.0 mln euros), which would not guarantee a sustainable development of Arco Construction SIA. At the same time, Arco Construction SIA has been successful in concluding agreements outside the Group. Additionally, the Latvian apartment market has considerably decreased compared to 2007, and does not correspond to the principles of Arco Vara AS strategy the important part of which is reducing Group liabilities and give up activities that the Group does not have a full control of. The holding of Arco Construction SIA owned by Arco Ehitus OÜ was obtained by co-owners of Arco Construction SIA, whereby Viktors Savins obtained 27.3% of the transferred holding. Martiņš Bubens obtained 23.6% of the transferred holding, Aivars Kacars obtained 23.6% and Jānis Čodars 25.5% of the transferred holding. It was a transaction with a related person for the purposes of the NASDAQ OMX Tallinn Stock Exchange rules (section „Requirements for Issuers“). The obtainers Martiņš Bubens and Aivars Kacars are board members of Arco Construction SIA and Viktors Savins is member of the supervisory board of the same company.

In 2009, the Group transferred holdings in the following companies:

Company	%	EEK		EUR	
		Size of transferred holdings in the Group	Sales price	Gain or loss from transfer	Sales price
in thousands					
Subsidiaries					
Arco Vara Puukool OÜ	100	600	-4 771	38	-305
Arco Ukraina Valdused OÜ	89,66	4	1 129	0	72
Arco Constarction SIA	55	1 100	25	70	2
Jointly controlled entities					
Tallinna Olümpiapurjespordi keskus OÜ	50	37 500	0	2 397	0
Arco Ärikeskus OÜ	50	12 000	0	767	0
Floriston Group OÜ	37,5	5 500	0	352	0
Total		56 704	-3 617	3 624	-231

The effect of the transfer of subsidiaries on the Group assets and liabilities

	EEK		EUR	
	2009	2008	2009	2008
in thousands				
Cash and cash equivalents	-3 186	-159	-204	-10
Other current assets	-20 222	-1 555	-1 292	-99
Non-current receivables	-6 018	-112	-385	-7
Investment property (Note 12)	-60	0	-4	0
Property, plant and equipment (note 13)	-6 533	-1 577	-418	-101
Intangible assets (Note 14)	-500	-110	-32	-7
Short-term loan receivables	-3 730	-5 163	-238	-330
Other short-term liabilities	-26 995	-2 878	-1 725	-184
Long-term loan liabilities	-473	-9 231	-30	-590

Arco Vara transferred holdings in three jointly controlled entities

Arco Vara AS transferred 100% of its holdings in Tallinna Olümpiapurjespordikeskuse AS and Arco Ärikeskuse OÜ, which made up 50% of the holding or share capital of both companies, and 75% of its holding in Floriston Grupp OÜ, which made up 37.5% of the holding of the company. Arco Vara will maintain a 12.5% holding in Floriston Grupp OÜ.

The holding was transferred to enterprises related to Marcel Vichmann and Olav Miil. The influence of the transaction to the loss was recognised in the results of the 12-month period as impairment loss in the relevant project related companies in a total amount of 138 909 thousand kroons (8 878 thousand euros).

The effect of the transfer of jointly controlled entities on the Group assets and liabilities

	EEK		EUR	
	2009	2008	2009	2008
in thousands				
Cash and cash equivalents	-14 513	-19 118	-928	-1 222
Other current assets	-11 429	-18 394	-730	-1 176
Inventories	-4 169	-13 143	-266	-840
Investment property	-141 683	0	-9 055	0
Property, plant and equipment (Note 13)	-76	-340	-5	-22
Intangible assets (Note 14)	0	-4 209	0	-269
Payables	-7 651	-9 511	-489	-608
Non-current liabilities	-109 219	0	-6 980	0

12. Investment property

	EEK	EUR
in thousands		
As at 31.12.2007	999 999	63 912
Acquisitions	4 222	270
Disposals	-6 040	-386
Transfer from property, plant and equipment	100 201	6 404
Gain or loss on change in fair value (Annex 3)	-555 629	-35 511
As at 31.12.2008	542 753	34 689
As at 31.12.2008	542 753	34 688
Acquisitions	17 021	1 088
Disposals	-14 360	-918
Disposals through sales of subsidiaries and jointly controlled entities	-141 743	-9 059
Transfer from property, plant and equipment	15 258	975
Gain or loss on change in fair value (Note)	-89 941	-5 748
As at 31.12.2009	328 988	21 026

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	369	3 115	5 396	10 806	19 686
Capitalised borrowings costs	0	662	0	7 218	7 880
Additions through business combinations	0	482	789	0	1 271
Disposals	-1 701	-5 633	-4 768	-8 965	-21 067
Transfer to non-current assets held for sale	1 619	0	0	0	1 619
Transfer to investment property	0	0	0	-100 201	-100 201
Adjustments	-3 420	0	0	0	-3 420
Depreciation charge (Note 5)	-1 692	-1 264	-2 863	0	-5 819
Carrying amount 31.12.2008	22 115	2 496	6 537	10 664	41 812
<i>incl. acquisition costs</i>	<i>33 950</i>	<i>7 734</i>	<i>15 054</i>	<i>10 664</i>	<i>67 402</i>
<i>incl. accumulated amortisation</i>	<i>-11 835</i>	<i>-5 238</i>	<i>-8 517</i>	<i>0</i>	<i>-25 590</i>
Carrying amount 31.12.2008	22 115	2 496	6 537	10 664	41 812
Additions	1 490	697	0	4 782	6 969
Disposals	-11 815	-520	-588	-2	-12 925
Disposals through divestment of subsidiaries (Note 4)	-2 251	-967	-3 239	0	-6 457
Transfer to investment property	0	0	0	-15 258	-15 258
Depreciation charge (Note 5)	-1 174	-648	-1 774	0	-3 596
Carrying amount 31.12.2009	8 365	1 058	936	186	10 545
<i>incl. acquisition costs</i>	<i>14 711</i>	<i>4 664</i>	<i>7 369</i>	<i>186</i>	<i>26 930</i>
<i>incl. accumulated amortisation</i>	<i>-6 346</i>	<i>-3 606</i>	<i>-6 433</i>	<i>0</i>	<i>-16 385</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	24	199	345	690	1 258
Capitalised borrowings costs	0	42	0	460	502
Additions through business combinations	0	31	50	0	81
Disposals	-109	-360	-305	-573	-1 347
Transfer to non-current assets held for sale	103	0	0	0	103
Transfer to investment property	0	0	0	-6 404	-6 404
Adjustments	-219	0	0	0	-219
Depreciation charge (Note 5)	-108	-81	-183	0	-372
Carrying amount 31.12.2008	1 413	160	418	682	2 669
<i>incl. acquisition costs</i>	<i>2 170</i>	<i>494</i>	<i>962</i>	<i>682</i>	<i>4 308</i>
<i>incl. accumulated amortisation</i>	<i>-756</i>	<i>-335</i>	<i>-544</i>	<i>0</i>	<i>-1 635</i>
	0				
Carrying amount 31.12.2008	1 413	159	417	682	2 671
Additions	95	45	0	306	445
Disposals	-755	-33	-38	0	-826
Disposals through divestment of subsidiaries (Note 4)	-144	-62	-207	0	-413
Transfer to investment property	0	0	0	-975	-975
Depreciation charge (Note 5)	-75	-41	-113	0	-230
Carrying amount 31.12.2009	534	68	59	13	672
<i>incl. acquisition costs</i>	<i>940</i>	<i>298</i>	<i>471</i>	<i>12</i>	<i>1 721</i>
<i>incl. accumulated amortisation</i>	<i>-406</i>	<i>-230</i>	<i>-411</i>	<i>0</i>	<i>-1 047</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	482	482
Additions through business combinations	632	0	632
Disposals through divestment of subsidiaries and interests in jointly controlled entities	-4 014	-889	-4 903
Fair value adjustment	-8 720	0	-8 720
Depreciation charge	0	-521	-521
Carrying amount 31.12.2008	11 855	620	12 475
<i>incl. acquisition costs</i>	<i>11 855</i>	<i>2 258</i>	<i>14 113</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-1 638</i>	<i>-1 638</i>
Carrying amount 31.12.2008	11 855	620	12 475
Additions	0	0	0
Sales and liquidation	-459	423	-36
Disposals through divestment of subsidiaries and interests in jointly controlled entities	-500	0	-500
Transfers	0	0	0
Fair value adjustment	-10 896	0	-10 896
Depreciation charge	0	-231	-231
Carrying amount 31.12.2009	0	812	812
<i>incl. acquisition costs</i>	<i>0</i>	<i>2 456</i>	<i>2 456</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-1 644</i>	<i>-1 644</i>

	Goodwill	Software	Total intangible assets
in EUR, thousands			
Carrying amount 31.12.2007	1 531	99	1 630
Additions	0	31	31
Additions through business combinations	40	0	40
Disposals through divestment of subsidiaries and interests in jointly controlled entities	-257	-57	-314
Fair value adjustment	-557	0	-557
Depreciation charge	0	-33	-33
Carrying amount 31.12.2008	758	40	797
<i>incl. acquisition costs</i>	<i>758</i>	<i>143</i>	<i>901</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-105</i>	<i>-105</i>
Carrying amount 31.12.2008	758	39	797
Sales and liquidation	-29	27	-2
Disposals through divestment of subsidiaries and interests in jointly controlled entities	-32	0	-32
Fair value adjustment	-696	0	-696
Depreciation charge	0	-15	-15
Carrying amount 31.12.2009	0	52	52
<i>incl. acquisition costs</i>	<i>0</i>	<i>157</i>	<i>157</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-105</i>	<i>-105</i>

15. Loans and borrowings

	31.12.2009		31.12.2008	
	Total	Including current portion	Total	Including current portion
in EEK, thousands				
Debt securities	18 870	18 870	59 303	59 303
Bank loan	752 000	556 519	911 946	256 095
Finance lease liabilities	2 443	831	5 462	1 708
Other loans	26 229	25 223	69 625	36 311
Total	799 542	601 443	1 046 336	353 417

	31.12.2009		31.12.2008	
	Total	Including current portion	Total	Including current portion
in EUR, thousands				
Debt securities	1 206	1 206	3 790	3 790
Bank loan	48 062	35 568	58 284	16 367
Finance lease liabilities	156	53	349	109
Other loans	1 676	1 612	4 450	2 321
Total	51 100	38 439	66 873	22 587

16. Payables and other liabilities

Short-term liabilities

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
in thousands				
Trade payables	46 188	75 454	2 952	4 822
Miscellaneous payables				
Liabilities from securities transactions	15 464	16 775	988	1 072
Miscellaneous payables	8 001	790	511	50
Total other payables	23 465	17 565	1 499	1 122
Tax payable				
Value added tax	2 345	3 099	150	198
Personal income tax	1 047	2 053	68	131
Social tax	1 882	3 569	120	228
Other taxes	3 892	2 228	249	142
Total taxes payable	9 166	10 949	587	700
Accrued expenses				
Interest payable	5 226	10 054	334	643
Payables to employees	5 120	8 871	327	567
Dividends payable	0	1 232	0	79
Other accrued expenses	5 385	8 552	344	547
Total accrued expenses	15 731	28 709	1 005	1 836
Total payables	94 550	132 677	6 043	8 480

Non-current liabilities

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
in thousands				
Liabilities from securities transactions	0	248	0	16
Deposits received	1 100	1 402	70	89
Miscellaneous long-term liabilities	4 063	2 754	260	176
Total non-current liabilities	5 163	4 404	330	281

17. Share capital

Reduction of share capital

In order to decrease volatility of the share price of Arco Vara AS, to bring the equity to the level required by clause 301 of the Commercial Code, and to provide opportunities for more efficient pricing of the shares of Arco Vara AS on the stock exchange as well as for further strengthening of the capital structure, the shareholders accepted the proposal to reduce the share capital of Arco Vara AS as follows:

1.1. first to reduce the share capital by cancellation of 10 shares so that 5 shares owned by Toletum OÜ (registry code 11011219) and 5 shares owned by HM Investeeringud OÜ (registry code 10963165) (hereinafter together the “Stabilizing shareholders”) shall be cancelled; and

1.2. thereafter to reduce the share capital by cancellation of 19/20 of all shares, whereas:

1.2.1. 19/20 of all shares owned by each shareholder shall be cancelled; and

1.2.2. if the number of shares owned by a stabilized shareholder does not enable to cancel whole number of shares, whole number of shares owned by Stabilized shareholder shall be cancelled (rounded downwards) and additionally a number of shares (hereinafter the “Compensation shares”), that the Stabilized shareholder should have owned in order to enable cancellation of whole number of shares without rounding, shall be cancelled from the shares owned by the Stabilizing shareholders (e.g. if the Stabilized shareholder has 30 shares, 28 thereof shall be cancelled (i.e. the Stabilized shareholder will have 2 shares after the reduction of the share capital) and additionally 10 Compensation shares owned by the Stabilizing shareholders shall be cancelled);

1.2.3. Compensation shares shall be cancelled in equal parts from the shares owned by the Stabilizing shareholders. If the Compensation shares cannot be cancelled in equal parts from the shares owned by the Stabilizing shareholders, then more shares belonging to HM Investeeringud OÜ shall be cancelled.

As a result of the reduction of share capital, the number of all shares will be 4 741 707, i.e. 90 519 943 shares will be cancelled. The extent of the reduction of share capital will be 905 199 thousand kroons (57 853 thousand euros).

18. Transactions with related parties

	EEK		EUR	
	12 months 2009 or 31.12.2009	12 months 2008 or 31.12.2008	12 months 2009 or 31.12.2009	12 months 2008 or 31.12.2008
in thousands				
Transactions with joint companies¹				
Sales revenue	136	1 690	9	108
Services purchased	0	-52	0	-3
Short-term loan receivables	13 893	13 855	888	885
Long-term loan receivables	0	5 750	0	367
Trade receivables	918	1 030	59	66
Short-term interest receivables	0	2 205	0	141
Transactions with companies having joint control over Group companies				
Equity acquisition	10 190	0	651	0
Services purchased	0	-445	0	-28
Other short-term receivables	8 728	13 348	558	853
Short-term interest receivables	2 114	0	135	0
Short-term loan receivables	9 559	16 377	611	1 047
Trade payables	0	368	0	24
Interest payable	2 447	968	156	62

Long-term loan liabilities	11 768	0	752	0
Transactions with key staff of the Group and the Group's management				
Sales revenue	1 704	11 747	109	751
Services purchased	-1 448	-33	-93	-2
Trade receivables	0	262	0	17
Short-term loan receivables	10 008	11 509	640	736
Interest payable	700	0	45	0
Miscellaneous long-term liabilities				
Sales revenue	0	1 869	0	119
Other short-term liabilities	15 464	0	988	0
Long-term loan liabilities	0	31 151	0	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 former 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 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).

² Arco Vara AS transferred its 100% holding in Arco Vara Puukool OÜ. This was aimed at removing additional activities from the main activities of the Group. Arco Vara Puukool OÜ was specialised to the production of forest plants. The 100% holding of Arco Vara Puukool OÜ was obtained by Metsamarket OÜ (member of the Board: Lehar Lindre). Lehar Lindre was a member of the board in the 100% subsidiary Arco Vara Puukool OÜ.

The cost of the transaction was 600 thousands kroons (38 thousand euros). The transaction will not have any significant influence to the operations of the Arco Vara group, nor can it be considered as a transfer of substantial part. The members of Arco Vara AS supervisory board and members of the board have no personal interest in the transaction. See also Note 11.

Arco Vara AS transferred its 86.6% holding on Arco Ukraina Valduste OÜ. The 89.66 % holding in Arco Ukraina Valduste OÜ was obtained by Bagatini OÜ that was a minor shareholder of the transferred company and that, as the result of the transaction owns 100% of Arco Ukraina Valduste OÜ. Juri Nikitin, the owner and manager of Bagatini OÜ is also one of the board members of Arco Ukraina Valduste OÜ. See also Note 11.

The holding of Arco Ehitus OÜ, a 100% subsidiary of Arco Construction SIA was obtained by co-owners of Arco Construction SIA, whereby Viktors Savins obtained 27.3% of the transferred holding. Martinš Bubens obtained 23.6% of transferred holding, Aivars Kacars obtained 23.6% and Jānis Ēodars 25.5% of the transferred holding. The obtainers Martinš Bubens and Aivars Kacars are board members of Arco Construction SIA and Viktors Savins is member of the supervisory board of the same company. See also Note 11.

The remuneration of the Group's management board for the 12 month of 2009, including associated taxes, totalled 5 282 thousand kroons (338 thousand euros). In 2008, the same indicator amounted to 21 935 thousand kroons (1 402 thousand euros).

19. 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.

On 05.11.2009, Katrin Prükk, the liquidator, submitted a precept for removing the deficiencies. Arco Ehitus OÜ and Arco Vara AS removed the deficiencies described in the precept on 13.12.2009.

On 19.11.2009, Arco Vara partly assigned the claim in the amount of 500 thousand kroons (32 thousand euros to Leising Griup OÜ).

On 20.11.2009 a meeting for securing claims of OÜ Tempera Ehitus (bankrupted) and the claim of Arco Ehitus was secured in the whole amount presented in the proof of claim. With regard to the claim by Arco Vara AS, the liquidator objected the interest rates for 2009 in the amount of 31.6 thousand kroons (2 thousand euros); therefore the secured was the claim in the amount of 2 301 (147 thousand euros).

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).

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 Investeeringute AS has made a prepayment and given subordinated loans in a total amount of 10 000 thousand 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 (113 157 thousand kroons; 7 232 thousand 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 contested the appeal. On 22.06.2009, the Tallinn District Court made a decision that partially agreed with the AS Ühendatud Kapital appeal against the court ruling, and found that seizure of bank accounts limit company's activity freedom, and that the accounts should be released. Arco Investeeringute AS contested the District Court ruling at the Supreme Court due to the decree of the district court, but on 14.09.2009, the Supreme Court did not satisfy the appeal of Arco Investeeringute AS.

On 08.10.2009, a session of the Court of Arbitration of Estonian Chamber of Commerce and Industry was scheduled but postponed by request of AS Ühendatud Kapital as AS Ühendatud Kapital changed its representative again and asked for additional time for preparing for the session.

On 8.10.2009, Arco Investeeringute AS submitted to the Court of Arbitration of Estonian Chamber of Commerce and Industry an additional application for securing the claim. On 12.10.2009, the court of arbitration made a decision for securing the application and set prohibition notations to the disposal of shares of OÜ Auto Forte Baltic, a subsidiary of AS Ühendatud Kapital. On 21.12.2009 the Arbitration Court of the Estonian Chamber of Commerce and Industry has made court judgment wherewith Arco Investeeringute AS claim towards Ühendatud Kapital AS was fully satisfied and order Ühendatud Kapital AS to pay to Arco Investeeringute AS main arrears on a amount of 10,000 thousand USD (109 253 thousand Estonian kroons or approx. 6 982 thousand euros), interest calculated from main arrears in amount of 906 thousand USD (9 905 thousand Estonian kroons or approx. 633 thousand euros) and interest on account of late payment in amount of 773 thousand USD (8 452 thousand Estonian kroons or approx. 540 thousand euors), sum total 11 680 thousand USD (127 611 thousand Estonian kroons or approx. 8 155 thousand euros). Additional on that Ühendatud Kapital AS has to compensate court expenses to Arco Inevsteeringute AS in amount of 1,099 thousand Estonian kroons (70 thousand euros).

Arbitration court judgment is final and entered into force from the moment of adopting.

20. Events after the reporting period

Bankruptcy petition against Arco Vara AS

On 21.01.2010, Indrek Porila filed at the Harju County Court a bankruptcy petition against Arco Vara AS. Previously, Indrek Porila has claimed from Arco Vara 37 943 thousand kroons (2 425 thousand euros), but Arco Vara has brought founded arguments against the claim of Indrek Porila. Despite of the above and the disputability of the claim, as well as of the fact that the company is not insolvent, Indrek Porila filed a bankruptcy petition.

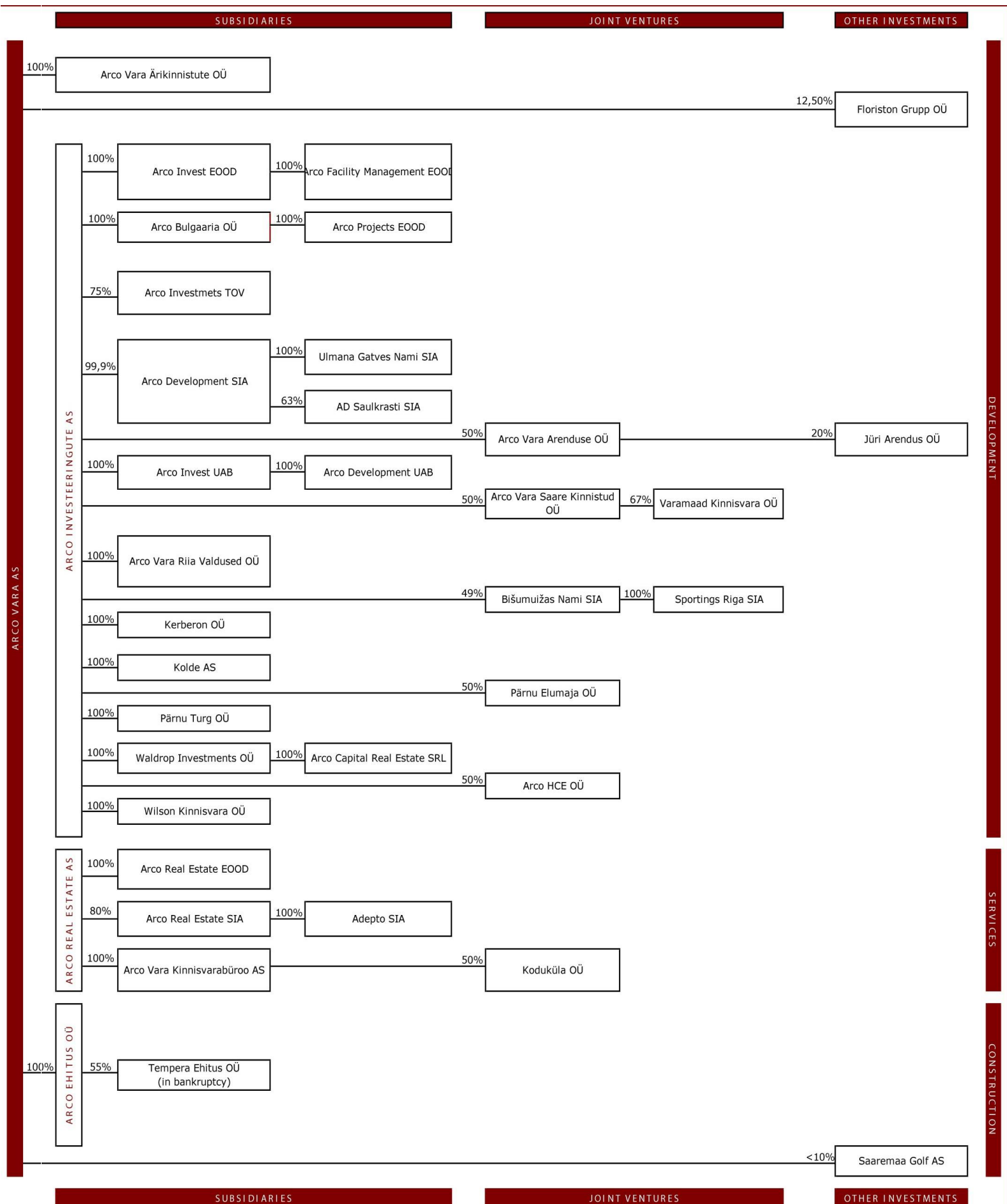
Historically, the management board of Arco Vara AS has said in the IPO prospectus 2007 that Indrek Porila holds 12.5% of Floriston Group equity, which shall be paid after the real estate projects of Floriston Group have been sold. In the IPO prospectus, the holding in equity is estimated to 37 943 kroons (2 435 thousand euros), but by today, the goodwill of the company has been reduced by times due to the fall in the real estate market. In the described situation, Indrek Proila did not claim a 12% holding in Floriston Grupp OÜ, but claimed from Arco Vara the payment of the above amount. Arco Vara does not recognize such a claim by Indrek Porila as it is not conform to the original agreement or the actual market value of Floriston Group OÜ, also none of the real estate projects have been realised; thus, the claim has not become exigible.

According to the Bankruptcy Act, the court will not start proceedings before the claim is evident and hearings are being held about it and the debtor does not recognize the claim. The above clearly refers to the non-evidence, disputability and the non-recognition of it by Arco Vara. In addition to the above, Arvo Vara is liquid and solvent. Thus, there are no grounds for commencing bankruptcy proceedings.

Therefore, Arco Vara AS considers the bankruptcy petition a malicious act aimed at discrediting the reputation of the company and influencing the share price.

21. Structure of the group

At 31.12.2009



Statement by the management board

The management board of Arco Vara AS has prepared the condensed consolidated interim financial statements for the fourth quarter and twelve months 2009 presented on pages 2-49.

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 12 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 (26 February 2010) have been assessed.

Lembit Tampere
Member of the management board



26..... February 2010