



# Annual report of 2009

Arco Vara AS

# Annual Report of Consolidation Group

## **ARCO VARA AS** **Translation of the Estonian Original**

Beginning of financial year:	1 January 2009
End of financial year:	31 December 2009
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Core activities:	Construction of buildings (EMTAK 41000) Civil engineering (EMTAK 42000) Special engineering (EMTAK 43000) Real estate related services (EMTAK 6800)
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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## Message from the chairman of the supervisory board

### Dear investors and partners,

The year 2009 was one of the most complicated one in the entire 18 years of history of Arco Vara AS, which is also reflected in the Group's annual report. In spite of everything we managed to overcome the difficulties, and this is the most important thing.

Looking back at the last year, and in spite of the recession, we can recall some favourable instances as well. The collapse of the myths created by the property boom has brought market participants back to the reality, has caused them to make more effort, and to search for new and efficient solutions. Property prices have indeed dropped, but at the same time the market has cleaned itself, and is becoming increasingly a business place for serious operators. This benefits both those who develop the living environment, as well as those who will be subsequently enjoying these fruits.

The key issue is to use difficult times for learning, analysing and drawing conclusions. Arco Vara AS has done all this, and – compared with the same time last year – has become considerably stronger, wiser and more united. We have refinanced several major loans, disposed of holdings in companies, which were not completely under our control, have developed a future strategy, reorganised the management of the Group to match the current times, and have found new strong partners for competitive development projects.

In spite of complicated times the Group has not abandoned charity. The Group supports the football club "Nõmme kalju", the Russian Theatre, and the Estonian Academy of Arts, paying monthly scholarship to the best postgraduate majoring in architecture.

Arco Vara AS is optimistic about the future and is prepared for new challenges. Recently we executed a co-operation contract with AS Merko Ehitus on developing the next stage of the Kodukolde residential area in Tallinn, we intend to start building of the Tivoli seaside residential complex in Kadriorg, and will complete in the nearest future the largest development project in the history of Arco Vara situated in Sofia, Bulgaria. We have confidence in ourselves, our partners and investors and we are doing everything in our power to ensure that the current financial year is considerably more successful for the Group than the previous one.

Richard Tomingas  
Arco Vara AS  
Chairman of the supervisory board

## Management Report

### 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, Development and Construction division.

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 final potential.

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

At the end of 2009, Arco Vara AS Group comprised 26 subsidiaries (2008: 29), 8 joint ventures (2008: 17) and one associate (2008: 1).

Group's operations doesn't result major negative environmental or social effect.

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

### Manager Lembit Tampere

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

Lembit 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, Lembit Tampere is the Chairman of the Board of Arco Vara.

### Chairman of the Supervisory Board Richard Tomingas

Richard Tomingas studied civil engineering at Tallinn Polytechnical Institute from 1987-1990, and graduated the Estonian Business School in business administration in 2005.

Richard Tomingas is one of the major shareholders of Arco Vara and has worked for the company since 1992. From 1992 to 1993 he was the Manager of the Arco Vara AS Kuressaare office. Since 1997, Richard Tomingas is a Member of the Supervisory Board of Arco Vara AS and since 2006, the Chair of the Supervisory Board of Arco Vara AS.

### Member of the Supervisory Board Hillar-Peeter Luitsalu

Hillar-Peeter Luitsalu studied sports sciences at the Tallinn Pedagogical Institute from 1978-1979, and graduated the University of Tartu in law in 1995.

Hillar-Peeter Luitsalu is one of the major shareholders of Arco Vara. From 1996 to 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.

### Member of the Supervisory Board Aare Tark

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

Since 1991, Aare 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 AS.

### Member of the Supervisory Board Kalev Tanner

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.

### Member of the Supervisory Board Ragnar Meitern

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

Since 1996, Mr Meitern has been working in the team of the Citigroup 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 AS.

## STRUCTURE OF THE GROUP

Company	Domicile	Group's ownership interest	
		31.12.2009	31.12.2008
%			
<b>Service segment</b>			
<b>Subsidiaries</b>			
Arco Real Estate EOOD	Bulgaria	100	100
Arco Real Estate AS	Estonia	100	100
Arco Ukraina Valdused OÜ <sup>1</sup>	Estonia	sold	75
Arco Vara Kinnisvarabüroo <sup>1</sup>	Estonia	100	100
Adepto SIA <sup>1</sup>	Latvia	80	80
Arco Real Estate SIA <sup>1</sup>	Latvia	80	80
Arco Neruhomist TOV <sup>1</sup>	Ukraine	sold	75

Company	Domicile	Group's ownership interest	
		31.12.2009	31.12.2008
%			
<b>Development segment</b>			
<b>Subsidiaries</b>			
Arco Invest EOOD <sup>1</sup>	Bulgaria	100	100
Arco Facility Management EOOD <sup>1</sup>	Bulgaria	80	-
Arco Project EOOD <sup>1</sup>	Bulgaria	100	100
Arco Bulgaaria OÜ <sup>1</sup>	Estonia	100	100
Arco Investeeringute AS	Estonia	100	100
Arco Vara Kinnistute AS <sup>1</sup>	Estonia	merged	100
Arco Vara Puukool OÜ <sup>1</sup>	Estonia	sold	100
Arco Vara Riia Valdused OÜ <sup>1</sup>	Estonia	100	100
Kerberon OÜ <sup>1</sup>	Estonia	100	100
Kolde AS <sup>1</sup>	Estonia	100	100
Pärnu Turg OÜ <sup>1</sup>	Estonia	100	100
Waldrop Investments OÜ <sup>1</sup>	Estonia	100	100
Wilson Kinnisvara OÜ <sup>1</sup>	Estonia	100	100
AD Saulkrasti SIA <sup>1</sup>	Latvia	63	63
Arco Development SIA <sup>1</sup>	Latvia	99.9	80
Ulmana Gatves Nami SIA <sup>1</sup>	Latvia	99.9	80
Arco Invest UAB <sup>1</sup>	Lithuania	100	100
Arco Development UAB <sup>1</sup>	Lithuania	100	100
Arco Capital SRL <sup>1</sup>	Romania	100	100
Arco Investments TOV	Ukraine	75	75
<b>Jointly controlled entities</b>			
Arco HCE OÜ <sup>1</sup>	Estonia	50	50
Arco Vara Arenduse OÜ <sup>1</sup>	Estonia	50	50
Arco Vara Saare Kinnistud OÜ <sup>1</sup>	Estonia	50	50
Arco Ärikeskus OÜ <sup>1</sup>	Estonia	sold	50
Chalwell OÜ <sup>1</sup>	Estonia	merged	50
Koduküla OÜ <sup>1</sup>	Estonia	50	50
Noland Grupp OÜ <sup>1</sup>	Estonia	merged	50
Pärnu Elumaja OÜ	Estonia	50	50
Redman Invest OÜ <sup>1</sup>	Estonia	merged	50
Steadman OÜ <sup>1</sup>	Estonia	merged	50
Tallinna Olümpiapurjespordikeskus AS <sup>1</sup>	Estonia	sold	50
Varamaad Kinnisvara OÜ <sup>1</sup>	Estonia	33.4	33.4
Bišumuižas Nami SIA <sup>1</sup>	Latvia	49.83	40
Sporting Riga SIA <sup>1</sup>	Latvia	49.83	40
<b>Associate</b>			
Gilmor Grupp OÜ (in the process of liquidation) <sup>1</sup>	Estonia	closing	20
Jüri Arendus OÜ <sup>1</sup>	Estonia	20	20
<b>Construction segment</b>			
<b>Subsidiaries</b>			
Arco Ehitus OÜ	Estonia	100	100
Arco Construction SIA <sup>1</sup>	Latvia	sold	55
Tempera Ehitus OÜ	Estonia	bankrupted	55

<sup>1</sup> Shareholding through subsidiaries.

## CHANGES IN THE GROUP STRUCTURE

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

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

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 share capital in the joint company Bišumuiža Nami SIA from 40% to 49.38%. The share capital was increased by non-monetary contribution. 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% share capital at nominal price.

On 21.07.2009, Arco Investeeringute AS, a subsidiary of Arco Vara AS increased its share capital in the Latvian subsidiary Arco Development SIA from 80 % to 99.99 %. The share capital was increased by non-monetary contribution.

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 7 and 35.

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 net book value 0,15 million kroons (0,009 million euros), see also Note 7 and 35.

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 7 and 35.

### Changes in the Group structure after the balance sheet date:

Arco Investeeringute AS, a 100% subsidiary of Arco Vara AS, transferred its holding in Arco Vara Saare Kinnistute OÜ (a 50% associate of Arco Investeeringute AS) with a holding of 0.2 million kroons (0.01 million euros) in book value. The transaction is based on the strategic goal to exit from an activity where no full control and management is possible. Sale price was 6 million kroons (0.4 million euros).



## Key Financials

- Revenue and other income for the year totalled 541.6 million kroons (34.6 million euros), 21.5 % down year-over-year.
- Operating loss was 137.1 million kroons (8.8 million euros), 87.0 % down year-over-year.
- Net loss was 324.4 million kroons (20.7 million euros), 72.0 % down year-over-year.
- Equity ratio was 27.8 % (2008: 36.1 %) of the balance sheet total. ROE was negative (2008: negative). ROIC was negative (2008: negative).
- In the construction division, new agreements in the amount of 171.0 million kroons (10.9 million euros) were concluded, 2008: 299.0 million kroons (19 million euros).
- Group's order backlog in the construction business stood at 80 million kroons (5.1 million euros) against 185.0 million kroons (11.8 million euros) last year.
- During the year, 82 apartments and plots were sold under Arco Vara projects (2008: 98 apartments and plots).

	EEK						EUR					
	2009	2008	2007	2006	2005	2004	2009	2008	2007	2006	2005	2004
In millions												
Revenue and other income	405	660	727	484	476	350	26	42	46	31	30	22
Gross profit	-92	-351	185	135	118	109	-6	-22	12	9	8	7
EBIT	-137	-1 050	103	260	154	130	-9	-67	7	17	10	8
Profit before tax	-325	-1 151	250	227	121	109	-21	-74	16	15	8	7
Profit for the year	-324	-1 160	236	217	116	107	-21	-74	15	14	7	7
Gross margin, %	neg	neg	25%	28%	25%	31%	neg	neg	25%	28%	25%	31%
Operating margin, %	neg	neg	14%	54%	32%	37%	neg	neg	14%	54%	32%	37%
Net margin, %	neg	neg	32%	45%	24%	30%	neg	neg	32%	45%	24%	30%
Net revaluation gains/losses	-110	-1 086	77	375	104	58	-7	-69	5	24	7	4
Net loans	738	842	517	1 143	578	555	47	54	33	73	37	35
Weighted average loan term (in years)	0.9	2.5	2.2	2.7	n/a	n/a	0.9	2.5	2.2	2.7	n/a	n/a
Weighted average loan interest at the end of period (%)	5.3%	7.0%	6.7%	5.6%	n/a	n/a	5.3%	7.0%	6.7%	5.6%	n/a	n/a
ROE, %	neg	neg	14%	32%	27%	n/a	neg	neg	14%	32%	27%	n/a
ROA, %	neg	neg	8%	12%	9%	n/a	neg	neg	8%	12%	9%	n/a
ROIC, %	neg	neg	10%	16%	12%	n/a	neg	neg	10%	16%	12%	n/a
Quick Ratio	0.3	0.9	1.1	0.2	0.5	0.2	0.3	0.9	1.1	0.2	0.5	0.2
Current Ratio	1.3	2.5	2.2	0.6	0.8	0.8	1.3	2.5	2.2	0.6	0.8	0.8
EPS, in kroons	-3.4	-12.2	2.8	3.1	1.6	1.6	-0.2	-0.8	0.2	0.2	0.1	0,1
Lowest share price, in kroons	0.9	2.4	20.5	n/a	n/a	n/a	0.1	0.2	1.3	n/a	n/a	n/a
Highest share price, in kroons	5.9	23.2	38.8	n/a	n/a	n/a	0.4	1.5	2.5	n/a	n/a	n/a
Number of staff	163	396	664	478	280	220	163	396	664	478	280	220

## Comments by the CEO

In 2009, 82 apartments or plots were sold under Group projects. 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 plots 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 m<sup>2</sup> 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 m<sup>2</sup> office space.

Despite of the difficult situation on capital markets and in the economies of countries, the strategy of Group's 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 and last phase of Kodukolle project in Tallinn, due to more favourable construction prices. In autumn, the construction of the Kodukolle 3<sup>rd</sup> stage 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 reduced plot and apartment prices in all Arco Vara projects in the first half-year.

The restructuring of the service division has considerably reduced our administration costs, and the operating loss from ordinary operations 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 the year, 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 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 limited means in these countries, with a future focus on Estonia, Latvia and Bulgaria.

During the quarter, the construction division has concluded new contracts in the amount of 171 million (10.9 million euros). After the balance sheet date, Arco Ehitus OÜ has been announced as best tenderer either alone or in a consortium or as sub-contractor in tenders with a total value of 129.9 million kroons (8.3 million euros).

In summary: The overall result of 2009 was most influenced by fair value adjustments and disposals of interest in three jointly controlled entities. The gross profit without revaluation was 49.7 million kroons (3.2 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).

The savings in fixed costs on the year-over-year basis has 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 Kodukolle (96 apartments) and Tivoli (approx. 150 apartments) developments. After the balance sheet date, a construction and construction financing agreement has been concluded with AS Merko Ehitus for the Kodukolle project. The company is carrying on negotiations with potential partners and banks in order to find a favourable financing structure for the Tivoli project in Tallinn.

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 to one. As manager of Arco Vara, Mr. Lembit Tampere continues his work.

## REVENUE AND PROFIT

	EEK		EUR	
	2009	2008	2009	2008
In millions				
<b>Revenue and other income</b>				
Service	38.0	104.1	2.4	6.7
Development	266.6	246.4	17.0	15.7
Construction	277.2	416.8	17.7	26.6
Eliminations	-40.3	-76.8	-2.6	-4.9
<b>Total revenue and other income</b>	<b>541.6</b>	<b>690.4</b>	<b>34.6</b>	<b>44.1</b>
<b>Operating profit</b>				
Service	-16.6	-47.9	-1.1	-3.1
Development	-80.3	-985.1	-5.1	-63.0
Construction	-10.1	6.3	-0.6	0.4
Eliminations	-10.5	-2.6	-0.7	-0.2
Unallocated expenses	-19.6	-20.4	-1.3	-1.2
<b>Total operating profit</b>	<b>-137.2</b>	<b>-1 049.7</b>	<b>-8.8</b>	<b>-67.1</b>
Interest income and expense	-32.8	5.1	-2.1	0.3
Net other financial items	-155.3	-106.7	-9.9	-6.8
Income tax expense	0.9	-8.8	0.1	-0.6
<b>Profit for the year</b>	<b>-324.4</b>	<b>-1 160.1</b>	<b>-20.7</b>	<b>-74.2</b>

The overall result of the year was most influenced by fair value adjustments. The net fair value adjustments totalled to -110 million kroons (-7.0 million euros), which is 90% less than a year ago. As a single transaction, the loss was increased by transfer of holdings in three important jointly controlled entities. As a result of the transaction, a financial expense of 138.9 million kroons (8.9 million euros) was recognised. See additional information in Notes 4, 18 and 20.

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 15.6 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-trade. The results of operations in 2010 are mostly influenced by completing the Madrid project where the sales of reservations will be recognised as turnover and according to the sales, the loan burden is reduced.

The claim against AS Ühendatud Kapital with the new book value of 32.6 million kroons (2.1 million euros) was additionally written down. Construction division EBIT without assets and goodwill write down was 3.3 million kroons (0.3 million euros), i.e. 60% down year-over-year. The same indicator for the service division was -11.3 million kroons (0.7 million euros), i.e. down 69% year-over-year. For 2010, a positive operating profit is forecasted for both divisions.

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 m<sup>2</sup> can be built.

## CASH FLOWS

	EEK		EUR	
	2009	2008	2009	2008
In millions				
Cash flows from operating activities	-26.6	-127.6	-1.7	-8.2
Cash flows from investing activities	95.5	-62.6	6.1	-4.0
Cash flows from financing activities	-170.4	-402.2	-10.9	-25.7
<b>Net cash flow</b>	<b>-101,5</b>	<b>-592,4</b>	<b>-6,5</b>	<b>-37,9</b>
Cash and cash equivalents at beginning of period	172.6	765.0	11.0	48.9
Effect of exchange rate fluctuations	0.3	0.0	0.0	0.0
<b>Cash and cash equivalents at end of period</b>	<b>71.4</b>	<b>172.6</b>	<b>4.5</b>	<b>11.0</b>

In January 2009, 40 million kroons from the loan principals related to the Tivoli and Laeva projects were paid back to AS SEB Pank 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 AS SEB Pank. On an extraordinary basis, smaller loans and principal amounts have been paid back, too. In order to improve cash position, holdings in three joint ventures were sold, that generated positive net cash flow ca 55 million kroons (3.5 million euros) by the end of the year.

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:

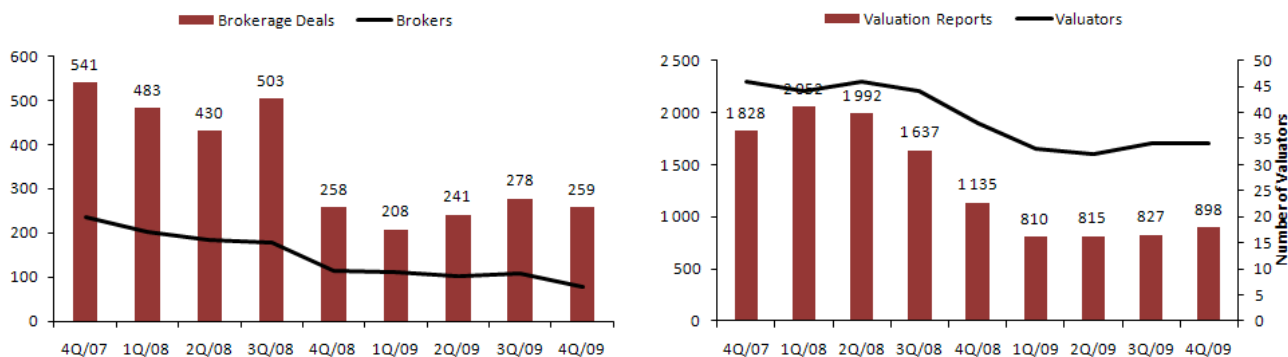
- the Ahtri project loan of 94.3 million kroons (6.0 million euros),
- „Tivoli” and „Laeva2” project loans in the total amount of 105.5 million kroons (6.7 million euros),
- „Kodukolde“ project loan in the amount of 46.0 million kroons (2.9 million euros),
- The loan for the Bišumuiža-1 (BM-1) development 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 1<sup>st</sup> 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 cash flow projects. Most of the liabilities 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 were in balance during the year and do not need any subsidy from parent company. By setting the cash position of the division as a priority, the division sold objects acquired for short-term investments. Due to the market situation, the prices have sometimes been under the cost price. Division total EBIT was amounted to -16.6 million kroons (-1.1 million euros), whereof property and goodwill adjustments made up -5.3 million kroons (-0.3 million euros). Optimisation of the cost structure and preparation of the business model and processes for the improvement of the market situation is going on in the division.

The number of brokerage transactions of the Group for the year 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 starting from the 2nd quarter. As at the end of the year the division employed 66 people ( 2008: 139 persons).

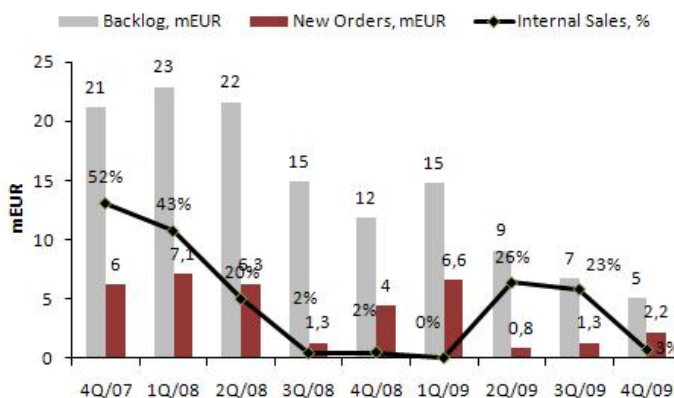


	2009	2008	change, %
Number of brokered objects	986	1 674	-41 %
Projects being sold, pcs.	151	282	-47 %
Number of valuation reports	3 350	6 816	-51 %
Number of appraisers*	34	38	-11 %
Number of real estate brokers*	79	114	-31 %
Average number of staff	66	139	-53 %

\* Includes authorisation agreements

## 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 the year 2009, the construction division has concluded new contracts in the amount of 171 million (10.9 million euros). After the balance sheet date, Arco Ehitus OÜ has been announced as best tenderer either alone or in a consortium or as sub-contractor in tenders with a total value of 129.9 million kroons (8.3 million euros).



The amount of revenue of the division totalled 274.7 million kroons (17.6 million euros) in 2009, which is 32.54% less than in 2008 (407.3 million kroons or 26 million euros). The turnover decreased first of all due to the increase of the turnover in the Latvian subsidiary, which was caused by a steep fall in the Latvian construction market as well as by a decrease in internal turnover. The net loss of the division amounted to 17.9 million kroons (1.1 million euros). The corresponding figure for 2008 was 2.3 million kroons (0.2 million euros). The results of the year were mostly influenced by fair value adjustments, the total adjustment amounted to 13.4 million kroons (0.9 million euros). Thereof, property investments were adjusted by 1.6 million kroons (0.1 million euros), property, plant and equipment was adjusted by 0.9 million kroons (0.06 million euros), and the goodwill adjustment was 10.9 million kroons (0.7 million euros). As at the end of the year the division employed 59 people ( 2008: 191 persons). On 29.12.2009, the holding in Arco Construction SIA was sold, as a result of which the number of employees in the Construction Division reduced by about 80 persons.

### Biggest objects in 2009:

#### Estonia

##### Civil engineering

1. construction of Helme 7a and 7b apartment houses
2. reconstruction and extension of Rõuge kindergarten
3. construction of six family houses and one hobby house for the Pärnu Children's Home
4. renovation of Tartu Hiie school
5. designing and construction of the new part for the Aravete High School
6. reconstruction of Kõpu kindergarten-library

##### Environmental engineering

1. designing and construction works of the water and sewerage project in the Matsalu sub-basin part 1 and part 3
2. reconstruction of water and sewerage constructions in the Emajõe-Võhandu sub-basin in the towns of Võru and Antsla. Parts 4, 5, 6, 10.

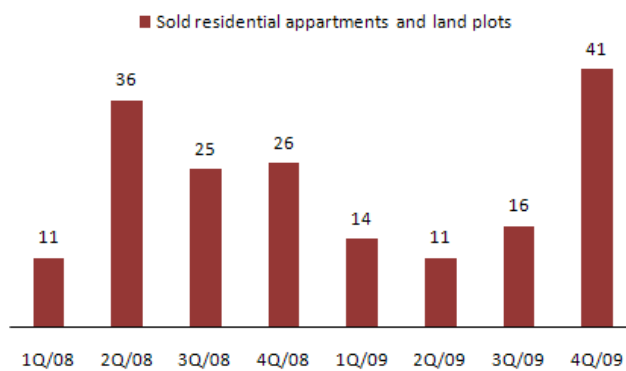
3. construction works of sewage disposal devices in Türi parish
4. reconstruction of water and sewerage systems in Aste village, Kaarma parish
5. water management project of the Emajõe and Võhandu river basin; Emajõe subproject, designing and construction works of water treatment plants part 2
6. water management project of the Emajõe-Võhandu river basin, designing and construction of water and sewerage drains part 5
7. reconstruction works of the sewage system of the town of Haapsalu
8. designing and construction subcontracting in water and sewerage constructions in Eastern Saaremaa (Orissaare, Muhu, Põide). parts: 1, 3, 4, 5
9. designing and construction subcontracting in the water and sewerage system in Northern and Eastern Saaremaa (Mustjala village)
10. reconstruction works of the Kiviõli sewerage network
11. water management project of the Emajõe and Võhandu river basin; Emajõe subproject, designing and construction works of drinking water plants

#### Latvia

1. construction of the pedestrian tunnel for the Stockmann department house
2. construction of five apartment houses in Bišumuiža
3. construction of the Lic Gotus shopping centre

## DEVELOPMENT DIVISION

Within 12 months, 82 apartments or plots were sold under Arco Vara projects. Under the Boulevard Residence Madrid project in Sofia, a long-term rental agreement with the Austrian supermarket chain Billa was concluded for approx. 900 m<sup>2</sup>, and a long-term lease agreement with a financial intermediary company for 4,700 m<sup>2</sup> 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 loans of plots in Estonia. 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.

The most important goal is to finish the Madrid project in Sofia where the relevant development loans were extended after the balance sheet date. On a current basis, preparations are made for starting the construction works of the last stage in the Tallinn Kodukolde project and in the Tivoli project. After the balance sheet date, a subcontracting and financing contract was concluded with AS Merko Ehitus to build the last 96 apartments in Kodukolde project in Tallinn. The selection of partners for starting the 1<sup>st</sup> stage in the Tivoli project in Tallinn is ongoing. An increasing sales pace will cause a minimal stock-in-trade in the near future. In order to create turnover, building of new apartments is planned to be started.

In order to manage the liquidity risk, the prices in current projects in the Baltic as well as in Sofia were decreased in the first half of 2009 in order to improve sales. Also, holdings in three important jointly controlled entities were sold. For some employees, salaries and working times have been optimized. As of 31 December 2009, the division employed 23 people (2008: 44 persons).

Additional information on projects is available at [www.arcocorealestate.com/arendus](http://www.arcocorealestate.com/arendus)

## 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 <sup>2</sup>	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 <sup>2</sup>	Investment property
Commercial	Laeva 2	Estonia, Tallinn	100 %	7.776 m <sup>2</sup>	Detailed plan approved. Building permit for the building part acquired. Negotiations with potential tenants.	Investment property
Commercial	Paldiski 80	Estonia, Tallinn	100 %	24.000 m <sup>2</sup>	Detailed plan established.	Investment property
Type	Name	Location	Holding	Building rights according to business plan	Current state	Classification in the balance sheet
Cash flow	Enerpoint	Estonia, Kuressaare	100 %	3.326 m <sup>2</sup>	Building rights in place. Generates cash flow.	Investment property

Cash flow	Kaarli 2	Estonia, Tallinn	33 %	Plot 4.791 m <sup>2</sup>	Café with a total area of 242 m <sup>2</sup> and the parking area are producing cash flow.	Investment property
Cash flow	Kerberon	Estonia, Tallinn	100 %	15.750 m <sup>2</sup>	Building rights in place, building rights.. Generates cash flow.	Investment property
Cash flow	Pärnu turg	Estonia, Pärnu	100 %	2.529 m <sup>2</sup>	Building rights in place. Generates cash flow.	Investment property
Cash flow	Raekoja 10	Estonia, Kuressaare	50 %	1.493 m <sup>2</sup>	Generates cash flow.	Investment property
Cash flow	Rüütli Str. 16 / 18	Estonia, Tallinn	50 %	980 m <sup>2</sup>	Building rights in place. Generates 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, Riia	100 %	Unsold/unreserved building rights 17.825 m <sup>2</sup>	Sales of the apartments in progress. In 2010, the completion of the second-phase apartments will be started.	Inventories
Apartments	Bišumuiža 2	Latvia, Riia	49,4 %	87.770 m <sup>2</sup>	Designing has been postponed.	Inventories
Apartments	Hills	Lithuania, Vilnius	100 %	6.500 m <sup>2</sup>	Building rights acquired. Project is on sale.	Inventories
Apartments	Kolde	Estonia, Tallinn	100 %	Unsold building rights 12.504 m <sup>2</sup> .	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 <sup>2</sup>	Building rights. Construction and sale of apartments are under way.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100 %	Unsold/unreserved building rights 23.593 m <sup>2</sup>	Building rights. Construction and sale of apartments are under way.	Inventories
Apartments	Tivoli	Estonia, Tallinn	100 %	58.470 m <sup>2</sup>	Detailed plan established.	Inventories
Plots	Baltezers-2	Latvia, Riia	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, Riia	100 %	172.380 m <sup>2</sup> , total land 861.900 m <sup>2</sup>	Rights of superficies. 189 plots. 1 <sup>st</sup> stage of infrastructure in preparation(1st stage includes 3 plots).	Investment property
Plots	Baltezers-5	Latvia, Riia	100 %	41 plots unsold	Building rights acquired. Construction finished, sales ongoing.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100 %	Unsold/unbooked 41.451 m <sup>2</sup> , 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 <sup>2</sup>	No building rights. Adoption of a detail plan suspended until improvement in market situation.	Investment property
Plots	Tooma	Estonia, Saue	50 %	107 plots, average plot 1.802 m <sup>2</sup>	No building rights. Adoption of a detail plan suspended until improvement in market situation.	Inventories
Plots	Vahi	Estonia, Vääna	100 %	21 plots, average plot 3.363 m <sup>2</sup>	Building rights and building design in place, suspended until improvement in 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
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## SIGNIFICANT CHANGES IN DETAIL PLANS IN 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 m<sup>2</sup>, the area of business areas 7,000 m<sup>2</sup>, additionally, the detailed plan provides for up to 780 (21,150 m<sup>2</sup>) 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 m<sup>2</sup> gross enclosed area. The detailed plan was adopted on 16 September 2009. The detailed plan was displayed to public from 21.10-04.112009 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 m<sup>2</sup> 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 Group considers professional and committed employees as the biggest value and a clear intention of the Group management in 2010 is to contribute into the development of employees and work environment more than in the previous year.

The Group employed 163 people at the end of 2009, while in 2008 the number of employees was 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).

The remuneration paid to members of the supervisory board, including the associated taxes amounted to 0.6 million kroons (0.04 million euros). The corresponding figure for 2008 was 0.6 million kroons (0.04 million euros).

Starting from 5 September 2009, the Group has one board member – Mr. Lembit Tampere.

As at 31.12.2009 the distribution of the employees by regions and areas of activity was as follows:

2009	Estonia	Latvia	Ukraine	Bulgaria	TOTAL
Service	39	15	0	12	66
Development	11	4	0	8	23
Construction	59	0	0	0	59
General management	15	0	0	0	15
<b>TOTAL</b>	<b>124</b>	<b>19</b>	<b>0</b>	<b>20</b>	<b>163</b>
2008	Estonia	Latvia	Ukraine	Bulgaria	TOTAL
Service	58	35	29	17	139
Development	27	7	0	10	44
Construction	63	128	0	0	191
General management	22	0	0	0	22
<b>TOTAL</b>	<b>170</b>	<b>170</b>	<b>29</b>	<b>27</b>	<b>396</b>

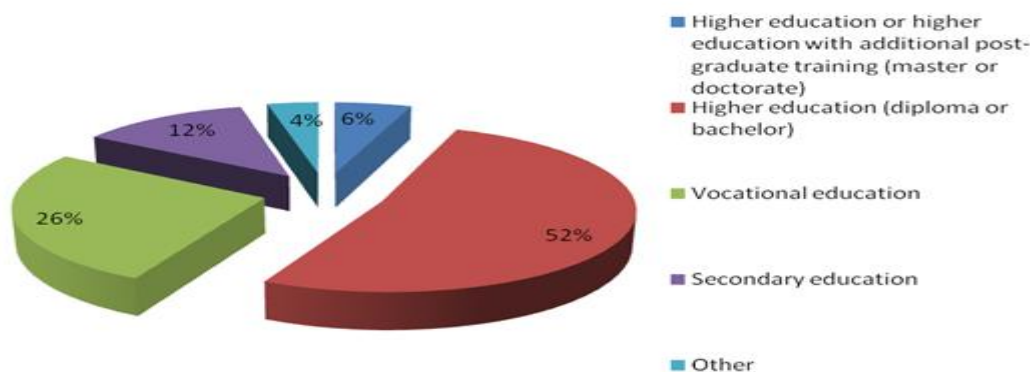
The year 2009 continued to be tense on the whole European real estate market and therefore, the volumes of real estate transactions were not increased compared to previous years. As a result of this, the number of employees in all subsidiaries of the Group decreased considerably due to smaller workload. As a result of centralising the internal services



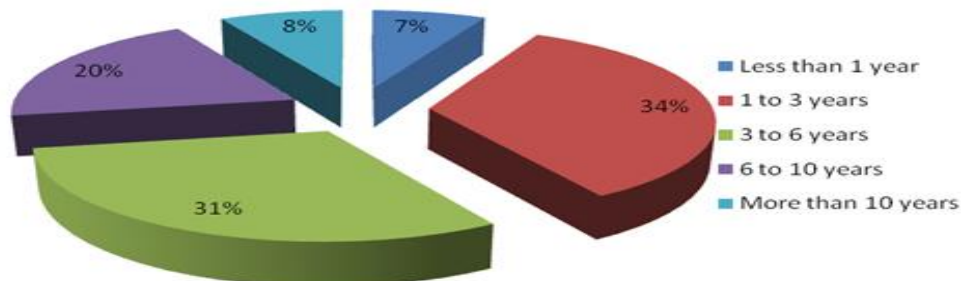
of the company and streamlining the management structures, a high-quality service has been ensured with smaller workforce in all activity fields of the Group.

On 08.12.2009, the holding in Arco Ukraina Valduste OÜ and on 29.12.2009, the holding in Arco Construction SIA was sold, as a result of which the number of employees in the Service Division was reduced by about 29 persons and in the Construction Division by about 80 persons.

58 % of all employees of the Group have higher education or higher education with additional post-graduate training. This proves the high professionalism, broad conception of the world and ability to develop. 28 % of Group's employees have vocational education according to their position.



34 % of employees have worked in the Group for 1 – 3 years and 32 % of employees 3–6 years, thereby 7 % of employees have a job experience under 1 year. 93 % of Group's employees have worked with the Group over 1 year, thus mostly started working with the Group before the start of the global economic downturn and real estate crisis. This is a proof of employees' loyalty, commitment and belief in the Group's sustainable development.



Starting from 2008, an employee motivation system has been developed in the Group and was unconditionally implemented in 2009. The Group management contributed into the development of team relations and into integration of employees of the different structural units of the Group. In 2009, the traditions of national information days, summer days and Christmas party continued, also the best employees of the Group in 2009 were elected.

Although in 2009, the Group mostly organised for employees essential trainings required for the immediate fulfilment of work tasks, considerably more is planned to be contributed in 2010 into a broad-based development of sales skills of employees in the Service Division.

Starting from 2008, the Group Sports Club consisting of employees of the Group is operating. The purpose of the sports club is to create preconditions and possibilities for doing collective sports and contribute into physical strengthening of employees. In 2009, members of the sports club participated in numerous summer and winter sports competitions and have concluded cooperation agreements with various sports clubs for doing indoor sports. The Group management has supported regular health checkups of employees and concluded relevant cooperation agreements with medical institutions, also possibilities have been created for vaccinating employees against viral infections.

In 2010, the Group plans cooperation with Estonian Unemployment Insurance Fund in order to provide job practice for job seekers.

## CHARITY AND SOCIAL RESPONSIBILITY

In spite of complicated times the Group has not abandoned charity. The Group supports the "Nõmme kalju" football club, the Russian Theatre, and the Estonian Academy of Arts. Furthermore, the company participates in a number of social projects, including co-operation with the Labour Market Board. Through this co-operation the Group has provided broker

training as well as work and practical training opportunities to several people who have lost their jobs, thus contributing directly into reduction of unemployment in the country.

Through charity the Group has also assumed certain social responsibilities for influencing processes occurring in the society. By supporting the "Nõmme kalju" football team the Group not only promotes the development of Estonian sport, but also fosters purposeful leisure activities of youth, thus reducing the risk of going astray.

By sponsoring the Russian Theatre the company promotes both cultural development as well as successful integration processes at the nationwide level.

Through the architecture scholarship of the Estonian Academy of Arts the Group supports the academic education system as well as young and talented architects and architectural historians. This is how we hope to improve the professional level of architecture and property development in Estonia. Both this as well as different co-operation and support projects are initiated with a view to the future in order to support harmonious development of the Republic of Estonia and her people.

## 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).

In order to reduce the volatility of share price and to provide opportunities for more effective pricing of the shares, the special general meeting decided on 11.12.2009 to reduce the share capital of Arco Vara AS by 20 times (Note 17). As a result of the decision, the consolidated assets, liabilities and the equity did not change. Theoretically, the market value of Group's equity should not change either. After the cancellation of shares, 4,741,707 shares will remain. New share capital was registered after the balance sheet date on 16.03.2010.

Furthermore, the Commercial Code of the Republic of Estonia provides that the equity of a company has to make up at least a half of the nominal value of the share capital. Cancelling of shares has enabled us to meet this requirement.

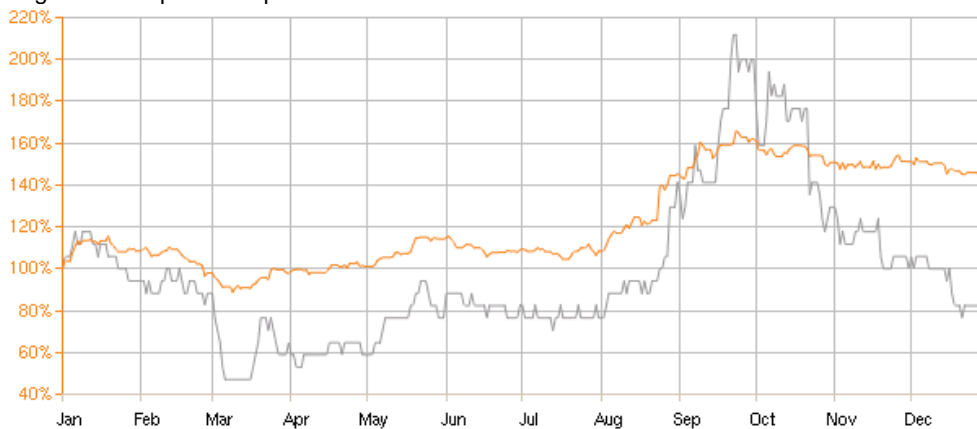
Diagrams of share price changes of the shares of Arco Vara AS, and changes of transaction volumes during 2009: In Estonian kroons (EEK).



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 price and other relevant indicators' statistics within the last three years:

EEK	2009	2008	2007
Share price, at year end	2.66	2.66	22.69
Share price, lowest	0.94	2.35	20.50
Share price, highest	5.95	23.16	38.16
Share price, average	2.58	10.29	28.14
Traded shares	60 708 002	65 497 405	41 457 570
Turnover, million	182.97	575.63	1 254.04
Market value, million	253.45	253.45	2 161.77
Earnings per share (EPS)	-3.42	-12.18	2.76
Dividends per share	n/a	0.39	0.26
Dividends / net profit	n/a	-0.03	0.09
P/E	-0.78	-0.22	8.23
P/BV	0.66	0.35	0.97

EUR	2009	2008	2007
Share price, at year end	0.17	0.17	1.45
Share price, lowest	0.06	0.15	1.31
Share price, highest	0.38	1.48	2.44
Share price, average	0.16	0.66	1.80
Traded shares	60 708 002	65 497 405	41 457 570
Turnover, million	11.69	36.79	80.15
Market value, million	16.20	16.20	138.16
Earnings per share (EPS)	-0.22	-0.78	0.18
Dividends per share	n/a	0.02	0.02
Dividends / net profit	n/a	-0.03	0.09
P/E	-0.78	-0.22	8.23
P/BV	0.66	0.35	0.97

P/E - share price at year end / earnings per share

P/PV - share price at year end / equity per share

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

Share positions of the members of the management board and the supervisory board	Position	Number of shares	Shareholding %
Lembit Tampere	Member of the Management Board	0	0.00 %
Richard Tomingas (Toletum OÜ)	Chairman of the Supervisory Board	20 757 258	21.8 %
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related person)	Member of the Supervisory Board	20 884 710	21.9 %
Aare Tark	Member of the Supervisory Board	0	0.00 %
Kalev Tanner	Member of the Supervisory Board	0	0.00 %
Ragnar Meitern	Member of the Supervisory Board	0	0.00 %
Total		41 641 968	43.70 %

### Dividend Policy

Historically, the Group has announced dividends in the amount of up to 15 % of the consolidated net profit. Nevertheless the Group cannot warrant that dividend payments will be continuing at the same rate in the future, because the exact sum of dividends depends on the results of the latest financial year of the Group and the estimated liquidity position in the medium run.

## 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 2009, we have noticed some worsening in payment behaviour.

### Liquidity risks

Cash balance 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 2009 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 open to what is happening on international capital markets. At present, the long-term interest risk is not covered. The interest bearing liabilities of the Group have decreased within the year by 249.2 million kroons (15.9 million euros). As of 31.12.2009, the interest bearing liabilities of the Group amount to 802.2 million kroons (51.3 million euros). Actually paid interest expenses in 2009 amounted to 47.3 million kroons (3.0 million euros). Compared to 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 as the Group is not protected against devaluation of currencies. Most of the liquid resources are kept in short-term deposits in Estonian kroons.

An overview of the financial risks management policy and the risk positions as at 31.12.2009 has been provided in Note 32 to the financial statements of the consolidation group.

## FORMULAS

**Invested capital** = current interest-bearing liabilities + long-term liabilities + all equity

**Net debt** = current interest-bearing liabilities at the end of period + long-term liabilities at the end of period - cash and cash equivalents at the end of period - short-term investments in highly liquid 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

**ROA** = net profit for the period/ the period's average total assets

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

**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 assets at the end of period / current liabilities at the end of period

**Quick Ratio** = (current assets at the end of period – inventory and biological asset balance at the end of period) / current liabilities at the end of period

**Gross Margin** = Gross profit / Net sales

**Operating Margin** = Operating profit / Net sales

**Net Margin** = Net profit / Net sales

## Corporate Governance Code (CGC)

The shares of Arco Vara AS were listed in the main list of the Tallinn Stock Exchange on 21 June 2007.

Being a publicly traded company Arco Vara AS is governed in its operations by the legislation effective in the Republic of Estonia, the requirements, rules and guidelines established by the Tallinn Stock Exchange, and the company's core values.

- 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

Along with the annual report Arco Vara AS also submits its Corporate Governance Code (CGC) report, in which the management of the company confirms the adherence to the CGC requirements, and explains the reasons of any failure to do so.

The annual report has been prepared in compliance with the CGC guidelines. This CGC report is a separate chapter of the management report constituting a part of the annual report.

### I General Meeting of Shareholders

The highest directing body of a company is the general meeting of shareholders.

The competence of the general meeting, the procedure for calling a meeting and passing of decisions is set forth in the articles of association of the company.

In 2009 the company held one annual and two special general meeting of shareholders.

The annual general meeting took place on 22.05.2009. in Tallinn at Viru väljak 3, but as less than a half of votes represented by shares were present, the general meeting did not have a quorum and the Management Board called a new general meeting with the same agenda. The new annual general meeting took place on 04.06.2009 in Tallinn at Narva mnt 7C. The notice on calling the meeting was published on 23.05.2009 in the newspaper Postimees and on the company's website. The notice contained information on the location where the shareholders were given the possibility to review all the essential data and materials of the general meeting, and where to submit their questions, as well as a direct link to the company's website with the information and documents mentioned in the meeting's agenda. The contract executed with the auditor was not published to shareholders, because according to the pre-contractual negotiations the contents of the contract was not subject to disclosure. At the same time, as the auditing company Ernst & Young Baltic AS was re-elected, the previous auditing agreement was extended.

This information was provided to the shareholders both in Estonian as well as in English. Before the general meeting, no written questions were submitted on the items on agenda.

Before the general meeting, the Supervisory Board did not separately publish its proposals regarding the topics on the agenda of the meeting, because the supervisory board did not have additional suggestions of any relevance, instead, they were published in the summons to the general meeting.

The meeting was chaired by sworn advocate Hannes Vallikivi, who is not the chair of the Supervisory Board of the meeting, nor a member of the Management Board. The agenda of the meeting included approval of the annual report, division of profit, election of auditors. The distribution of profit was discussed at the meeting as a separate topic, and a separate decision was taken in respect to the same. The general meeting of shareholders was held in the Estonian language and the chair of the meeting ensured smooth running of the meeting. All the members of the management board, the Chair of the Supervisory Board (Richard Tomingas), one member of the Supervisory Board (Hillar-Peeter Luitsalu) and a sworn auditor from Ernst & Young Baltic AS (Hanno Lindpere) attended the meeting. The rest of the members of the Supervisory Board (Aare Tark, Kalev Tanner and Ragnar Meitern) were unable to attend the meeting due to their duties in other companies.

The first special general meeting of shareholders was held on 27.08.2009 in Tallinn at Narva mnt. 7c. The notice on calling the meeting was published on 19.08.2009 in the newspaper Postimees and on the company's website. The notice contained information on the reason for calling a special meeting, the location where the shareholders were given the possibility to review all the essential data and materials of the general meeting, and where to submit their questions, as well as a direct link to the company's website with the information and documents mentioned in the meeting's agenda. This information was provided to the shareholders both in Estonian as well as in English. Before the general meeting, no written questions were submitted on the items on agenda.

The meeting was chaired by Rainer Osanik, who is not the chair of the supervisory board of the meeting, nor a member of the management board. Amending company's Articles of Association in a way where the company's Management Board could consist of one to five members instead of the current three to five members was on the agenda. The special general meeting of shareholders was held in the Estonian language and the chair of the meeting ensured smooth running of the meeting. All the members of the management board, the chair of the supervisory board (Richard Tomingas) and one member of the supervisory board (Hillar-Peeter Luitsalu) attended the meeting. The rest of the members of the supervisory board (Aare Tark, Kalev Tanner and Ragnar Meitern) and the auditor didn't attend the meeting.

The second special general meeting of shareholders was held on 17.12.2009 in Tallinn at Narva mnt. 7C. The notice on calling the meeting was published on 19.11.2009 in the newspaper Postimees and on the company's website. The notice contained information on the reason for calling a special meeting, the location where the shareholders were given the possibility to review all the essential data and materials of the general meeting, and where to submit their questions, as well as a direct link to the company's website with the information and documents mentioned in the meeting's agenda. This information was provided to the shareholders both in Estonian as well as in English. Before the general meeting, no written questions were submitted on the items on agenda.

The meeting was chaired by sworn advocate Hannes Vallikivi, who is not a Chair of company's Supervisory Board or a Member of the Board. Extension of the powers of the members of the company's Supervisory Board, remuneration of members of the Supervisory Board, amendment of the Articles of Association, and reduction of share capital were on the agenda. The special general meeting of shareholders was held in the Estonian language and the chair of the meeting ensured smooth running of the meeting. All the members of the management board, the chair of the supervisory board (Richard Tomingas), one member of the supervisory board (Hillar-Peeter Luitsalu) and a notary (Merle Saar-Johanson) attended the meeting. The rest of the members of the supervisory board (Aare Tark, Kalev Tanner and Ragnar Meitern) and the auditor didn't attend the meeting.

The company did not consider it possible to monitor and attend the general meetings by means of communication, because there are no reliable solutions for identifying the shareholders and ensuring the privacy of attending shareholders.

Information pertaining to the agendas of the annual and special general meetings of shareholders, as well as the questions posed by shareholders before the meetings, and the responses given are displayed on company's web page until the notice on calling the next general meeting of shareholders is published.

## II Management Board

Since 04.09.2009 and at present the Management Board of Arco Vara AS includes 1 member:

- Lembit Tampere – manager, who organises the work of the company;

From 16.10.2008 till 03.09.2009 the management board included 3 members: Lembit Tampere (chair of the management board), Heigo Metsoja (member of the management board, financial manager) and Veiko Taevere (member of the management board, head of the development division).

Reducing the number of members of the management board to one was deemed necessary for the purpose of better organisation in companies business, ensuring management efficiency, and restructuring of its activities. The relevant changes were adopted by the special general meeting on 27.08.2009 when the Articles of Association were amended respectively.

Upon assuming the office every member of the management board has executed a service contract with the company governing the service assignments of that member. Contracts with members of the management board have been (were) entered into for the term of three years. None of the members of the management board is concurrently a member of management boards of more than two issuers, a chair of the supervisory board of another issuer, nor a chair of the supervisory board of an issuer of the company's group.

The member of the management board has executed a contract of a member of the management board with the company, which specifies the rights, obligations and liability of the member of the management board, and lays down the provisions governing payment of principal remuneration. The amount of the remuneration was agreed upon in line with the service assignments and activities entrusted to the member of the management board, the current state of the business, and the future trends. Upon removal of the member of the management board from the office without a good reason, the member of the management board is paid a severance pay in the amount of four months principal remuneration of the member of the management board.

The contracts of service for board members concluded with Heigo Metsoja, Veiko Taevere and Lembit Tampere did not include the procedure for paying bonuses and the Supervisory Board of the company has not approved any other similar procedure.

In 2009, the remuneration paid to the Members of the Board totalled 1.9 million kroons (0,1 million euros). No bonuses or severance pay were paid.

The members of the management board have informed the company of their participation in other business entities, which are not members of the Group, or management bodies thereof.

- Lembit Tampere – member of the management board of OÜ Alasniidu, OÜ Overseas and OÜ Harku Projektijuhtimine and the sole shareholder and member of the management board of OÜ Rammelga Aiand;

Certain interest held by the members in management board, and their participation in managing bodies does not constitute a breach of the prohibition on competition. Moreover the members of the management board have assumed the obligation to refrain from any breach of the non-competition obligation under their respective agreements. Furthermore, the internal work procedure rules of the company stipulate that no member of the management board or any employee shall demand or accept in their own personal interest any moneys or other benefits from any third persons in connection with their job, nor grant any third persons unlawful or unreasonable favours.



The members of the management board have not concluded any transactions with themselves, any persons connected with or related with themselves, nor taken any decisions based on their personal interests.

### III Supervisory Board

The task of the supervisory board is to plan the operations of the company, organise the business and carry out supervision over the activities of the management board. The members of the supervision of Arco Vara AS are elected by the general meeting of shareholders.

In line with the CGC one-half of the members of the management board of the issuer have to be independent. If the supervisory board includes an uneven number of members the number of independent members may be less by 1.

The supervisory board of the company consists of 5 members. For the whole financial year, the members of the supervisory board were Richard Tomingas (chair of the supervisory board), Hillar-Peeter Luitsalu, Aare Tark, Kalev Tanner and Ragnar Meitern.

Since 16.05.2008 the independent members of the supervisory board, in line with the definition provided by CGC, are Aare Tark, Kalev Tanner and Ragnar Meitern. The members of the supervisory board Hillar-Peeter Luitsalu and Richard Tomingas cannot be deemed independent members, because within the last three years they have been members of the management of a number of business entities of the issuer's group, and have business relationships via the business entities OÜ HM Investeeringud and OÜ Toletum in which they hold interest.

Therefore the supervisory board of the company includes 3 independent and 2 dependent members, which meets the CGC's requirement according to which, in the case that the supervisory board has an uneven number of members, the number of independent members may be one less than the number of dependent members. Such composition of the supervisory board ensures efficient management and is the best option for the company and the shareholders.

The members of the supervisory board elect from among themselves the chair of the supervisory board. Starting from 21.01.2008 and at present, the Chair of the Supervisory Board is Richard Tomingas.

The remuneration for the Members of Supervisory Board was from 31.05.2007 until 17.12.2009 per member 7,500 kroons (gross amount). On 17.12.2009 the general meeting approved as a new remuneration of Supervisory Board members 15,000 (959 euros) per month (net amount). No additional remuneration is paid to the members of the supervisory board, and no special remuneration is paid to the chair of the supervisory board. No severance pay is paid to resigning members of the supervisory board.

Hillar-Peeter Luitsalu and Richard Tomingas who are also active members of supervisory boards of companies controlled by the issuer, have been granted the use of cars, computers and mobile telephone, and according to the resolution of the general meeting the expenses connected with the same are borne by the issuer.

The supervisory board has formed no committees.

Altogether 8 meetings of the supervisory board were held in 2009. In 2009 most members of the supervisory board of the issuer participated in more than one-half of the meetings of the supervisory board held during their term of office. Ragnar Meitern was not able to participate in more than a half of Supervisory Board meetings due to being abroad.

No conflict of interest has emerged in 2009 with respect to any members of the supervisory board.

### IV Co-operation of Management Board and Supervisory Board

In line with the articles of association of the issuer, and the established routine of work the management board and the supervisory board work in close co-operation.

The members of the supervisory board Hillar-Peeter Luitsalu and Richard Tomingas are actively involved in the supervisory boards of all the parent companies of all the three key areas of activity (Arco Ehitus OÜ, Arco Investeeringute AS and Arco Real Estate AS); in addition, Richard Tomingas is a Supervisory Board Member of Arco Development SIA.

The management board and the supervisory board hold joint meetings when matters concerning the company's strategy are discussed, and the parties continuously exchange information pertaining to the strategic development of the issuer. Furthermore, at such meetings the management board informs the supervisory board of any deviations from the company's plans and targets and the reasons thereof.

When needed meetings of the chair of the supervisory board and the chair of the management board are held to exchange information. With respect to exchange of information the internal rules governing the keeping, disclosure of internal information, as well as transactions with the shares of Arco Vara As are applied.

On 18.08.2009, the Supervisory Board decided to remove Members of the Board Heigo Metsoja and Veiko Taevere starting from approving the amendments to the Articles of Association by the general meeting. Reducing the number of members of the management board to one was deemed necessary for the purpose better organisation of the business of the company, ensuring management efficiency, and restructuring of its activities.

## V Disclosure of Information

Since listing of the shares Arco Vara AS on the Tallinn Stock Exchange the company has been adhering to the information disclosure requirements laid down by Tallinn Stock Exchange and in compliance with the objective of applying equal treatment to all its shareholders.

The website of Arco Vara AS can be found at the address [www.arcorealestate.com](http://www.arcorealestate.com) and the information targeted at shareholders is available at the easily found section <http://www.arcorealestate.com/en/investor-info/general> where it is available both in Estonian as well as in English. The issuer has disclosed on its website all the facts and assessment pertaining to the issuer, which have been disclosed to financial analysts or other persons. Moreover, the website of the issuer discloses information about meetings held with analysts, presentations made to analysts or investors, as well as the time and place of presentations and press conferences intended for institutional investors, and general directions of the issuer's strategy. The issuer did not draw up a so-called financial calendar at the beginning of the financial year, inasmuch as the issuer has published all the information subject to disclosure by the deadlines set forth in the relevant legislation.

On company's web page ([www.arcorealestate.com](http://www.arcorealestate.com)) the following information is available to shareholders: Corporate Governance Practices (CGC) report, dates, locations, agendas and other relevant information of general meetings, Articles of Association, composition of the Management Board and the Supervisory Board; information on auditor, annual and interim reports. On company's web page no agreements on concerted exercise of rights between shareholders are presented because no such agreements have been concluded. The general directions of the issuer's strategy approved by the Supervisory Board have previously been accessible to shareholders on company's web page, but not at present, because the strategy documents are being updated.

The company has not arranged presentations to investors or analysts directly before publishing the financial reporting and has never published company's internal information or unpublished financial information at meetings with analysts or investors.

## VI Financial Reporting and Auditing

The consolidated financial reports of Arco Vara AS have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial reports have been prepared and submitted for approval in conformity with the requirements and liabilities set out in the Estonian Accounting Act, the stock exchange rules, the Commercial Code and other legislation.

The company publishes its annual audited accounts once a year and unaudited interim reports during the financial year; all reports are available to shareholders on company's web page.

The meeting of the supervisory board, which discussed the auditing results, was attended by the auditor. The auditor submitted his report, the members of the management board were not present when the results were reviewed. Minutes were taken at the relevant meeting of the Supervisory Board.

In the notice for calling the company's annual general meeting the candidate for auditor was published, however, no information on the candidate or the fact that the same auditor's association continues was not published. Since 2009 the audit team works under the supervision of Ivar Kiigemägi. As the auditor has been auditing the financial results of the company for past years, and inasmuch the supervisory board had no negative comments regarding the auditor's activities the supervisory board deemed unnecessary to have a separate report on the auditor's activities be presented to the general meeting.

Prior to signing, the draft agreement with the auditor was submitted by the Management Board to the Supervisory Board for approval. In the mentioned agreement, the tasks, the time schedule and the remuneration of the auditor were set out above all. The company did not disclose the amount of the fee paid to the auditor, inasmuch as, in the opinion of the issuer, the non-disclosure thereof does not affect the reliability of the auditor's report prepared following the auditing.

In order to better assess the company's risks and for better management, most relevant companies of the Group prepare a budget for the next financial year, which will be approved by the Supervisory Boards or the general meetings of the relevant subsidiary. Company's own budget and the consolidated budget will be approved by the Supervisory Board. The company employs a controller for adhering to approved budgets and if necessary, additional internal audit services are ordered from relevant experts.

The total internal and external audit costs of the company in 2009 were 1.7 million kroons (0.1 million euros). The corresponding figure for 2008 was 2.3 million kroons (0.2 million euros).

## Confirmation

The Group's management board confirms that the management report presents fairly the development, performance and financial position of the company and the Group provides an overview of the main risks and uncertainties.



Lembit Tampere  
Member of the management board

26.03.2010

## Consolidated financial statements

### Statement of management's responsibility

We acknowledge our responsibility for the preparation of the consolidated financial statements on pages 27 to 84 of this report and confirm that:

1. the accounting policies applied on the preparation of the consolidated financial statements of Arco Vara AS (the "Parent") and its subsidiaries and interests in jointly controlled entities (together referred to as the "Group") comply with International Financial Reporting Standards (IFRS) as adopted by the European Union;
2. the consolidated financial statements give a true and fair view of the financial position of the Group and of the results of its operations and its cash flows;
3. the Group and the Parent are going concerns.



Lembit Tampere  
Member of the Management Board

26.03 2010

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 **ERNST & YOUNG**

29.03.2010 HAA

## Consolidated statement of comprehensive income

	Note	EEK		EUR	
		2009	2008	2009	2008
In thousands					
Revenue from rendering of services		309 449	487 478	19 777	31 156
Sale of goods		95 274	172 301	6 089	11 012
<b>Total revenue</b>	5,6	<b>404 723</b>	<b>659 779</b>	<b>25 866</b>	<b>42 168</b>
Cost of sales	8	-497 126	-1 010 810	-31 772	-64 603
<b>Gross profit</b>		<b>-92 403</b>	<b>-351 031</b>	<b>-5 906</b>	<b>-22 435</b>
Other income	5,9	136 865	30 644	8 747	1 959
Selling and distribution expenses	10	-4 417	-13 422	-282	-858
Administrative expenses	11	-86 253	-124 506	-5 513	-7 957
Other expenses	9	-90 945	-591 402	-5 812	-37 797
<b>Operating loss</b>		<b>-137 153</b>	<b>-1 049 717</b>	<b>-8 766</b>	<b>-67 088</b>
Finance income	12	8 946	76 089	572	4 863
Finance expenses	12	-197 073	-177 702	-12 595	-11 357
<b>Loss before tax</b>		<b>-325 280</b>	<b>-1 151 330</b>	<b>-20 789</b>	<b>-73 582</b>
Income tax	13	868	-8 811	55	-563
<b>Net loss of the period</b>		<b>-324 412</b>	<b>-1 160 141</b>	<b>-20 734</b>	<b>-74 145</b>
<b>Net loss attributable to:</b>					
Parent company's shareholders' interest in loss		-324 412	-1 154 959	-20 734	-73 814
Non-controlling interest in loss		0	-5 182	0	-331
		<b>-324 412</b>	<b>-1 160 141</b>	<b>-20 734</b>	<b>-74 145</b>
<b>Other comprehensive income</b>					
Exchange rate differences in converting foreign company		303	-37	19	-2
<b>Total comprehensive income for the period</b>		<b>-324 109</b>	<b>-1 160 178</b>	<b>-20 715</b>	<b>-74 147</b>
Parent company's shareholders' interest in comprehensive income		-324 109	-1 154 996	-20 715	-73 816
Non-controlling interest in comprehensive income		0	-5 182	0	-331
<b>Earning per share</b>	<b>14</b>				
- Basic		-3,42	-12,18	-0,22	-0,78
- Diluted		-3,42	-12,18	-0,22	-0,78

Notes on pages 32 to 84 are inseparable parts to the consolidated financial statement

## 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	34	71 392	172 574	4 563	11 029
Financial investments	16	0	40 416	0	2 583
Receivables	17	164 075	294 352	10 486	18 813
Prepayments		4 889	6 165	312	394
Inventories	18	776 601	849 440	49 634	54 289
Biological assets	19	0	3 679	0	235
<b>Total current assets</b>		<b>1 016 957</b>	<b>1 366 626</b>	<b>64 995</b>	<b>87 343</b>
Financial investments	16	15 613	255	998	16
Receivables	17	6 304	6 671	403	427
Investment property	20	328 988	542 753	21 026	34 688
Property, plant and equipment	21	10 545	41 812	674	2 672
Intangible assets	22	812	12 475	52	797
<b>Total non-current assets</b>		<b>362 262</b>	<b>603 966</b>	<b>23 153</b>	<b>38 600</b>
<b>TOTAL ASSETS</b>		<b>1 379 219</b>	<b>1 970 592</b>	<b>88 148</b>	<b>125 943</b>
Loans and borrowings	23	605 249	353 417	38 682	22 587
Payables	25	90 744	132 677	5 800	8 480
Deferred income	26	82 164	65 174	5 251	4 165
Provisions	27	12 650	5 917	808	378
<b>Total current liabilities</b>		<b>790 807</b>	<b>557 185</b>	<b>50 541</b>	<b>35 610</b>
Loans and borrowings	23	196 983	692 919	12 590	44 286
Payables	25	6 279	4 404	401	281
Deferred income tax liability		0	20	0	1
Provisions	27	1 100	4 291	70	274
<b>Total non-current liabilities</b>		<b>204 362</b>	<b>701 634</b>	<b>13 061</b>	<b>44 842</b>
<b>TOTAL LIABILITIES</b>		<b>995 169</b>	<b>1 258 819</b>	<b>63 602</b>	<b>80 452</b>
Share capital	29	952 842	952 842	60 898	60 898
Share premium	29	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
Treasury shares (minus)	29	-3 992	-3 992	-255	-255
<b>Total equity attributable to equity holders of the parent</b>		<b>384 050</b>	<b>708 159</b>	<b>24 546</b>	<b>45 260</b>
Total equity attributable to non-controlling interest		0	3 614	0	231
<b>Total equity</b>		<b>384 050</b>	<b>711 773</b>	<b>24 546</b>	<b>45 491</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1 379 219</b>	<b>1 970 592</b>	<b>88 148</b>	<b>125 943</b>

Notes on pages 32 to 84 are inseparable parts to the consolidated financial statement

For Identification purposes only

**ERNST & YOUNG**  
29.03.2010-AAA

## Consolidated cash flow statement

	Note	EEK		EUR	
		2009	2008	2009	2008
In thousands					
Net profit (loss)		-324 412	-1 160 141	-20 734	-74 147
Interest income and expense	12	32 820	-5 080	2 098	-325
Gains and losses on disposal of subsidiaries and interests in jointly controlled entities	7,12	138 025	41 295	8 821	2 639
Gains and losses on other long-term financial assets	12	-1 486	-2 429	-95	-155
Impairment losses on financial assets	12	15 684	72 435	1 002	4 629
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	8,11	3 827	7 412	245	474
Goodwill adjustment	11	-10 896	8 720	-696	557
Gain / loss on the sale of property, plant and equipment and intangible assets	9	2 411	-248	154	-16
Gain / loss on the sale of investment property	9	-1 088	-1 535	-70	-98
Change in the fair value of investment property and biological assets	9	-44 466	555 629	-2 842	35 511
Loss on decrease of net realisable value of inventories	8	142 147	434 272	9 085	27 755
Exchange rate gains and losses	12	2 945	-4 608	188	-295
Corporate income tax expense		-868	12 744	-55	814
<b>Operating cash flow before working capital changes</b>		<b>-23 565</b>	<b>-41 534</b>	<b>-1 506</b>	<b>-2 657</b>
Change in receivables and prepayments		59 543	-12 481	3 805	-798
Change in inventory and biological assets		-103 439	-99 831	-6 611	-6 380
Change in prepayments		40 854	26 273	2 611	1 679
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>-26 607</b>	<b>-127 573</b>	<b>-1 700</b>	<b>-8 156</b>
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	7	38 105	-2 912	2 435	-186
Acquisition of other financial investments		0	-202 665	0	-12 953
Proceeds from disposal of other financial investments		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
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>95 538</b>	<b>-62 622</b>	<b>6 106</b>	<b>-4 002</b>
Proceeds from loans received		120 998	312 739	7 733	19 988
Repayment of loans and payment of finance lease liabilities		-241 699	-569 343	-15 447	-36 388
Change in overdraft		0	-14	0	-1
Change in group account liability		0	-1 568	0	-100
Interest paid		-47 261	-82 271	-3 021	-5 258
Purchase of own shares		0	-3 992	0	-255
Dividends paid		-2 454	-42 274	-157	-2 702
Income tax paid on dividends		0	-15 516	0	-992
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>-170 416</b>	<b>-402 239</b>	<b>-10 892</b>	<b>-25 708</b>
<b>NET CASH FLOW</b>		<b>-101 485</b>	<b>-592 434</b>	<b>-6 486</b>	<b>-37 863</b>
Cash and cash equivalents at beginning of period		172 574	765 008	11 029	48 892
Increase / decrease		-101 485	-592 434	-6 486	-37 863
Effect of exchange rate fluctuations		303	0	19	0
<b>Cash and cash equivalents at end of period</b>	34	<b>71 392</b>	<b>172 574</b>	<b>4 562</b>	<b>11 029</b>

Notes on pages 33 to 84 are inseparable parts to the consolidated financial statement

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## Consolidated statement of changes in equity

	Equity attributable to equity holders of the parent						Total	non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Treasury shares (minus)	Retained earnings			
In thousands EEK									
<b>At 31.12.2007</b>	<b>952 842</b>	<b>712 514</b>	<b>20 084</b>	<b>37</b>	<b>0</b>	<b>218 830</b>	<b>1 904 307</b>	<b>25 265</b>	<b>1 929 572</b>
Dividends declared	0	0	0	0	0	-37 160	-37 160	-1 252	-38 412
Change in non-controlling interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	-15 217	-15 217
Transfer to capital reserve	0	0	11 379	0	0	-11 379	0	0	0
Purchase of own shares (note 29)	0	0	0	0	-3 992	0	-3 992	0	-3 992
Comprehensive income for the period (- loss)	0	0	0	-37	0	-1 154 959	-1 154 996	-5 182	-1 160 178
<b>At 31 December 2008</b>	<b>952 842</b>	<b>712 514</b>	<b>31 463</b>	<b>0</b>	<b>-3 992</b>	<b>-984 668</b>	<b>708 159</b>	<b>3 614</b>	<b>711 773</b>
Change in non-controlling interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	-3 614	-3 614
Covering of accumulated loss (note 29)	0	-712 514	0	0	0	712 514	0	0	0
Comprehensive income for the period (- loss)	0	0	0	303	0	-324 412	-324 109	0	-324 109
<b>At 31.12.2009</b>	<b>952 842</b>	<b>0</b>	<b>31 463</b>	<b>303</b>	<b>-3 992</b>	<b>-596 566</b>	<b>384 050</b>	<b>0</b>	<b>384 050</b>
In thousands EUR									
<b>At 31.12.2007</b>	<b>60 898</b>	<b>45 538</b>	<b>1 284</b>	<b>2</b>	<b>0</b>	<b>13 986</b>	<b>121 708</b>	<b>1 615</b>	<b>123 323</b>
Dividends declared	0	0	0	0	0	-2 375	-2 375	-80	-2 455
Change in non-controlling interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	-973	-973
Transfer to capital reserve	0	0	727	0	0	-727	0	0	0
Purchase of own shares (note 29)	0	0	0	0	-255	0	-255	0	-255
Comprehensive income for the period (- loss)	0	0	0	-2	0	-73 815	-73 817	-331	-74 148
<b>At 31 December 2008</b>	<b>60 898</b>	<b>45 538</b>	<b>2 011</b>	<b>0</b>	<b>-255</b>	<b>-62 931</b>	<b>45 261</b>	<b>231</b>	<b>45 492</b>
Change in non-controlling interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	-231	-231
Covering of accumulated loss (note 29)	0	-45 538	0	0	0	45 538	0	0	0
Comprehensive income for the period (- loss)	0	0	0	19	0	-20 735	-20 716	0	-20 716
<b>At 31.12.2009</b>	<b>60 898</b>	<b>0</b>	<b>2 011</b>	<b>19</b>	<b>-255</b>	<b>-38 128</b>	<b>24 545</b>	<b>0</b>	<b>24 545</b>

Notes on pages 32 to 84 are inseparable parts to the consolidated financial statement



## Notes to the consolidated financial statements

### 1 Corporate information

These consolidated financial statements of Arco Vara AS and its subsidiaries and interests in jointly controlled entities as at and for the year ended 31.12.2009 were authorised for issue by the management board on 26.03.2009. Under the Commercial Code of the Republic of Estonia, the final approval of the annual report prepared by the management board and approved by the supervisory board rests with the shareholders' general meeting. The consolidated financial statements are part of the annual report, which is subject to approval by the shareholders, and they serve as a basis for adopting the profit allocation resolution. Shareholders may decide not to approve the annual report, which has been prepared by the management board and approved by the supervisory board, and may demand that a new annual report be prepared.

Arco Vara AS (the "Parent") is a limited company incorporated and domiciled in Estonia. At the end of 2009, Arco Vara AS, its subsidiaries and jointly controlled entities (the "Group") employed 163 people (2008: 396 people). The principal activities of the Group are described in note 5 and 6 "Segment reporting". In addition to Estonia, the Group operates mainly in Latvia and Bulgaria.

The structure of Arco Vara Group as at 31.12.2009 is presented in note 37.

### 2 Statement of compliance and basis of preparation

The consolidated financial statements of Arco Vara AS and its subsidiaries and interests in jointly controlled entities have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements have been presented and submitted for approval in conformity with the requirements of the Estonian Accounting Act and the Commercial Code.

The functional and presentation currency of Arco Vara AS is the Estonian kroon (kroon, EEK). Based on NASDAQ OMX Tallinn AS 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 thousand euro may occur due to approximation.

The consolidated financial statements have been prepared on a historical cost method, unless otherwise indicated in note 4 "Summary of significant accounting policies" (e.g. certain investments, derivative financial instruments, investment properties and biological assets have been measured at fair value).

#### *Basis of consolidation*

The consolidated financial statements comprise the financial statements of Arco Vara AS and its subsidiaries, combined line by line, and the Group's interests in jointly controlled entities (joint ventures), recognised using proportionate consolidation. The financial statements of all Group entities coincide with the calendar year. The accounting policies of foreign Group entities have been adjusted, where necessary, to ensure consistency with the policies adopted by the Group.

A subsidiary is an entity that is controlled by the Parent. Control is the power to govern the financial and operating policies of an entity under a statute or an agreement or by some other means. Control is presumed to exist when the Parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity.

A joint venture is a contractual arrangement whereby two or more parties (including the Parent) undertake an economic activity that is subject to joint control. Joint control exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

The assets, liabilities, income, expenses and cash flows of subsidiaries and interests in joint ventures are consolidated from the date the control or joint control commences until the control or joint control ceases.

The Group's interest in a jointly controlled entity is recognised using proportionate consolidation — the Group's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined with similar items in the consolidated financial statements.

In preparing the consolidated financial statements, all receivables, liabilities, income, expenses, cash flows and unrealised gains and losses arising from transactions between the Parent and its subsidiaries are eliminated in full. The effect of transactions with jointly controlled entities is eliminated to the extent of the Group's share. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

A non-controlling interest, i.e. the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, is separately presented in the consolidated balance sheet (within equity) and the consolidated income statement.

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Acquisitions of subsidiaries and interests in jointly controlled entities are accounted for by applying the purchase method. Under the purchase method, the acquirer's assets, liabilities and contingent liabilities ("net assets") are recognised at their fair values. The excess of the cost of the business combination over the Group's interest in the fair value of the acquirer's net assets is recognised as goodwill. If the Group's interest in the fair value of the acquirer's net assets exceeds the cost of the business combination, the Group reassesses the identification and measurement of the acquirer's assets, liabilities and contingent liabilities and recognises any excess remaining after that reassessment (negative goodwill) immediately as income in the income statement. For subsequent measurement of goodwill, see policy "Goodwill" in note 4.

Acquisitions of non-controlling interests are accounted for by recognising the difference between the book value of the share of the net assets acquired and the cost of the interest acquired as (positive or negative) goodwill. The net assets acquired are not re-measured to fair value (acquisitions of non-controlling interests are not accounted for by applying the purchase method described in IFRS 3 Business Combinations). In case that the Group acquires a group of assets or net assets that does not constitute a business, it allocates the cost of the group assets between the individual identifiable assets and liabilities in the group based their relative fair values at the acquisition date.

When an interest in a subsidiary or a jointly controlled entity is disposed of, the difference between the sum of the consideration received and the carrying amount of the Group's share in the subsidiary's or jointly controlled entity's assets, liabilities and goodwill is recognised immediately in the income statement, either as a gain in "Finance income" or a loss in "Finance expenses". If control ceases (e.g. the Group's interest decreases below half of the voting power) but influence does not cease, the remaining interest in the carrying amounts of the subsidiary's assets, liabilities and goodwill is classified either as an investment in an associate, an interest in a jointly controlled entity, or an investment in other financial assets.

### 3 Changes in accounting policies and presentation practice

Consolidated financial report is compiled on the basis of the principles of consistency and comparability, which means that the Group always applies the same accounting policies and presentation practices. The accounting policies and presentation practice are modified only in the event that this is required by new or amended International Financial Reporting Standards (IFRS) and interpretations thereof, or if the new accounting policy and/or presentation practice provides a more objective overview of the financial standing, financial results and cash flows of the Group.

#### Implementation of new and/or amended IFRS standards and interpretations

The Group has implemented the following new and amended IFRS standards and IFRIC interpretations in the financial year:

- **IFRS 8 Operating Segments;**
- *Amended IAS 1 Presentation of Financial Statements;*
- *Amended IAS 23 Borrowing Costs;*
- *Amended IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements;*
- *Amended IFRS 2 Share-based Payment;*
- *Amended IFRS 7 Financial Instruments: Disclosures;*
- *Amended IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation;*
- *Amended IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives;*
- *IFRIC 13 Customer Loyalty Programmes;*
- *IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interact project;*
- *IFRIC 15 Agreements for the Construction of Real Estate;*
- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation;*
- *Amendments to IFRSs (published in 2008 and effective since 1 January 2009).*

*The most important effects accompanying the mentioned amendments are as follows:*

#### **IFRS 8 Operating Segments;**

IAS 14 Segment Reporting was replaced by IFRS 8. The Group assumes that the operating segments based on IFRS 8 do not considerably differ from the business segments previously defined based on IAS 14. Disclosures required by IFRS 8, the presentation method of operating segment has been changed. The operating segment report in the annual accounts have been adjusted with the presentation method of the quarter report.

**Amended IAS 1 Presentation of Financial Statements;**

The amendment under question will bring along several changes comprising new terminology and changes in the presentation methods of equity transactions. Additionally, the standard introduces the term of statement of comprehensive income and new requirements to the presentation of retrospective restatements.

**Amended IAS 23 Borrowing Costs;**

The amended standard sets out that all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset should be capitalised. The Group applies this amendment, but the amendment has no financial impact for the Group as similar accounting policies have been used by the Group earlier.

*The rest of the standards, interpretations and their amendments approved in 2009 do not have any effect to the Group's financial statements as the Group has no respective accounting statement elements or transactions that the relevant amendments apply to.*

**Standards approved, but not yet entered into effect**

The Group has not implemented the following IFRS and IFRIC interpretations that are approved but not yet entered into effect:

IFRS 2 Share-based Payment amendment (applied to reporting periods starting on 01 January 2010 or later after approval by EU).

The amendment specifies the presentation and extent of Group internal cash-settled share-based payment transactions. The amendment does not have any effect to the financial condition or economic results as the Group has no share-based payment transactions.

Amended IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (applied to reporting periods starting on 1 July 2009 or later).

The amended IFRS 3 (IFRS 3R) sets out several changes in the accounting policies of business combinations influencing the goodwill measurement, reporting results of the period the acquisition takes place, and further reporting results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses by the subsidiary as well as the loss of control of a subsidiary. Based on this, the standards IAS 7 Cash Flow Statements; IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures were amended. According to transitional provisions, the Group will apply these amendments henceforth. Thus, the assets and liabilities obtained during business combinations that took place before the enforcement date of the standard will not be revaluated.

IFRS 9 Financial Instruments (applied to reporting periods starting on 01 January 2013 or later after approval by EU).

IFRS 9 will replace IAS 39 step by step. IASB has issued the first part of the standard that established a new framework for classifying and measuring financial assets. The Group has not yet assessed the effect of implementing this standard.

Amended IAS 24 Related Party Disclosures (applied to reporting periods starting on 01 January 2011 or later after approval by EU).

The changes simplify the definition of related part by explaining its meaning and removing the contradictions of the definition. Additionally, the amended standard allows some publication exceptions for state-owned companies. The amendment does not have any effect to the Group's financial condition or economic results, but may influence the information published on related parties.

**Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues** (effective for financial years beginning on or after 1 February 2010).

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

**Amended IAS 39 Financial Instruments: Recognition and Measurement - eligible hedged items** (applied to reporting periods starting on 1 July 2009 or later).

The amendment concerns determining the unilateral risk in an eligible hedged item and determining inflation as hedged risk or its part in certain situations. This explains that a company can determine a certain part in the change of a financial instrument's fair value or a change in cash flow as hedged item. The amendment does not have any effect to the financial condition or economic results as the Group has no such instruments.

**Amendments to IFRSs**

In May 2008 and April 2009 IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The second omnibus, issued in April 2009, is still to be adopted by the EU. The adoption of the following amendments (all not adopted by the EU yet) may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group:

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.** Specifies that for the groups of non-current assets and assets held for sale that are classified as non-current assets held for sale or discontinued operations, only the disclosure requirements provided for in IFRS 5 apply. The disclosure requirements in other IFRS only apply when it is specifically required for such non-current assets or discontinued operations.
- **IAS 7 Statement of Cash Flows.** Specifies that only expenditures as a result of which assets are presented can be classified as investment cash flow.
- **IAS 36 Impairment of Assets** The amendment specifies that the biggest cash-generating unit to which goodwill from acquisition can be allocated is an operating segment as defined in IFRS 8.

The rest of the amendments by the collection of amendments do not have any effect to the accounting policies used by the Group, its financial condition or economic results:

- IFRS 2 Share-based Payment;
- IAS 1 Presentation of Financial Statements;
- IAS 17 Leases;
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRIC 9 Reassessment of Embedded Derivatives;
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation;

IFRIC 12 Service Concession Arrangements (applied to reporting periods starting on 29 March 2009 or later).

The interpretation applies to service concession operators and describes the presentation of liabilities taken and rights obtained in a concession arrangement. As no Group company is an operator, the interpretation does not have any effect to the Group.

Amended IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (applied to reporting periods starting on 01 January 2011 or later after approval by EU).

The amendment applies to the presentation of future payments made in the event of minimum funding requirement. The amendment has no effect to company's accounting statements as the Group has no defined benefit assets.

IFRIC 17 Distributions of Non-cash Assets to Owners (applied to reporting periods starting on 31 October 2009 or later).

The interpretation describes the accounting procedure for cases where the company allocates dividends in form of non-cash assets. The amendment does not have any effect to the Group's consolidated financial statements as the group does not allocate non-cash assets to owners.

IFRIC 18 Transfer of assets from customers (applied to reporting periods starting on 31 October 2009 or later). The interpretation specifies presentation of such agreements where an entity receives from a customer an item of property, plant, and equipment that is used either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (e.g. electricity, gas or water supply). IFRIC 18 does not have any effect to the Group's consolidated financial statements as the Group does not have any such agreements.

IFRS 19 Extinguishing Financial Liabilities with Equity Instruments (applied to reporting periods starting on 01 April 2010 or later after approval by EU). *The interpretation describes presentation of transactions where the financial liabilities are paid by equity instruments.*

IFRIC 19 does not have any effect to the Group's consolidated financial statements as the Group does not have any such transactions.

## 4 Summary of significant accounting policies

### Significant accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses, and the disclosure of contingent assets and contingent liabilities.

Although estimates and underlying assumptions are reviewed on an ongoing basis and they are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances, actual results may differ from the estimates.

In applying the Group's accounting policies, management has made the following judgements that have the most significant effect on the financial statements:

#### Classification of properties

Properties are classified as inventories, investment properties and items of property, plant and equipment both on initial recognition and on any subsequent reclassification based on management's intentions regarding their further use. Realization of management's plans depends, among other factors, on resolutions adopted by other parties (e.g. changes in the intended purpose of land, approval of detailed plans, issuance of construction permits, etc). This lessens the accuracy of the classification.

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Properties which are acquired for the development and subsequent sale of living environments, single residential buildings, or residential plots, and properties which are acquired for resale in the ordinary course of business are classified as inventories.

Properties which are held to earn operating lease rentals or for capital appreciation and properties which are held over an extended period for an undetermined future use are classified as investment property.

Properties which are being developed for future use as commercial or business environments that will be let under operating lease and commercial and business properties which are being extensively renovated are classified as investment properties.

#### Estimation uncertainty

The estimates made by management are based on historical experience and the information available at the date the financial statements are authorised for issue. There is a risk that the estimates applied at the balance sheet date in respect of assets and liabilities and associated income and expenses need to be revised in the future. The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the consolidated financial statements are discussed below.

#### Carrying value of receivables

The Group's receivables include mostly receivables from construction division and given loans. Further details on risks that might affect the carrying values of receivables are disclosed in note 17.

#### Estimates of net realisable value of inventories

The Group has several real estate objects classified as inventories. As at 31. December 2009 the net realisable value tests has been performed for all significant inventories. The net realisable value test for real estate objects was carried out at the same time with determination of fair value of real estate objects by using the following methods:

- discounted cash flow analysis
- sales comparison method
- sales contract of the object under the law of obligations concluded as at balance sheet date

For the most important inventories, a valuation report was ordered from an independent real estate appraiser. At 31.12.2009, the carrying amount of inventories tested and presented in net realisable value was 677,120 thousand kroons (43,276 thousand euro). The corresponding figure for 2008 was 516,561 thousand kroons (33,014 thousand euros). The discount rates used in assessment remained in 2009 between 11 % - 18 % and in 2008 between 12,75 % - 24 %.

At 31.12.2009, the sensitivity of the inventories tested by using the discounted cash flow method to the key valuation assumptions applied was as follows:

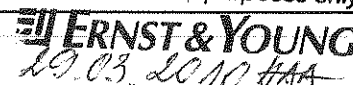
- a 1 percentage point increase in the discount rate would have caused a decrease in the net realisable value in an amount of 19,384 thousand kroons (1,239 thousand euros) (end of 2008: 11,839 thousand kroons (757 thousand euro));
- a 1,5 % percentage point decrease in the discount rate would have caused a 20,492 thousand kroons (1,310 thousand euro) increase in the net realisable value (end of 2008 11,685 thousand kroons (747 thousand euro));
- an average budgeted 5 % decrease in sales prices of apartments/plots would have caused a decrease of 70,637 thousand kroons (4,514 thousand euros) in the net realisable value. In this case, the net realisable value would have decreased by 37,524 thousand kroons (2,398 thousand euros) as at end 2008;
- an average budgeted 5 % increase in sales prices of apartments/plots would have caused an increase of 70,636 thousand kroons (4,514 thousand euros) in the net realisable value. In this case, the net realisable value would have increased by 37,032 thousand kroons (2,367 thousand euros) as at end 2008.

Additional information on inventories is presented in notes 8 and 18 ,19.

#### Impairment of goodwill

The Group assesses whether goodwill arisen on the acquisition of subsidiaries and interests in jointly controlled entities may be impaired (i.e. whether the carrying amount of the goodwill exceeds its recoverable amount) at least annually. This assumes estimating the fair value (less costs to sell) or value in use of the cash-generating unit to which the goodwill has been allocated. Value in use is determined by estimating the future net cash flows to be derived from the cash-generating unit and by applying an appropriate discount rate to calculate the present value of those cash flows. Impairment losses on goodwill are not reversed. At 31.12.2009, the carrying amount of goodwill was 0 thousand kroons (0 thousand euro). The corresponding figure for 2008: 11,397 thousand kroons (728 thousand euro) . Further information on the principles and results of impairment testing is provided in the present note and in note 22.

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Investment property: determining the fair value

At each reporting date, investment properties are measured at their fair values. In addition to management assessment of the fair value of an asset the Group orders valuation reports from independent valuation offices if needed. This means that if needed independent valuations are performed by qualified independent appraisers. Fair value is determined by reference to two basic techniques - the discounted cash flow method and the sales comparison method.

Discounted cash flow method is used for cash flow generating assets or in cases where according to management's assessment sales comparison method doesn't represent fair value (for example, low liquidity of property market in the region, lack of comparable deal flow or too long period between comparable deal and the reporting date). In order to calculate the present value of a property's future cash flows, the appraiser has to forecast the property's future income (including rental per one sqm and the occupancy rate or apartment sales forecast), capital expenditure needs and operating expenses. The present value of the future net cash flow should be found by applying a discount rate which best reflects the current market assessments of the time value of money and the risks specific to the asset. At 31.12.2009, the carrying amount of investment properties whose fair value was determined using the discounted cash flow method was 240,558 thousand kroons (15,374 thousand euro). The corresponding figure for 2008 was 337,367 thousand kroons (21,562 thousand euros). Further information on measuring the fair value of investment property is provided in note 20.

At 31.12.2009, the sensitivity of the carrying amounts of investment properties measured using the discounted cash flow method to the key valuation assumptions applied was as follows:

- a 1 % increase in the discount rate would have caused a 34,610 thousand kroons (2,212 thousand euro) decrease in the fair value of investment property (end of 2008: 19,981 thousand kroons(1,277 thousand euros) decrease);
- a 1 % decrease in the discount rate would have caused a 38,224 thousand kroons (2,443 thousand euro) increase in the fair value of investment property (end of 2008: 21,751 thousand kroons (1,390 thousand euros) increase);
- a 5 % decrease in the forecasted net operating cash flows would have caused a 29,779 thousand kroons (1,903 thousand euro) decrease in the fair value of investment property. As at end of 2008, the fair value of investment property would have decreased by 16,843 thousand kroons (1,076 thousand euro);
- a 5 % increase in the forecasted net operating cash flows would have caused a 29,779 thousand kroons (1,903 thousand euro) increase in the fair value of investment property (end of 2008: a 16,959 thousand kroons (1,077 thousand euro) increase).

Sales comparison method is used in cases, where there's no cash flow at the moment or the asset is held for future development possibilities or for the purpose of future value appreciation. The method compares deal flow with assets in kind in the neighbourhood and the value is determined by using the same values to land sqm value. Because comparable deals are never identical, the value of the deal is adjusted by time, location, size and zoning rights or some other method is applied to determine the fair value (discounted cash flow method for example), if it should represent more logical result according to management's assessment.

Segment reporting

Segment reporting is based on the grouping of structural units for the Group's internal accounting and reporting purposes (management accounting and budgeting). The Group's primary reporting format is business segments. A business segment is a distinguishable component of the Group that is engaged in providing products or services that are different from those of other business segments, and which operates as an independent profit centre.

The Group's business segments comprise:

- Development. The development of residential and commercial environments and long-term investment in real estate.
- Service. Real estate brokerage, valuation and management and short-term investment in real estate;
- Construction. General and sub-contracting in the field of general construction and environmental engineering, and construction supervision.

Segment revenue is revenue that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated to the segment on a reasonable basis. These are revenues from sales to external customers or from transactions with other segments of the Group. Revenue arising from transactions with companies belonging to the same segment is eliminated.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of the Group's expense that can be allocated to the segment on a reasonable basis. These are expenses relating to sales to external customers and expenses relating to transactions with other segments of the Group. Segment expense does not include finance expenses, the Group's general administrative expenses and other expenses that arise at the Group level. The costs incurred at the Group level are allocated to a segment only if they relate to the segment's operating activities and they can be directly attributed to the segment on a reasonable basis. Expenses arising from transactions with companies belonging to the same segment are eliminated.

Segment result is segment revenue less segment expenses.

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Unrealised gains and losses arising from transactions between the Group's segments are not allocated to any segment but are presented in inter-segment eliminations. Unrealised gains and losses arising from transactions between the Parent and a division which can be allocated to the segment on a reasonable basis are included in the segment result. Such gains and losses may include previously capitalised interest expense which upon the reclassification of assets accounted for under the cost model to assets accounted for under the fair value model is recognised as a fair value adjustment in the period in which the assets are reclassified.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on reasonable basis. Segment assets include, for example, current assets, investment properties, property, plant and equipment and intangible assets used in a segment's operating activities. If an asset's depreciation or amortisation expense is included in segment expenses, the asset is included in segment assets. Segment assets do not include assets used for the Group's general needs or which cannot be directly allocated to the segment. Assets shared by two or more segments are allocated to those segments if a reasonable basis for allocation exists.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities include, for example, trade and other payables, accrued expenses, advances received from customers, warranty provisions and other liabilities related to the segment's products and services. Segment liabilities do not include loans, finance leases, debt securities and other liabilities related to financing activities. Income tax liabilities are not included in segment liabilities either.

Unallocated items comprise revenue and expenses and assets and liabilities which are not directly related to any segment and therefore cannot be allocated to any segment.

The Group's secondary reporting format is geographical segments. At 31.12.2009, geographical segments comprised Estonia, Latvia and Bulgaria.

#### Foreign currency

All currencies other than the Estonian kroon (the functional currency of the Parent) are treated as foreign currencies. Transactions in foreign currencies are initially recorded at the foreign exchange rates of the Bank of Estonia ruling at the date of the transaction. Monetary assets (cash, cash equivalents and receivables) and monetary liabilities (loans and borrowings, payables and other liabilities) denominated in foreign currencies at the reporting date are retranslated to Estonian kroons at the Bank of Estonia exchange rates ruling at the balance sheet date. Foreign exchange gains and losses are recognised in the income statement in finance income and finance expenses respectively in the period in which they arise. Non-monetary items denominated in foreign currencies that are measured in terms of historical cost are translated using the Bank of Estonia exchange rates ruling at the dates of the initial transactions. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the Bank of Estonia exchange rates ruling at the date when the fair value was determined.

When the functional currency of a subsidiary or a jointly controlled entity differs from the Parent's functional currency (e.g. the functional currency of the Latvian entities is the Latvian lats, the financial statements of the subsidiary or jointly controlled entity are translated for consolidation purposes using following exchange rates:

- the assets and liabilities of foreign subsidiaries and jointly controlled entities (including goodwill and fair value adjustments arising on acquisition) are translated at the exchange rates ruling at the balance sheet date
- the income and expenses, other changes in equity, and cash flows of foreign subsidiaries and jointly controlled entities are translated at the weighted average exchange rates for the period.

The exchange differences arising on translation, i.e. the differences between the rates ruling at the balance sheet date and the weighted average exchange rates are taken directly to equity and reported in "Other reserves". On the divestment of a foreign entity, the relevant amounts in "Other reserves" are transferred to profit or loss.

#### Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably.

##### Revenue from the sale of properties (real estate)

Sales of properties are recognised when all significant risks and rewards related to the properties have been transferred to the buyer and the Group has no obligation to perform significant additional work. In general, a sale is deemed to have occurred when the real right contract has been signed. Payments made by customers before the signature of the real right contract are recognised as deferred income.

##### Revenue from long-term service contracts

The revenue and expenses arising from long-term service contracts (including construction contracts) are recognised by reference to the stage of completion method. The stage of completion of a service is determined as the proportion that the costs incurred until the balance sheet date bear to the estimated total costs of the transaction. If the amount of progress

billings as at the balance sheet date differs from the revenue determined by reference to the stage of completion method, the difference is recognised as a payable or a receivable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

#### Revenue from other services

Revenue from the rendering of other services arises on the rendering of the service. Revenue from brokerage services is recognised when the transaction has been completed. Rental income from investment properties is recognised on a straight-line basis over the lease term. Revenue and expenses from intermediation of utilities services (electricity, heat, water, etc. charges) are offset against the costs of purchasing those services.

#### Revenue from the sale of other goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer and the amount of revenue can be measured reliably.

#### Finance income

Interest income is recognised on an accrual basis using the effective interest rate method. Dividend income is recognised when the Group's right to receive payment is established.

### Cash and cash equivalents, cash flow statement

Cash and cash equivalents comprise cash on hand, current accounts, demand deposits and short-term (up to 3 months) highly liquid investments which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Such assets are cash, term deposits with a maturity of up to three months and shares in money market funds. Net cash used in operating activities are presented by using indirect method.

#### Financial assets

When a financial asset is recognised initially, it is measured at cost, which is the fair value of the consideration given for it. Acquisition costs are any costs that are directly attributable to the acquisition of the asset, including fees and commissions paid to agents, advisers, brokers and dealers, as well as any non-recoverable levies, taxes and duties. Exceptions include transaction costs directly attributable to the acquisition of a financial asset at fair value through profit or loss which are recognised as an expense when incurred.

A regular way purchase or sale of financial assets is recognised using trade date accounting. The trade date is the date on which the Group commits itself to purchase or sell a financial asset (e.g. the date on which the agreement is signed). A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established by regulation or convention in the marketplace concerned.

Subsequent to initial recognition, financial assets are classified into different categories (see below). The designation is re-evaluated and adjusted at each financial year end. Financial assets whose reclassification is not permitted by IFRS are not reclassified. After initial recognition, financial assets are measured as follows:

- 1) financial assets at fair value through profit or loss – at their fair values;
- 2) held-to-maturity investments – at their amortised cost;
- 3) loans and receivables – at their amortised cost;
- 4) available-for-sale financial assets – at their fair values or, in the case of equity instruments whose fair value cannot be measured reliably, at cost.

#### Financial assets measured at fair value

Financial assets that are measured at fair value are re-measured to fair value at each balance sheet date without any deduction for transaction costs that may be incurred on the sale or disposal of the asset. The fair values of listed securities are based on the closing prices of the securities and the official exchange rates of the Bank of Estonia ruling at the balance sheet date. The fair values of unlisted securities are determined based on all available information and by reference to comparison with the fair values of other instruments which are substantially the same and/or the discounted cash flow analysis.

A gain or loss arising from a change in the fair value of a financial asset is recognised in profit or loss (in "Finance income" and "Finance expenses" respectively). An exception is a gain or loss arising from a change in the fair value of an available-for-sale financial asset which is recognised directly in the revaluation reserve in equity. When an available-for-sale financial asset is derecognised or determined to be impaired, the cumulative gain or loss previously recognised in the revaluation reserve is removed from equity and recognised in profit or loss. In the case of impaired items, the amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

A gain and loss arising on the disposal of financial assets measured at fair value as well as the interest and dividends on these assets are recognised in the income statement (in "Finance income" and "Finance expenses").



### Loans and receivables and held-to-maturity investments

Loans and receivables, except those that the Group intends to sell in the near term, and held-to-maturity investments are measured at amortised cost using the effective interest method. The amortised cost is calculated taking into account any discount or premium on acquisition and any directly attributable transaction costs.

If there is objective evidence that an impairment loss on a financial asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised in the income statement. Impairment losses on financial assets related to operating activities are charged to administrative expenses and impairment losses on financial assets related to investing activities are charged to finance expenses.

Financial assets that are individually significant are assessed for impairment individually. Receivables overdue for 180 days or more are considered impaired and are expensed in full. If impairment becomes evident sooner, the asset is written down earlier.

If a receivable which has been written down is collected or any other event occurs which reverses an impairment loss which has been recognised, the reversal is recognised by reducing the expense item in which the impairment loss was initially recognised.

Interest income on loans and receivables and held-to-maturity investments is recognised in the income statement in "Finance income".

### Financial assets measured at cost

A financial asset measured at cost is written down to its recoverable amount when the latter decreases below the asset's carrying amount. The recoverable amount of a financial asset measured at cost is the present value of its estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are recognised in "Finance expenses" and are not reversed.

A financial asset is derecognised when the Group's contractual rights to the cash flows from the financial asset expire or when the Group assumes the obligation to transfer the cash flows from the financial asset without material delay to a third party to whom most of the risks and rewards associated with the financial asset are transferred.

### Derivatives

The Group uses derivative financial instruments such as interest rate swaps to hedge the interest rate risk. Such derivative instruments are initially recognised at fair value at the date the contract is signed. Subsequent to initial recognition, the instrument is restated to fair value at each balance sheet date. Derivatives with a positive fair value are carried as assets and derivatives with a negative fair value are carried as liabilities. The fair value of the Group's existing interest rate swaps is determined by reference to the discounted cash flow method based on Reuters' estimates of 6-month EURIBOR.

Gains and losses arising from changes in the fair value of derivative financial instruments are recognised in "Finance income" and "Finance expenses" respectively except for the gains and losses on derivative instruments that qualify for hedge accounting. In the reporting and prior periods, the Group had no instruments that qualified for hedge accounting.

### Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in the other capital reserves.

### Inventories

Finished goods and work in progress are initially recognised at their cost of conversion. The cost of conversion includes all direct and indirect production costs incurred in bringing the inventories to their present location and condition. Production overheads are allocated to the costs of conversion based on the normal capacity of the production facilities. Other inventories are initially recognised at cost. The cost of inventories includes all direct and indirect costs incurred in bringing the inventories to their present location and condition. The cost of properties carried as inventories includes, among other items, the borrowing costs (interest charges, amortisation of contract fees, etc) incurred in financing the construction of the properties. Borrowing costs are capitalised until the construction of the underlying asset is complete. Borrowing costs related to registered immovable properties and apartments treated as movable properties are added to the carrying amounts of the assets until a permit of use has been issued.

The cost of inventories is assigned using the weighted average cost formula. As an exception, the cost of registered immovable properties and apartments treated as movable properties is assigned by specific identification of their individual costs.

In the balance sheet, inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory write-downs to net realisable value are recognised under "Cost of sales" in the income statement.

## Investment property

Investment property is property (land or a building or both) held to earn rentals or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes. In addition, investment property includes properties which are held over an extended period for an undetermined future use. Land and buildings acquired for development and resale are carried as inventories. Properties being constructed or developed for future use as investment properties (commercial buildings) and buildings treated as movable properties (commercial buildings under renovation) are carried as property investments.

An investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Transaction costs that are directly attributable to acquisition include notary's fees, stamp duties, advisors' fees and other transaction costs. After initial recognition, investment properties are measured using the fair value model. The fair value of investment property reflects market conditions at the balance sheet date.

In addition to management assessment of the fair value of an asset the Group orders valuation reports from independent valuation offices if needed. This means that if needed independent valuations are performed by qualified independent appraisers. The following valuation methods are applied:

- Discounted cash flow method is used for cash flow generating assets or in cases where according to management's assessment sales comparison method doesn't represent fair value (for example, low liquidity of property market in the region, lack of comparable deal flow or too long period between comparable deal and the reporting date). In order to calculate the present value of a property's future cash flows, the appraiser has to forecast the property's future income (including rental per one sqm and the occupancy rate or apartment sales forecast), capital expenditure needs and operating expenses. The present value of the future net cash flow should be found by applying a discount rate which best reflects the current market assessments of the time value of money and the risks specific to the asset. Discount rate is estimated based on market average capital structure, not based on the asset structure.
- Sales comparison method is used in cases, where there's no cash flow at the moment or the asset is held for future development possibilities or for the purpose of future value appreciation. The method compares deal flow with assets in kind in the neighbourhood and the value is determined by using the same values to land sqm value. Because comparable deals are never identical, the value of the deal is adjusted by time, location, size and zoning rights or some other method is applied to determine the fair value (discounted cash flow method for example), if it should represent more logical result according to management's assessment.
- sales contract of the object under the law of obligations concluded as at balance sheet date for properties that have been sold at balance sheet date under the law of obligations when the real right contract has not yet been concluded, the fair value is based on the sales price set out in the sales contract under the law of obligations. The sales price in the contract under the law of obligations is only used for determining the fair value if the Group has a reasonable assurance that the sales contract under real right will be concluded under same conditions (e.g. buyer has made after the balance sheet date a considerable prepayment or the real right contract has been concluded after the balance sheet date, but before approving the financial statement by the Management Board).

Gain or loss on change in fair value is recognised in the income statement in "Other income" or "Other expense" as appropriate.

An investment property is derecognised on disposal or when the property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains and losses arising from the retirement or disposal of investment property are recognised in the income statement in the period of the retirement or disposal (in "Other income" or "Other expenses" respectively).

Transfers to and from investment property are made when there is a change in use (IAS 40.57). From the date of transfer, an asset is accounted for using the policies applied to the group of assets to which it has been transferred. For a transfer from investment property to inventories or property, plant and equipment, the property's deemed cost for subsequent accounting is its fair value at the date of transfer.

When an item of property, plant and equipment is transferred to investment property, any positive difference between the fair value and carrying amount of the property at the date of transfer is recognised in the revaluation reserve in equity. Any negative difference is recognised in the income statement under depreciation expense. When a property is transferred from inventories to investment property, any difference between fair value and carrying amount is recognised in the income statement in "Other income" or "Other expense" as appropriate.

## Biological assets

A living animal or plant is recognised as a biological asset when it is held to obtain economic benefits and its fair value or cost can be measured reliably. A biological asset is measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. If an active market exists for a biological asset, the quoted price in that market is used as a basis for determining the fair value of that asset. If an active market does not exist, the fair value of an asset is determined using the discounted cash flow method.

On measuring the quantity of plant production, the Group uses 15 sample areas of 77 cm x 77 cm (2 times 2 planting boxes) or 0.593 m<sup>2</sup> per each 100 m<sup>2</sup>. All living plants on those areas are counted and the average of the sample areas calculated. Based on this information, the number of plants per 1 m<sup>2</sup> is identified and multiplied with the area of all planting boxes.

Biological assets are classified into consumable and bearer biological assets. All biological assets in the consolidated balance sheet are consumable biological assets which have been classified into mature and immature biological assets (see Note 19). For the determination of fair value, biological assets are grouped according to significant attributes (age, species, and degree of maturity). For each group, a period of sale, sales revenue (based on the market prices prevailing during the season) and sales costs are estimated. Fair value is determined using the discounted cash flow method.

A gain or loss arising from a change in the fair value of a biological asset is recognised in the income statement in operating profit in the period in which it arises.

### Property, plant and equipment

Assets are recognised as items of property, plant and equipment when their useful life extends beyond one year. An item of property, plant and equipment is initially recognised at cost. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to its acquisition. The cost of properties which are carried as items of property, plant and equipment includes borrowing costs (interest charges, amortisation of contract fees, etc) incurred in financing the construction of the properties. Capitalisation of borrowing costs commences at the date the construction of the asset begins and ceases when the asset is complete. Borrowing costs are only capitalised for qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale

After recognition, an item of property, plant and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses.

If an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for separately. Each part of a component is assigned a depreciation rate that corresponds to its useful life.

Subsequent expenditure on an item of property, plant and equipment (e.g. the costs of replacing a part of an item) is added to the carrying amount of the item, provided that it meets the following criteria: (a) it is probable that future economic benefits associated with the item will flow to the Group; and (b) the cost of the item can be measured reliably. The carrying amounts of the parts that are replaced are derecognised. All other subsequent expenditures related to property, plant and equipment are recognised as an expense in the period in which they are incurred.

Items of property, plant and equipment are depreciated on a straight-line basis. Each part of an item of property, plant and equipment is assigned a depreciation rate that corresponds to its useful life. The following annual depreciation rates are applied:

• Buildings and structures	2–18 %
• Plant and equipment	8–20 %
• Vehicles	15–25 %
• Other equipment and fixtures	20–40 %

Items of property, plant and equipment are depreciated until their residual value exceeds their carrying amount. The residual value is the estimated amount that the Group would currently obtain from the disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

Depreciation methods, depreciation rates and residual values are reviewed at each reporting date. When measurement bases are revised, the revisions are applied prospectively.

The carrying amounts of items of property, plant and equipment are reviewed for impairment when there is evidence that the carrying amount of an asset may exceed its recoverable amount. Impairment testing is described in more detail below (see the policy "impairment of assets").

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is recognised in the income statement in "Other income" or "Other expenses", as appropriate, in the period in which the item is derecognised.

Items of property, plant and equipment whose sale within the next 12 months is highly probable, are reclassified to non-current assets held for sale. Non-current assets held for sale are presented separately from other assets in the balance sheet and their depreciation is discontinued. A non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

### Goodwill

Goodwill acquired in a business combination is initially measured at cost. Goodwill is the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities (net assets) recognised at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each cash-generating unit or group of units to which goodwill is allocated is not larger than a segment in the Group's primary reporting format.

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Goodwill is assessed for impairment at least annually, at the end of the financial year or more frequently if events or changes in estimates indicate that the carrying amount of goodwill may be impaired. Impairment is determined by measuring the recoverable amount of the cash-generating unit to which the goodwill has been allocated. An impairment loss is recognised when the recoverable amount of the cash-generating unit to which goodwill has been allocated is less than the carrying amount of the unit. Impairment losses on goodwill are recognised in "Administrative expenses" in the income statement.

#### Other intangible assets

Other acquired intangible assets are initially measured at cost. Following initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are divided into assets with finite and indefinite useful lives. Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives (generally three to six years). Amortisation expense is recognised in the income statement in the expense category consistent with the function of the underlying asset. The amortisation periods and amortisation methods of intangible assets with finite useful life are reviewed at each financial year end. Changes in the expected useful life of an asset and the pattern in which the asset's future economic benefits are expected to be consumed are accounted for as changes in accounting estimates and are applied prospectively.

Intangible assets with indefinite useful lives are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether events and circumstances continue to support the indefinite life assessment for that asset. If not, the change is accounted for as a change in an accounting estimate on a prospective basis and the asset is subjected to amortisation.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the level of the cash-generating unit. The carrying values of intangible assets with finite useful lives are reviewed for impairment when there is evidence that the carrying value may not be recoverable. If an impairment test indicates that the recoverable amount of an intangible asset is lower than its carrying amount, the asset is written down to its recoverable amount. Impairment losses are recognised in the income statement similarly to amortisation expenses, i.e. they are grouped according to the use of the underlying assets. Impairment testing is described in greater detail in the section "Impairment of assets".

#### Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If such an indication exists or at least once a year (if so required by IFRS), the Group measures the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down, either individually or as part of a cash-generating unit, to its recoverable amount. An asset's recoverable amount is the higher of the present value of its estimated future cash flows (value in use) and its fair value less costs to sell. In measuring value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where necessary, the assistance of independent experts is used. Impairment losses, including impairment losses for cash-generating units are recognised in the income statement in other expenses or in depreciation and amortisation expense in the period in which they are incurred.

If there is evidence that an impairment loss recognised in prior years no longer exists or has decreased, the impairment loss is reversed. Impairment losses and prevailing circumstances are reviewed at least annually at each reporting date. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised. The reversal is recognised in the same item in which the impairment loss was initially recognised.

#### Non-controlling shareholders' put options

One non-controlling shareholder of the Group entities has effective put options, which grant the non-controlling shareholders the right to sell, and the Group – the obligation to purchase the shares of stock or membership shares held by the non-controlling shareholders. In the case of one shareholder agreement the option exercise price was the amount equalling the market value of the said shares. In the case of other shareholder agreement, the option exercise price was a pro rata share of the book value of the company's equity.

In compliance with IAS 32 paragraph 23, the Group recognised financial liabilities for the present values of the redemption amounts of the options. The liabilities are measured based on the market value (i.e. adjusted equity) or book value of the entities in which the non-controlling shareholders have an interest at the balance sheet date, as appropriate in accordance with the contractual arrangements. Upon initial recognition, the non-controlling shareholders' interests in the adjusted or book equity are recorded as current liabilities and adjustments to retained earnings. Subsequent gains and losses arising from changes in the carrying amounts of the financial liabilities are recognised in the income statement in "Finance income" and "Finance expenses" respectively.

As at 31.12.2009 the option provided by the shareholder agreement is effective but the fair value of the option is 0 (2008: 0).

### Financial liabilities

All financial liabilities (trade and other payables, loans and borrowings, accrued expenses, bonds, and other short and long-term liabilities) are initially recognised at cost. The cost of a financial liability includes all transaction costs that are directly attributable to its acquisition. After initial recognition, financial liabilities are measured at amortised cost (except for financial liabilities held for trading which are measured at their fair value).

As a rule, the amortised cost of a short-term financial liability equals its nominal value. Long-term financial liabilities are initially recognised at the fair value of the consideration received (less the transaction charges). Thereafter, they are measured at amortised cost using the effective interest rate method. Interest expenses on financial liabilities are recognised under "Finance expenses" in the income statement on an accrual basis except that interest expenses on financing the development of assets (properties carried as inventories, investment properties, and items of property, plant and equipment) are capitalised and added to the carrying amount of the asset from the date the development of the asset commences to the date the development is complete.

A financial liability is classified as current when it is due to be settled within 12 months after the balance sheet date or the Group does not have an unconditional right to defer settlement of the liability for more than 12 months after the balance sheet date. Financial liabilities which are due to be settled within 12 months after the balance sheet date are classified as current even if an agreement to refinance on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. When a contract is breached on or before the balance sheet date with the effect that the liability becomes payable on demand, the liability is classified as current.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expired.

### Provisions and contingent liabilities

A provision is recognised only when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Promises, guarantees and other commitments that may transform into obligations under certain circumstances (which have not yet occurred) are disclosed as contingent liabilities in the notes to the financial statements.

Present obligations arising from past events which according to management's judgement will not realise or cannot be measured reliably are also disclosed as contingent liabilities.

### Leases

A lease that transfers substantially all the risks and rewards incidental to ownership of the leased asset to the lessee is classified as a finance lease. All other leases are classified as operating leases.

Finance leases related to assets acquired are recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Assets acquired with finance lease are depreciated over the shorter of the lease term and the useful life of the asset. Assets leased out under a finance lease are recognised in the balance sheet and presented as a receivable at an amount equal to the net investment in the lease. Lease payments made are apportioned between finance expense and the reduction of the outstanding liability and lease payments received are apportioned between finance income and repayment of the principal. A constant periodic rate of interest is applied throughout the lease term.

Assets subject to operating leases are recognised in the lessor's balance sheet. Operating lease receipts and payments are recognised as income and expense respectively on a straight-line basis over the lease term.

### Statutory capital reserve

According to the Commercial Code, the statutory capital reserve has to amount to at least 10 % of the Parent's share capital. Based on this, the Parent has to transfer at least 5 % of its net profit for the financial year to the capital reserve until the required level has been achieved. The capital reserve may not be distributed as dividends but it may be used for covering accumulated losses if the latter cannot be covered with unrestricted equity, and for increasing share capital through a bonus issue.

### Income tax

Income tax assets and liabilities and income tax expense and income comprise current and deferred items. Current tax is recognised as a short-term asset or liability and deferred tax is recognised as a long-term asset or liability.

### Parent company and subsidiaries and jointly controlled entities registered in Estonia

Pursuant to the Estonian Income Tax Act, companies do not have to pay income tax on their earnings (profit for the financial year). Instead, income tax is levied on profit distributions (dividends). From 31 December 2007 the tax rate is 21/79 of the amount distributed as the net dividend. Income tax resulting from payment of dividends is recognised in the income statement as expense upon declaration of dividends (emergence of the payment obligations).

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As a result of the specific nature of the taxation system Estonian registered entities will not incur deferred income tax claims or liabilities. The contingent income tax liability, which would arise on the distribution of retained earnings as dividends, is not recognised in the balance sheet.

Latvian, Lithuanian and Bulgarian subsidiaries and jointly controlled entities

In Latvia, Lithuania and Bulgaria the profit earned by companies is subject to income tax. The tax rate is 15 % in Latvia, 15 % (in 2008) and 20 % (in 2009) in Lithuania, and 10 % in Bulgaria. Taxable income is identified by adjusting profit before tax for the temporary and permanent differences permitted by the local tax laws.

In the case of foreign subsidiaries, deferred income tax assets and deferred income tax liabilities are recognised for all temporary differences between the carrying amounts and tax bases of assets and liabilities. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Investments in subsidiaries and jointly controlled entities in the Parent's unconsolidated financial statements presented in accordance with the Estonian Accounting Act

The Parent's unconsolidated primary financial statements (note 38 represent supplementary information which is presented in accordance with the Estonian Accounting Act and they do not constitute separate financial statements as defined in IAS 27.

In the Parent's unconsolidated primary financial statements, investments in subsidiaries and jointly controlled entities are measured using the cost model. This means that the investment is initially recognised at cost, which is considered equal to the fair value of the consideration given for it, and thereafter measured at cost less any impairment losses.

Investments are tested for impairment at each financial year end or whenever there is any indication that an investment may be impaired (see policy "impairment of assets"). Impairment losses are recognised in "Finance expenses" in the income statement.

Dividends received and receivable from subsidiaries and jointly controlled entities are recognised in "Finance income" when the right to receive payment has been established. The dividends distributed from the retained earnings accumulated by a subsidiary or jointly controlled entity before the date of acquisition are not recognised as income. Instead, such dividends are recognised as a reduction of the investment.

## 5 Segment reporting by business segments

The Group's business segments comprise:

Service: Real estate brokerage, valuation and management and short-term investment in real estate;

Development: The development of residential and commercial environments and long-term investment in real estate.

General and sub-contracting in the field of general construction and environmental engineering, and construction supervision.

Inter-segment transactions are performed on an arm's length basis and priced similarly to external transactions. A major portion of inter-segment transactions is performed by the Construction segment and the Service segment who supply the Development segment with construction and brokerage services. On the supply of construction services, the Construction segment adds a 0 %-5 % profit margin. The price of brokerage services is 2.5 %-5 % and for bigger objects and state awards 1 %-1.5 % of the cost of the brokered property in all markets.

Segment	Development		Service		Construction		Eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
In thousands EEK										
External revenue	131 359	212 569	30 415	93 708	242 949	353 504	0	0	404 723	659 781
Change	-38 %	-49 %	-68 %	-19 %	-31 %	83 %			-39 %	91 %
Other external income	135 051	29 109	797	1 817	1 017	346	0	0	136 865	31 272
Inter-segment revenue and other income	230	4 697	6 831	8 581	33 238	62 914	-40 299	-76 822	0	-630
<b>Total revenue and other income</b>	<b>266 640</b>	<b>246 375</b>	<b>38 043</b>	<b>104 106</b>	<b>277 204</b>	<b>416 764</b>	<b>-40 299</b>	<b>-76 822</b>	<b>541 588</b>	<b>690 423</b>
<b>Segment result</b>	<b>-80 288</b>	<b>-985 082</b>	<b>-16 574</b>	<b>-47 884</b>	<b>-10 112</b>	<b>6 274</b>	<b>-10 544</b>	<b>-2 581</b>	<b>-117 518</b>	<b>-1 029 273</b>
Unallocated expenses	0	0	0	0	0	0	0	0	-19 635	-20 444
Operating profit	0	0	0	0	0	0	0	0	-137 153	717
Incl. write down of inventory	-142 847	-434 272	-1 308	0	0	0	2 008	0	-142 147	-434 272
incl. investment property revaluation	49 187	-550 988	-3 145	-4 641	-1 576	0	0	0	44 466	-555 629
incl. depreciation of fixed assets	-914	-1 887	-830	-2 048	-2 668	-2 239	0	0	-4 412	-13 919
Incl. Goodwill impairment	0	0	0	-4 884	-10 895	-4 008	0	0	-10 895	-8 892
Finance income	0	0	0	0	0	0	0	0	8 946	76 089
Finance expenses	0	0	0	0	0	0	0	0	-197 073	-177 702
Income tax expense	0	0	0	0	0	0	0	0	868	-8 811
<b>Net loss for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-324 412</b>	<b>141</b>

Segment	Develop ment		Service		Constru ction		Eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
In thousands EUR										
External revenue	8 395	13 586	1 944	5 989	15 527	22 593	0	0	25 867	42 168
Change	-38 %	-49 %	-68 %	-19 %	-31 %	83 %			-39 %	91 %
Other external income	8 631	1 860	51	116	65	22	0	0	8 747	1 999
Inter-segment revenue and other income	15	300	437	548	2 124	4 021	-2 576	-4 910	0	-40
<b>Total revenue and other income</b>	<b>17 041</b>	<b>15 746</b>	<b>2 432</b>	<b>6 653</b>	<b>17 716</b>	<b>26 636</b>	<b>-2 576</b>	<b>-4 910</b>	<b>34 613</b>	<b>44 127</b>
<b>Segment result</b>	<b>-5 131</b>	<b>-62 958</b>	<b>-1 059</b>	<b>-3 060</b>	<b>-646</b>	<b>401</b>	<b>-674</b>	<b>-165</b>	<b>-7 511</b>	<b>-65 783</b>
Unallocated expenses	0	0	0	0	0	0	0	0	-1 255	-1 307
Operating profit	0	0	0	0	0	0	0	0	-8 766	-67 088
Incl. write down of inventory	-9 130	-27 755	-84	0	0	0	128	0	-9 085	-27 755
Incl. investment property revaluation	3 144	-35 215	-201	-297	-101	0	0	0	2 843	-35 510
Incl. depreciation of fixed assets	-58	-121	-53	-131	-171	-143	0	0	-282	-890
Incl. goodwill impairment	0	0	0	-312	-696	-256	0	0	-696	-568
Finance income	0	0	0	0	0	0	0	0	572	4 863
Finance expenses	0	0	0	0	0	0	0	0	-12 595	-11 357
Income tax expense	0	0	0	0	0	0	0	0	55	-563
<b>Net loss for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-20 734</b>	<b>-74 145</b>

Assets	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Service	10 450	21 195	668	1 355
Development	1 254 069	1 619 595	80 150	103 511
Construction	67 514	101 633	4 315	6 496
Eliminations	-131 526	-146 758	-8 406	-9 380
Unallocated assets	178 712	374 927	11 421	23 961
<b>Total assets</b>	<b>1 379 219</b>	<b>1 970 592</b>	<b>88 148</b>	<b>125 943</b>

Liabilities	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Service	2 948	4 784	188	306
Development	127 175	126 984	8 128	8 116
Construction	51 235	35 135	3 275	2 246
Eliminations	-10 801	-38 238	-690	-2 444
Unallocated liabilities	824 612	1 130 154	52 701	72 228
<b>Total liabilities</b>	<b>995 169</b>	<b>1 258 819</b>	<b>63 602</b>	<b>80 452</b>



## 6 Segment reporting by geographical segments

Revenue by customer's location and business segments	Service		Development		Construction		Eliminations		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	In thousands EEK									
Estonia	25 723	50 019	113 280	147 621	206 859	184 932	-32 588	-64 993	315 274	317 579
Latvia	6 219	21 842	19 271	71 034	65 931	231 486	-3 959	-2 533	87 462	321 829
Lithuania	0	5 750	0	0	0	0	0	0	0	5 750
Ukraine	1 042	8 633	0	0	0	0	0	0	1 042	8 633
Bulgaria	4 276	7 722	1 191	40	0	0	-2 353	-3 036	3 114	4 726
Romania	0	1 623	0	504	0	0	0	0	0	2 127
Eliminations	-16	-865	-2 153	0	0	0	0	0	-2 169	-865
<b>Total revenue</b>	<b>37 244</b>	<b>94 724</b>	<b>131 589</b>	<b>219 199</b>	<b>274 790</b>	<b>416 418</b>	<b>-38 900</b>	<b>-70 562</b>	<b>404 723</b>	<b>659 779</b>

Revenue by customer's location and business segments	Service		Development		Construction		Eliminations		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	In thousands EUR									
Estonia	1 644	3 197	7 240	9 435	13 349	11 819	-2 083	-4 154	20 150	20 297
Latvia	397	1 396	1 232	4 540	4 214	14 795	-253	-162	5 590	20 569
Lithuania	0	367	0	0	0	0	0	0	0	367
Ukraine	67	552	0	0	0	0	0	0	67	552
Bulgaria	273	494	76	3	0	0	-150	-194	199	302
Romania	0	104	0	32	0	0	0	0	0	136
Eliminations	-1	-55	-138	0	0	0	0	0	-139	-55
<b>Total revenue</b>	<b>2 380</b>	<b>6 055</b>	<b>8 410</b>	<b>14 010</b>	<b>17 563</b>	<b>26 614</b>	<b>-2 486</b>	<b>-4 461</b>	<b>25 867</b>	<b>42 218</b>

Assets by geographical location	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
	In thousands			
Estonia	814 740	999 969	52 071	63 910
Latvia	216 659	278 406	13 847	17 793
Lithuania	5 170	16 800	330	1 074
Ukraine	0	1 213	0	78
Bulgaria	471 068	514 438	30 107	32 879
Romania	2 450	0	157	0
Eliminations	-309 580	-215 161	-19 786	-13 751
Unallocated assets	178 712	374 927	11 422	23 960
<b>Total assets</b>	<b>1 379 219</b>	<b>1 970 592</b>	<b>88 148</b>	<b>125 943</b>

## 7 Changes in structure of Arco Vara Group

### 7.1 Scope of consolidation

	Estonia	Latvia	Lithuania	Ukraine	Bulgaria	Romania	Total
<b>Subsidiaries</b>							
At 31.12.2008	15	6	2	2	3	1	29
Acquisitions	0	0	0	0	1	0	1
Disposals	-2	-1	0	-1	0	0	-4
At 31.12.2009	13	5	2	1	4	1	26
<b>Jointly controlled entities</b>							
At 31.12.2008	15	2	0	0	0	0	17
Acquisitions	0	0	0	0	0	0	0
Disposals	-9	0	0	0	0	0	-9
At 31.12.2009	6	2	0	0	0	0	8
<b>Associates (not consolidated)</b>							
At 31.12.2008	2	0	0	0	0	0	2
Acquisitions	0	0	0	0	0	0	0
Disposals	-1	0	0	0	0	0	-1
At 31.12.2009	1	0	0	0	0	0	1

At 31.12.2009, the Group's consolidated entities broke down between countries as follows: 19 in Estonia (2008: 30), 7 in Latvia (2008: 8), 2 in Lithuania (2008: 2), 1 in Ukraine (2008: 2), 4 in Bulgaria (2008: 3) and 1 in Romania (2008: 1).

In the 12 months of the year 2009 the total number of consolidated entities decreased by nine, incl. one subsidiary and 4 jointly controlled entities was merged with another company of the Group, one subsidiary was founded (Note 7.4) and four subsidiaries and two jointly controlled entities were sold (Note 7.2).

The structure of Arco Vara Group is presented in note 37.

The effect of interests in jointly controlled entities on the consolidated income statement and balance sheet:

As at 31 December or for the year	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Revenue and other income	32 435	43 662	2 073	2 791
Expenses	-19 345	-14 458	-1 236	-924
Finance income	392	19 788	25	1 265
Finance expenses	3 035	-65 814	194	-4 206
Current assets	76 472	176 657	4 887	11 290
Non-current assets	109 101	423 662	6 973	27 077
Current liabilities	242 133	12 627	15 475	807
Non-current liabilities	10 405	250 525	665	16 011

The most significant jointly controlled entities include HCE OÜ (owning the Ahtri 3 development project in Tallinn) and Nami SIA in Bišumuiža (owns the Bišumuiža 2 development project in Latvia).

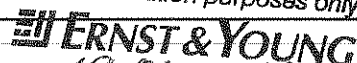
On 19.04.2009 Arco Investeeringute AS, a subsidiary of Arco Vara AS, increased its share capital in the subsidiary Arco Development SIA from 80 % to 99,9 %.

## Companies belonging to Arco Vara Group:

Company	Domicile	Group's ownership interest	
		31.12.2009	31.12.2008
%			
<b>Service segment</b>			
<b>Subsidiaries</b>			
Arco Real Estate EOOD	Bulgaria	100	100
Arco Real Estate AS	Estonia	100	100
Arco Ukraina Valdused OÜ <sup>1</sup>	Estonia	sold	75
Arco Vara Kinnisvarabüroo <sup>1</sup>	Estonia	100	100
Adepto SIA <sup>1</sup>	Latvia	80	80
Arco Real Estate SIA <sup>1</sup>	Latvia	80	80
Arco Neruhomist TOV <sup>1</sup>	Ukraine	sold	75

Company	Domicile	Group's ownership interest	
		31.12.2009	31.12.2008
%			
<b>Development segment</b>			
<b>Subsidiaries</b>			
Arco Invest EOOD <sup>1</sup>	Bulgaria	100	100
Arco Facility Management EOOD <sup>1</sup>	Bulgaria	80	n/a
Arco Project EOOD <sup>1</sup>	Bulgaria	100	100
Arco Bulgaaria OÜ <sup>1</sup>	Estonia	100	100
Arco Investeeringute AS	Estonia	100	100
Arco Vara Kinnistute AS <sup>1</sup>	Estonia	merged	100
Arco Vara Puukool OÜ <sup>1</sup>	Estonia	sold	100
Arco Vara Riia Valdused OÜ <sup>1</sup>	Estonia	100	100
Kerberon OÜ <sup>1</sup>	Estonia	100	100
Kolde AS <sup>1</sup>	Estonia	100	100
Pärnu Turg OÜ <sup>1</sup>	Estonia	100	100
Waldrop Investments OÜ <sup>1</sup>	Estonia	100	100
Wilson Kinnisvara OÜ <sup>1</sup>	Estonia	100	100
AD Saulkrasti SIA <sup>1</sup>	Latvia	63	63
Arco Development SIA <sup>1</sup>	Latvia	99,9	80
Ulmana Gatves Nami SIA <sup>1</sup>	Latvia	99,9	80
Arco Invest UAB <sup>1</sup>	Lithuania	100	100
Arco Development UAB <sup>1</sup>	Lithuania	100	100
Arco Capital SRL <sup>1</sup>	Romania	100	100
Arco Investments TOV	Ukraine	75	75
<b>Jointly controlled entities</b>			
Arco HCE OÜ <sup>1</sup>	Estonia	50	50
Arco Vara Arenduse OÜ <sup>1</sup>	Estonia	50	50
Arco Vara Saare Kinnistud OÜ <sup>1</sup>	Estonia	50	50
Arco Ärikeskus OÜ <sup>1</sup>	Estonia	sold	50
Chalwell OÜ <sup>1</sup>	Estonia	merged	50
Koduküla OÜ <sup>1</sup>	Estonia	50	50
Noland Grupp OÜ <sup>1</sup>	Estonia	merged	50
Pärnu Elumaja OÜ	Estonia	50	50

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Redman Invest OÜ <sup>1</sup>	Estonia	merged	50
Steadman OÜ <sup>1</sup>	Estonia	merged	50
Tallinna Olümpiapurjespordikeskus AS <sup>1</sup>	Estonia	sold	50
Varamaad Kinnisvara OÜ <sup>1</sup>	Estonia	33,4	33,4
Bišumuižas Nami SIA <sup>1</sup>	Latvia	-49,83	40
Sporting Riga SIA <sup>1</sup>	Latvia	49,83	40
<b>Associate</b>			
Gilmor Grupp OÜ (in the process of liquidation) <sup>1</sup>	Estonia	closing	20
Jüri Arendus OÜ <sup>1</sup>	Estonia	20	20
<b>Construction segment</b>			
<b>Subsidiaries</b>			
Arco Ehitus OÜ	Estonia	100	100
Arco Construction SIA <sup>1</sup>	Latvia	sold	55
Tempera Ehitus OÜ <sup>1</sup>	Estonia	bankrupted	55

<sup>1</sup> Shareholding through subsidiaries.

## 7.2 Disposals of interest in subsidiaries and jointly controlled entities

In 2009, the Group disposed of interests in the following companies

Company	%	EEK		EUR	
		Interest disposed of by the Group	Sales price	Gain or loss on disposal (notes 12)	Sales price
In thousands					
<b>Subsidiaries</b>					
Arco Vara Puukool OÜ <sup>1</sup>	100	600	-4 771	38	-305
Arco Ukraina Valdused OÜ <sup>2</sup>	89,66	4	1 129	0	72
Arco Constarction SIA <sup>3</sup>	55	1 100	24	70	2
<b>Jointly controlled entities<sup>4</sup></b>					
Tallinna Olümpiapurjespordi keskus OÜ	50	37 500	-82 842	2 397	-5 295
Arco Ärikeskus OÜ	50	12 000	-10 819	767	-691
Floriston Group OÜ	37,5	5 500	-40 746	352	-2 604
<b>Total</b>		<b>56 704</b>	<b>-138 025</b>	<b>3 624</b>	<b>-8 821</b>

<sup>1</sup>On 18.09.2009, Arco Vara AS sold its 100 % holding in Arco Vara Puukool OÜ (a 100 % Arco Vara AS subsidiary), which net book value was 40 thousand kroons (3 thousand euros), see also Note 35.

<sup>2</sup> On 08.12.2009, Arco Vara AS sold 75 % of its holding in Arco Ukraina Valduste OÜ which book value was 150 thousand kroons (10 thousand euros), see also Note 36.

<sup>3</sup>On 29.12.2009, Arco Ehitus OÜ, a subsidiary of Arco Vara AS, sold 55 % of its holding in Arco Construction SIA which book value was 80 thousand kroons (5 thousand euros), see also Note 36.

<sup>4</sup>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.

In 2008, the Group disposed of interests in the following companies

Company	%	EEK		EUR	
		Interest disposed of by the Group	Sales price	Gain or loss on disposal (note 12)	Sales price
In thousands					
<b>Subsidiaries</b>					
Arco Real Estate UAB <sup>1</sup>	100	1	-3 170	0	-203
Arco Real Estate Consulting SRL <sup>2</sup>	100	1	4 487	0	287
Divestment of shares in Tallinna Linnaehituse AS - acquisition of shares in Kolde AS and Kerberon OÜ <sup>3</sup>	80	12 943	-1 558	827	-100
<b>Jointly controlled entities</b>					
Plavnieku Centrs SIA <sup>4</sup>	50	11 132	-3 047	711	-194
AVEC Asset Management AS <sup>5</sup>	50	35 708	-38 007	2 282	-2 428
<b>Total</b>		<b>59 785</b>	<b>-41 295</b>	<b>3 820</b>	<b>-2 638</b>

<sup>1</sup> On 4 December 2008 the Group sold its holding in the company IKAS Projekt UAB (former business name Arco Real Estate UAB)

<sup>2</sup> On 30 December 2008 the Group executed a contract of purchase and sale of 100 % of the ordinary shares of S.C.L-Base Project S.R.L (former business name Arco Real Estate Consulting SRL) that was notarised in Romania on 22.01.09. The transaction is recognised in 2008.

<sup>3</sup> Note 7.4

<sup>4</sup> On 5 December 2008 the Group sold its holding in the jointly controlled entity Plavenieku Centers SIA. The sales price of the stake was 11,132 thousand kroons (711 thousand euros). The buyer of the shares was Plavenieku Centrs SIA itself.

<sup>5</sup> On 20 June 2008 the Group disposed of its interest in the jointly controlled entity AVEC Asset Management AS. The sales price of the stake consisted of an immediate payment of 35,708 thousand kroons (2,282 thousand euros), and deferred payment equalling 25 % of the amount payable upon dissolution of Explorer Property Fund AB. According to the assessment of the management board of the Group the value of the said claim as at 31.12.2009 amounts to 0 kroons (0 euros) and 31.12.2008 to 0 kroons (0 euros).

The effect of the disposals on the Group's assets, liabilities and equity was as follows:

Effect of the disposal of subsidiaries on the Group's 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 items	-6 018	-112	-385	-7
Investment property (note 20)	-60	0	-4	0
Property, plant and equipment (note 21)	-6 381	-1 577	-408	-101
Intangible assets (note 22)	-500	-110	-32	-7
Current loans and borrowings	-3 730	-5 163	-238	-330
Other current liabilities	-26 995	-2 878	-1 725	-184
Non-current loans and borrowings	-473	-9 231	-30	-590

Effect of the disposal of interests in jointly controlled entities on the Group's 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 (note 20)	-276 090	0	-17 645	0
Property, plant and equipment (note 21)	-76	-340	-5	-22
Intangible assets (note 22)	0	-4 209	0	-269
Current Payables	-7 651	-9 511	-489	-608
Non-current liabilities	-109 219	0	-6 980	0

### 7.3 Acquisitions from non-controlling shareholders

#### Increasing the share capital in Bišumuiža Nami SIA

On 14.04.2009 Arco Investeeringute AS, a subsidiary of Arco Vara AS, increased its share capital in the joint company Bišumuiža Nami SIA from 40 % to 49.38 %. The share capital was increased by non monetary contribution. 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 % share capital at nominal price.

#### Impact of increase in share capital 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

As a result of the share swap transaction that took place in the beginning of April 2008 the Group swapped the interests held in subsidiaries, and as a result of the transaction the Group holds 100 % of the membership shares and shares of stock in Kerberon OÜ and Kolde AS. In the said transaction the Group disposed of the shares of Tallinna Linnaehituse AS.

	EEK			EUR	
	Interest divested / acquired	Cost of transaction	Gain / loss on the transaction (note 12)	Cost of transaction	Gain / loss on the transaction (note 12)
In thousands					
Divestment of shares in Tallinna Linnaehituse AS	-80 %	12,943	-1,094	827	-70
Acquisition of shares in Kerberon OÜ	16.63 %	10,199	-657	652	-42
Acquisition of shares in Kolde AS	10.71 %	3,101	218	198	14
<b>Total</b>			<b>-1,533</b>		<b>-98</b>

### 7.4 Establishment of companies

On 18.08.2009 the division of Arco Vara Puukool OÜ, a 100 % subsidiary of Arco Vara, 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 Turu 34a. The Group established no entities in 2008.

On 16.01.2009 Arco Investeeringute AS, a 100% subsidiary of Arco Vara AS, established a company called Arco Facility Management EOOD.

## Notes to the consolidated statement of comprehensive income

## 8 Cost of sales

	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Cost of properties sold	-87 313	-149 856	-5 580	-9 578
Cost of construction services purchased	-205 216	-309 019	-13 116	-19 750
Management and administration costs	-16 618	-15 336	-1 062	-980
Personnel expenses	-35 128	-75 146	-2 245	-4 803
Vehicle expenses	-4 641	-4 838	-296	-309
Depreciation and amortisation (notes 21, 22)	-1 782	-2 419	-114	-155
Value decrease of inventories (note 4, 18)	-142 147	-434 272	-9 085	-27 755
Other expenses	-4 281	-19 924	-274	-1 273
<b>Total cost of sales</b>	<b>-497 126</b>	<b>-1 010 810</b>	<b>-31 772</b>	<b>-64 603</b>

## 9 Other income and other expenses

## Other income

INCOME	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Gain or loss from change in fair value of property investment (Note 20)	118 938	21 664	7 602	1 385
Gains on sale of investment property (Note 20)	7 458	1 547	477	99
Gains on fair value adjustments to biological assets (note 19)	0	1 568	0	100
Gains on sale of property, plant and equipment (note 21, 22)	249	90	16	6
Miscellaneous income	10 220	5 775	652	369
<b>Total other income</b>	<b>136 865</b>	<b>30 644</b>	<b>8 747</b>	<b>1 959</b>

## Other expenses

EXPENSES	EEK		EUR	
	2009	2008	2009	2008
in thousands				
Gain or loss from change in fair value of property investment (Note 20)	-74 472	-577 293	-4 759	-36 895
Losses on sale of investment property (note 20)	-6 370	-12	-407	-1
Loss on sale of property, plant and equipment (note 21, 22)	-3 001	-7 946	-192	-508
Penalty and other expenses	-1 458	-4 780	-93	-305
Other expenses	-5 644	-1 371	-361	-88
<b>Total other expenses</b>	<b>-90 945</b>	<b>-591 402</b>	<b>-5 812</b>	<b>-37 797</b>

## 10 Selling and distribution expenses

	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Advertising expenses	-2 384	-10 337	-152	-661
Brokerage and intermediation fees	-845	-59	-54	-4
Market research expenses	-37	-192	-2	-12
Personnel expenses	-870	-1 787	-56	-114
Other selling and distribution expenses	-281	-1 047	-18	-67
<b>Total selling and distribution expenses</b>	<b>-4 417</b>	<b>-13 422</b>	<b>-282</b>	<b>-858</b>

## 11 Administrative expenses

	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Personnel expenses	-37 898	-59 651	-2 422	-3 812
Office expenses	-16 214	-29 049	-1 036	-1 857
Legal and consulting fees	-8 153	-1 956	-521	-125
Depreciation, amortisation and impairment losses (Notes 21, 22)	-2 045	-4 246	-131	-271
Goodwill adjustments (note 22)	-10 896	-8 895	-696	-568
Allowance for doubtful receivables	-2 730	-3 029	-174	-194
Vehicle expenses	-4 951	-8 847	-316	-565
Other expenses	-3 366	-8 833	-217	-565
<b>Total administrative expenses</b>	<b>-86 253</b>	<b>-124 506</b>	<b>-5 513</b>	<b>-7 957</b>

## 12 Financial items

### Finance income

	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Gains on sale of investments in subsidiaries (note 7)	1 153	4 487	74	287
Interest income	5 642	53 264	361	3 404
Foreign exchange gains	150	12 203	9	780
Change in the fair value of non-controlling put option	0	6 122	0	391
Income on other non-current financial assets	2 001	13	128	1
<b>Total finance income</b>	<b>8 946</b>	<b>76 089</b>	<b>572</b>	<b>4 863</b>

### Finance expenses

	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Losses on sale of investments in subsidiaries (note 7)	-4 771	-4 728	-305	-302
Losses on sale of shares in joint ventures (note 7)	-134 407	-41 054	-8 590	-2 624
Loss from associated company by equity method	-139	0	-9	0
Interest expense <sup>1</sup>	-38 462	-48 184	-2 458	-3 080
Expenses on other non-current financial assets	-515	-3 706	-33	-237
Foreign exchange losses	-3 095	-7 595	-198	-485
Impairment losses on financial assets <sup>2</sup>	-15 684	-72 435	-1 002	-4 629
<b>Total finance expenses</b>	<b>-197 673</b>	<b>-177 702</b>	<b>-12 595</b>	<b>-11 357</b>

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<sup>1</sup> Interest expense includes mainly the interest expense of loans taken and debt securities issued for the acquisition and construction of properties. Interest expenditures incurred in connection with loans taken to finance development projects in progress are capitalised. In 2009, capitalised interest expenditures totalled 32,101 thousand kroons (2,052 thousand euros). The corresponding figure for 2008 was 38,387 thousand kroons (2,453 thousand euros).

<sup>2</sup> Impairment losses on financial assets in 2009 include the impairment reversal of the 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 Ühinenu Kapital in the amount of 33,259 thousand kroons (2,126 thousand euros).

The impairment loss for 2007 related to the Kippsala project in the amount of 25 258 thousand kroons (1 614 thousand euros) was reversed in 2008, because a part of the loan had been credited to the account by the balance sheet date, and subsequent receipt is taking place in accordance with the schedule. Impairment losses on financial assets are inclusive of, among other items, the partial write-off of the claim stemming from the loan claim against Sigma Real Estate Ltd in the amount of 54 463 thousand kroons (3 481 thousand euros). In 2008 impairment losses on the investment made in the jointly controlled entity Bišumuiza Nami SIA amounted to 41 097 thousand kroons (2 627 thousand euros).

### 13 Income tax expense

	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Income tax expense on dividends	0	-12 968	0	-829
Income tax expense on the profit of Latvian subsidiaries	-3	-768	0	-49
Income tax expense on the profit of Romanian subsidiary	-11	0	-1	0
Income tax expense on the profit of Bulgarian subsidiaries	882	4 925	56	315
<b>Total income tax expense</b>	<b>868</b>	<b>-8 811</b>	<b>55</b>	<b>-563</b>

### 14 Earnings per share

Basic net profit (loss) per share has been calculated by dividing the net profit (loss) 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.

	EEK		EUR	
	2009	2008	2009	2008
Weighted average number of ordinary shares outstanding (pc)	94 834 150	94 834 150	94 834 150	94 834 150
Profit attributable to equity holders of the parent (in thousands)	-324 412	-1 154 959	-20 734	-73 815
<b>Earnings per share (in kroons)</b>	<b>-3,42</b>	<b>-12,18</b>	<b>-0,22</b>	<b>-0,78</b>

As of 31.12.2009, the company has 450,000 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, therefore the diluted net profit (loss) of the quarter was equal to the regular net profit (loss).

### 15 Operating lease expense

The Group uses office premises, vehicles and office equipment under operating lease. Related expenses break down as follows:

Lease expense for	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Premises	2 779	7 582	178	485
Vehicles	3 579	3 606	229	230
Office equipment	1 758	2 199	112	141
<b>Total</b>	<b>8 116</b>	<b>13 387</b>	<b>519</b>	<b>856</b>

## Notes to the statement of financial position

### 16 Financial investments

Short-term financial investments at 31.12.2008 consisted of Kesko OY commercial papers. At the end of 2008 the Group held 4,110 pieces of commercial paper of Kesko OY with the total value of 9,834 kroons (629 euros) each, i.e. in the total amount of 40,416 thousand kroons (2,583 thousand euros). The commercial papers were redeemed on 13.03.2009.

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Non-current investments in equity instruments – carried at cost	129	129	8	8
Non-current investments in equity instruments – carried at fair value <sup>1</sup>	15 484	126	990	8
<b>Total other non-current financial assets</b>	<b>15 613</b>	<b>255</b>	<b>998</b>	<b>16</b>

<sup>1</sup>Non-current investments in equity instruments carried at fair value includes mainly investments in Floriston Group OÜ (12,5 % holding) which at 31.12.2009 totalled 15,423 thousand kroons (986 thousand euros).

### 17 Receivables

Current items	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
<b>Trade receivables</b>				
Receivables from customers	56 387	96 263	3 604	6 152
Allowance for doubtful receivables	-2 972	-5 936	-190	-379
<b>Total trade receivables</b>	<b>53 415</b>	<b>90 327</b>	<b>3 414</b>	<b>5 773</b>
<b>Other short-term receivables</b>				
Receivables from jointly controlled entities (note 35)	14 811	17 090	946	1 092
Loans granted <sup>1</sup>	61 159	94 563	3 909	6 044
Other short-term receivables	10 696	28 765	684	1 839
<b>Total other receivables</b>	<b>86 666</b>	<b>140 418</b>	<b>5 539</b>	<b>8 975</b>
<b>Accrued income</b>				
Interest receivable	3 720	1 329	238	85
Due from customers under long-term construction contracts (note 26)	293	7 612	19	486
VAT prepayments and reclaims	12 102	53 034	773	3 390
Other accrued income	7 879	1 632	503	104
<b>Total accrued income</b>	<b>23 994</b>	<b>63 607</b>	<b>1 533</b>	<b>4 065</b>
<b>Total current receivables</b>	<b>164 075</b>	<b>294 352</b>	<b>10 486</b>	<b>18 813</b>

<sup>1</sup>The loans given are inclusive of, among other items, the claim stemming from the claim against Sigma Real Estate Ltd, the claim has been written-down in 2009 by 33,259 kroons (2,126 thousand euros), in 2008 respectively 54,463 thousand kroons (3,481 thousand euros). The new book value at 31.12.2009 is 33,259 thousand kroons (2,126 thousand euros). The corresponding figure for 2008 was 66,657 thousand kroons (4,260 thousand euro). See additionally Note 30 an Note 12.

The claims are written down when the Group has reasonable grounds for assuming that not all receivables according to the original conditions will be paid back. Circumstances referring to a decrease in claim value are considerable financial difficulties of a debtor, likeliness of bankruptcy or financial reorganisation of debtor, and default in payment or delay in payment (more than 180 days).

Non-current items	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Receivables from jointly controlled entities (note 35)	0	5 750	0	367
Long-term loan receivables	1 632	254	104	16
Other non-current receivables	4 672	667	299	44
<b>Total non-current receivables</b>	<b>6 304</b>	<b>6 671</b>	<b>403</b>	<b>427</b>

## 18 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
<b>Total inventories</b>	<b>776 601</b>	<b>849 440</b>	<b>49 634</b>	<b>54 289</b>

Due to the decrease of net realisable value under the acquisition cost the assets have been written down and charged off as follows:

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Carrying amount before writing down	900 796	1 220 178	57 571	77 984
Reversal of impairment loss	7 496	0	479	0
Impairment loss	-149 643	-434 272	-9 564	-27 755
<b>Carrying amount after writing down</b>	<b>758 649</b>	<b>785 906</b>	<b>48 487</b>	<b>50 229</b>

See additional information in Notes 8 and 28.

## 19 Biological assets

	EEK	EUR
In thousands		
<b>At 31.12.2007</b>	<b>8 360</b>	<b>534</b>
Acquisitions	267	17
Disposals	-4 971	-318
Gain or loss on change in fair value (note 9)	23	2
<b>At 31 December 2008</b>	<b>3 679</b>	<b>235</b>
Disposals through divestment of interests in subsidiaries (note 7)	-3 679	-235
<b>At 31.12.2009</b>	<b>0</b>	<b>0</b>

Due to separating additional activities from principal activities, Arco Vara Puukool OÜ was sold in 2009. Starting from 18.09.2009, the Group has no biological assets.

## 20 Investment property

Investment properties include commercial buildings which are leased out and properties with development potential whose future use has not been determined.

	EEK	EUR
In thousands		
<b>At 31.12.2007</b>	<b>999 999</b>	<b>63 912</b>
Acquisitions	4 222	270
Disposals	-6 040	-387
Transfer to inventories	100 201	6 404
Gain or loss on change in fair value (note 9)	-555 629	-35 511
<b>At 31 December 2008</b>	<b>542 753</b>	<b>34 688</b>
Acquisitions	17 021	1 088
Disposals	-18 868	-1 206
Transfer from property, plant and equipment (note 21)	15 258	975
Transfer from inventories	4 508	288
Disposals through sales of subsidiaries and jointly controlled entities (note7)	-276 150	-17 649
Gain or loss on change in fair value (note 9)	44 466	2 842
<b>At 31.12.2009</b>	<b>328 988</b>	<b>21 026</b>

The fair value of most important investment property is determined based on the valuations performed by qualified independent appraisers. The following valuation methods are applied:

- discounted cash flow analysis
- sales comparison method
- sales contract of the object under the law of obligations concluded as at balance sheet date

(more specific information on Note 4 "Significant Accounting Policies"). On pledged assets please see Note 28.

In determining the fair values of investment properties, cash flow projections were based on the following assumptions:

	2009	2008
%		
Annual increase in rental income	0.0-3.0	0.0-3.0
Annual increase in operating expenses	0.0-3.0	2.0-5.0
Vacancy rate of the premises	0.0-10.0	0.0-20.0
Discount rate on exit from project	9.0-12.0	8.5-13.0

### Operating lease: company as lessor

As for real estate investments, income from rent in 2009 was 33,750 thousand kroons (2,157 thousand euros), in 2008 respectively 38,772 thousand kroons (2,478 thousand euros). Direct property management expenses totalled 8,828 thousand kroons (564 thousand euros). The corresponding figure for 2008 was 7,266 thousand kroons (464 thousand euros).

Non-cancellable operating lease rentals receivable in subsequent periods break down as follows:

Rental income receivable	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Less than 1 year	15 009	21 619	959	1 382
2-5 years	24 786	36 043	1 584	2 304
More than 5 years	22 130	14 982	1 414	958
<b>Total</b>	<b>61 925</b>	<b>72 644</b>	<b>3 957</b>	<b>4 644</b>

**21 Property, plant and equipment**

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total
In thousands EEK					
<b>Carrying amount at 31.12.2007</b>	<b>26 940</b>	<b>5 134</b>	<b>7 983</b>	<b>101 806</b>	<b>141 863</b>
Additions	369	3 115	5 396	10 806	19 686
Capitalised borrowings costs	0	662	0	7 218	7 880
Disposals	-1 701	-5 633	-4 768	-8 965	-21 067
Changes from sales/acquisition of companies (note 7)	0	482	789	0	1 271
Transfer to property, plant and equipment for sale	1 619	0	0	0	1 619
Impairment loss (note 8, 11)	-3 420	0	0	0	-3 420
Transfer to property investments (note 20)	0	0	0	-100 201	-100 201
Depreciation charge (notes 8, 11)	-1 692	-1 264	-2 863	0	-5 819
<b>Carrying amount at 31 December 2008</b>	<b>22 115</b>	<b>2 496</b>	<b>6 537</b>	<b>10 664</b>	<b>41 812</b>
<i>incl. cost</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>
Additions	1 490	697	0	4 782	6 969
Disposals	-11 815	-520	-588	-2	-12 925
Changes from sales/acquisition of companies (Note 7)	-2 251	-967	-3 239	0	-6 457
Transfer to property investments (note 20)	0	0	0	-15 258	-15 258
Depreciation charge (notes 8, 11)	-1 174	-648	-1 774	0	-3 596
<b>Carrying amount at 31.12.2009</b>	<b>8 365</b>	<b>1 058</b>	<b>936</b>	<b>186</b>	<b>10 545</b>
<i>incl. cost</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>
In thousands EUR					
<b>Carrying amount at 31.12.2007</b>	<b>1 722</b>	<b>328</b>	<b>510</b>	<b>6 507</b>	<b>9 067</b>
Additions	24	199	345	691	1 259
Capitalised borrowings costs	0	42	0	461	503
Disposals	-109	-360	-305	-573	-1 347
Changes from sales/acquisition of companies (note 7)	0	31	50	0	81
Transfer to property, plant and equipment for sale	103	0	0	0	103
Impairment loss (note 8, 11)	-219	0	0	0	-219
Transfer to property investments (note 20)	0	0	0	-6 404	-6 404
Depreciation charge (notes 8, 11)	-108	-81	-183	0	-372
<b>Carrying amount at 31 December 2008</b>	<b>1 413</b>	<b>159</b>	<b>417</b>	<b>682</b>	<b>2 671</b>
<i>incl. cost</i>	<i>2 169</i>	<i>494</i>	<i>961</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>
Additions	95	45	0	306	446
Disposals	-755	-34	-38	0	-827
Changes from sales/acquisition of companies (Note 7)	-144	-62	-207	0	-413
Transfer of property investments (note 20)	0	0	0	-975	-975
Depreciation charge (notes 8, 11)	-75	-41	-113	0	-229
<b>Carrying amount at 31.12.2009</b>	<b>535</b>	<b>67</b>	<b>60</b>	<b>12</b>	<b>674</b>
<i>incl. cost</i>	<i>941</i>	<i>297</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>

On pledged assets please see Note 28.

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**22 Intangible assets**

	Goodwill	Software	Total
In thousands EEK			
<b>Carrying amount at 31.12.2007</b>	<b>23 957</b>	<b>1 548</b>	<b>25 505</b>
<i>incl. cost</i>	23 957	2 665	26 622
<i>incl. accumulated amortisation</i>	0	-1 117	-1 117
Additions	0	482	482
Disposals	0	-229	-229
Additions through business combinations (note 7)	632	0	632
Disposals through divestment of subsidiaries and interests in jointly controlled entities (note 7)	-4 014	-660	-4 674
Impairment loss (note 10)	-8 720	0	-8 720
Amortisation charge (note 8, 11)	0	-521	-521
<b>Carrying amount at 31 December 2008</b>	<b>11 855</b>	<b>620</b>	<b>12 475</b>
<i>incl. cost</i>	11 855	2 258	14 113
<i>incl. accumulated amortisation</i>	0	-1 638	-1 638
Sales and liquidation	-459	423	-36
Disposals through divestment of subsidiaries (note 7)	-500	0	-500
Impairment loss (note 10)	-10 896	0	-10 896
Amortisation charge (note 8, 11)	0	-231	-231
<b>Carrying amount at 31.12.2009</b>	<b>0</b>	<b>812</b>	<b>812</b>
<i>incl. cost</i>	0	2 456	2 456
<i>incl. accumulated amortisation</i>	0	-1 644	-1 644
	<b>Goodwill</b>	<b>Software</b>	<b>Total</b>
In thousands EUR			
<b>Carrying amount at 31.12.2007</b>	<b>1 531</b>	<b>99</b>	<b>1 630</b>
<i>incl. cost</i>	1 531	170	1 701
<i>incl. accumulated amortisation</i>	0	-71	-71
Additions	0	31	31
Disposals	0	-15	-15
Additions through business combinations (note 7)	40	0	40
Disposals through divestment of subsidiaries and interests in jointly controlled entities (note 7)	-257	-42	-299
Impairment loss (note 10)	-557	0	-557
Amortisation charge (note 8, 11)	0	-34	-34
<b>Carrying amount at 31 December 2008</b>	<b>758</b>	<b>39</b>	<b>797</b>
<i>incl. cost</i>	758	144	902
<i>incl. accumulated amortisation</i>	0	-105	-105
Sales and liquidation	-29	27	-2
Disposals through divestment of subsidiaries (note 7)	-33	0	-33
Impairment loss (note 10)	-696	0	-696
Amortisation charge (note 8, 11)	0	-14	-14
<b>Carrying amount at 31.12.2009</b>	<b>0</b>	<b>52</b>	<b>52</b>
<i>incl. cost</i>	0	156	156
<i>incl. accumulated amortisation</i>	0	-104	-104

## 23 Loans and borrowings

Loans and borrowings comprise:

	31.12.2009		31.12.2008	
	Total	Including current portion	Total	Including current portion
in thousands EEK				
Debt securities <sup>1</sup>	18 870	18 870	59 303	59 303
Bank loans <sup>2</sup>	750 884	556 519	911 946	256 095
Finance lease liabilities (note 24)	2 444	832	5 462	1 708
Other loans <sup>3</sup>	30 034	29 028	69 625	36 311
<b>Total (note 32)</b>	<b>802 232</b>	<b>605 249</b>	<b>1 046 336</b>	<b>353 417</b>

	31.12.2009		31.12.2008	
	Total	Including current portion	Total	Including current portion
In thousands EUR				
Debt securities <sup>1</sup>	1 206	1 206	3 790	3 790
Bank loans <sup>2</sup>	47 990	35 568	58 284	16 367
Finance lease liabilities (note 24)	156	53	349	109
Other loans <sup>3</sup>	1 920	1 855	4 450	2 321
<b>Total (note 32)</b>	<b>51 272</b>	<b>38 682</b>	<b>66 873</b>	<b>22 587</b>

<sup>1</sup> In 2009, the Group redeemed short-term commercial papers „Arco Vara Commercial Paper I“ at the total par value 47,628 thousand kroons (3,044 thousand euros). The term for these commercial papers was extended to 31.05.2010. In 2008, the Group issued short- and long-term commercial paper with a total par value of 66,498 thousand kroons (4,250 thousand euros) and redeemed commercial paper at the total par value of 140,299 thousand kroons (8,967 thousand euros). In 2009, the average effective interest rate for commercial papers was 13.52 % (2008: 8,47 %).

At 31.12.2008 and 31.12.2009, the following debt securities issues were still redeemable:

Settlement date	Redemption date	Commercial paper	Par value		Balance, EEK Interest rate, %	Balance, EUR		31.12.2009	31.12.2008
			EEK	EUR		31.12.2009	31.12.2008		
In thousands									
11.07.2008	10.07.2009	Arco Vara commercial paper I	66 498	4 250	12,00	0	59 303	0	3 790
11.07.2008	31.05.2010	Arco Vara commercial paper I	18 870	1 206	16,00	18 870	0	1 206	0
<b>Total</b>						<b>18 870</b>	<b>59 303</b>	<b>1 206</b>	<b>3 790</b>

<sup>2</sup> In 2009, the weighted average interest rate of loans and borrowings was 5.25 % (2008: 6.95 %). The weighted average interest rate of bank loans was 4.81 % (2008: 6,56 %).

Additional information on assets pledged for loan liabilities is presented in note 28.

Interest rates for most important loan liabilities:

	Loan balance EEK		Loan balance EUR		Interests rate, %	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	2009	2008
In thousands						
Long-term bank loan	220 783	156 160	14 111	9 980	7,20	6,74
Short-term bank loan	108 168	86 970	6 913	5 558	1,98	4,93
Short-term bank loan	94 316	97 250	6 028	6 215	4,74	6,22
Short-term bank loan	85 500	134 381	5 464	8 589	3,75	8,15
Short-term bank loan	48 263	60 616	3 085	3 874	3,75	4,36
Short-term bank loan	46 044	90 033	2 943	5 754	2,99	6,07
Long-term bank loan	34 316	23 389	2 193	1 495	7,20	6,74
Long-term bank loan	27 056	29 900	1 729	1 911	4,44	8,90
Short-term bank loan	20 000	30 000	1 278	1 917	3,75	8,00

The Group's loan liabilities are denominated in Estonian kroons, Latvian lats or euros.

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<sup>3</sup> At 31.12.2009, other loans included loan liabilities to related parties of 25,820 thousand kroons (1,650 thousand euros). At 31.12.2008, the corresponding figure was 36,009 thousand kroons (2,301 thousand euros). For information on related parties, see note 35.

## 24 Finance lease liabilities

Finance lease liabilities by settlement term	31.12.2009		31.12.2008	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
In thousands EEK				
Less than 1 year	878	832	3 537	3 222
2-5 years	1 694	1 686	2 232	1 980
More than 5 years	0	0	268	260
<b>Lessor's gross investment</b>	<b>2 572</b>	<b>2 518</b>	<b>6 037</b>	<b>5 462</b>
Future interest expense	-54		-575	
<b>Lessor's net investment</b>	<b>2 518</b>	<b>2 518</b>	<b>5 462</b>	<b>5 462</b>

Finance lease liabilities by settlement term	31.12.2009		31.12.2008	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
In thousands EUR				
Less than 1 year	56	53	226	206
2-5 years	108	108	143	127
More than 5 years	0	0	17	16
<b>Lessor's gross investment</b>	<b>164</b>	<b>161</b>	<b>386</b>	<b>349</b>
Future interest expense	-3	0	-37	
<b>Lessor's net investment</b>	<b>161</b>	<b>161</b>	<b>349</b>	<b>349</b>

Assets acquired with finance lease	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Investment property	1 525	5 145	97	329
Property, plant and equipment	977	4 094	62	262
<b>Total carrying amount</b>	<b>2 502</b>	<b>9 239</b>	<b>159</b>	<b>591</b>

## 25 Payables

Current payables	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
<b>Trade payables<sup>1</sup></b>	<b>46 188</b>	<b>75 454</b>	<b>2 952</b>	<b>4 822</b>
<b>Other payables</b>				
Liabilities from securities transactions	0	1 236	0	79
Other payables	19 658	16 329	1 256	1 044
<b>Total other payables</b>	<b>19 658</b>	<b>17 565</b>	<b>1 256</b>	<b>1 123</b>



<b>Taxes payable</b>				
Value added tax	2 346	3 099	150	198
Income tax on dividends	2 968	0	190	0
Personal income tax	1 047	2 053	67	131
Social tax	1 882	3 569	120	228
Other taxes	924	2 228	59	142
<b>Total taxes payable</b>	<b>9 167</b>	<b>10 949</b>	<b>586</b>	<b>699</b>
<b>Accrued expenses</b>				
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	345	547
<b>Total accrued expenses</b>	<b>15 731</b>	<b>28 709</b>	<b>1 006</b>	<b>1 836</b>
<b>Total payables</b>	<b>90 744</b>	<b>132 677</b>	<b>5 800</b>	<b>8 480</b>

<sup>1</sup> At 31 December 2009, trade payables included items of 5,516 thousand kroons (353 thousand euros) payable for the acquisition of property, plant and equipment. At 31 December 2008, the corresponding figure was 3,308 thousand kroons (211 thousand euros).

Additional information on related parties, see note 35.

### Non-current items

	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	1 078	1 402	69	89
Miscellaneous long-term liabilities	5 201	2 754	332	176
<b>Total other liabilities</b>	<b>6 279</b>	<b>4 404</b>	<b>401</b>	<b>281</b>

## 26 Deferred income

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Advances for sale of real estate	73 329	58 845	4 687	3 761
Deferred income from long-term service contracts	8 448	4 419	540	282
Other deferred income	387	1 910	24	122
<b>Total deferred income</b>	<b>82 164</b>	<b>65 174</b>	<b>5 251</b>	<b>4 165</b>

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Costs incurred and recognised profit under the stage of completion	157 534	463 309	10 068	29 611
Progress billings	-165 689	-460 116	-10 589	-29 407
<b>Total revenue adjustment</b>	<b>-8 155</b>	<b>3 193</b>	<b>-521</b>	<b>204</b>
Including due from customers	293	7 612	19	486
Including due to customers	-8 448	-4 419	-540	-282

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## 27 Provisions

	Warranty provision <sup>1</sup>	Other provisions <sup>2</sup>	Total
In thousands EEK			
Provision at 31.12.2007	1 303	2 416	3 719
Provisions made during the year	4 674	3 420	8 094
Provisions used during the year	-712	-893	-1 605
Provision at 31 December 2008	5 265	4 943	10 208
Including current portion	1 146	4 771	5 917
Change from disposal of subsidiaries			
	-762	0	-762
Provisions made during the year	1 363	7 373	8 736
Provisions used during the year	-4 432	0	-4 432
Provision at 31.12.2009	1 434	12 316	13 750
Including current portion	1 434	11 216	12 650
In thousands EUR			
Provision at 31.12.2007	83	154	237
Provisions made during the year	299	219	518
Provisions used during the year	-46	-57	-103
Provision at 31 December 2008	336	316	652
Including current portion	73	305	378
Change from disposal of subsidiaries			
	-49	0	-49
Provisions made during the year	87	471	558
Provisions used during the year	-283	0	-283
Provision at 31.12.2009	91	787	878
Including current portion	91	717	808

<sup>1</sup> Warranty provisions are recognised based on management's best estimates, i.e. by reference to the terms and conditions of each construction contract (whether the Group acts as a general contractor or uses own labour, who the subcontractors are, how complicated the project is, where the project is performed, etc). A provision amounts to up to 1 % of the cost of the contract. Warranty provisions are created for covering the costs which may be incurred during the warranty period. A warranty period lasts for two years from the delivery of work performed.

<sup>2</sup> At 31 December 2009, the Group's Bulgarian development company had created a builder's warranty provision of 10,994 thousand kroons (703 thousand euros). At 31.12.2008, the warranty provision was 458 thousand kroons (29 thousand euros).

## 28 Assets pledged as security

The Group has pledged the following assets as security for its loans and borrowings (including finance lease liabilities):

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Properties carried as inventories (note 18)	709 197	602 332	45 326	38 496
Investment property (note 20)	240 716	501 893	15 385	32 077
Property, plant and equipment (note 21)	2 891	32 414	185	2 072
<b>Total pledged assets</b>	<b>952 804</b>	<b>1 136 639</b>	<b>60 896</b>	<b>72 645</b>

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Arco Investeeringute AS, a 100 % subsidiary of Arco Vara AS, has pledged Bišumuižas Nami SIA shares in favour of Nordea Bank Finland Plc.

## 29 Share capital

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Number of issued shares fully paid up	95 284 150	95 284 150	95 284 150	95 284 150
Share capital (in thousands)	952 842	952 842	60 898	60 898
Share premium per share (in kroons and in euros)	0,00	7,48	0,00	0,48
Total share premium (in thousands) <sup>1</sup>	0	712 514	0	45 538
Treasury shares (in thousands) <sup>2</sup>	-3 992	-3 992	-255	-255

<sup>1</sup> The management decided to cover the accumulated losses with share premium

<sup>2</sup> Own shares: Based on the resolution of the annual general meeting of Arco Vara shareholders on 14 May 2008, Arco Vara AS was entitled to acquire own shares under the following conditions:

- the public limited company is entitled to acquire own shares within five years after taking the resolution of the general meeting;
- the total amount of the nominal value of shares acquired by the public limited company shall not exceed 10 % of the share capital;
- the amount to be paid for one share shall not be less than a half of the nominal value of the share nor higher than the price of the last independent transaction made on Tallinn Stock Exchange on the day of acquiring the share or the highest valid independent purchase offer made on Tallinn Stock Exchange on the day of acquiring the share;
- for the own shares, from the assets shall be paid that exceed the share capital, reserve capital and the issue premium.

On 8 October 2008, Arco Vara AS decided to terminate this repurchase programme.

The maximum amount of Arco Vara AS shares that can be issued as of 31.12.2009 is 121 812 148. On a special general meeting on 11.12.2009, the maximum amount of shares to be issued was changed down to 18,000,000 in Articles of Association.

The share capital was reduced subsequent to the balance sheet date as follows:

- first the share capital was reduced by cancellation of 450,000 own shares and additional 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") were cancelled;
- then 19/20 of all shares were reduced so that 19/20 of shares belonging to each shareholder were cancelled and if the number of shares owned by a shareholder (hereinafter „stabilized shareholder“) did not enable to cancel whole number of shares, whole number of shares owned by stabilized shareholder were cancelled (rounded downwards) and additionally a number of shares (hereinafter the "compensation shares"), that the stabilized shareholder owned in order to enable cancellation of whole number of shares without rounding, were cancelled from the shares owned by the stabilizing shareholders (e.g. if the stabilized shareholder had 30 shares, 28 thereof shall be cancelled (i.e. the stabilized shareholder had 2 shares after the reduction of the share capital) and additionally 10 Compensation shares owned by the Stabilizing shareholders were cancelled);
- Compensation shares were cancelled in equal parts from the shares owned by the stabilizing shareholders.
- If the Compensation shares could not be cancelled in equal parts from the shares owned by the Stabilizing shareholders, then more shares belonging to HM Investeeringud OÜ were cancelled. As a result of the reduction of share capital, the number of all shares is 4,741,707, i.e. 90,542,443 shares are cancelled. The extent of the reduction of share capital is EEK 905,424 thousand kroons (57,867 thousand euros).

The list of shareholders whose shares were cancelled due to reduction of share capital was determined on 1 March 2010 at 23:59. On 16 March 2010 the reduction of the share capital came into force in the commercial register. Share capital was reduced from 952,841 thousand kroons (60,898 thousand euros) to 47,417 thousand kroons (3,031 thousand euros). During the share capital reduction 90 542 443 shares were cancelled and 4 741 707 shares remained.

The Commercial Code of the Republic of Estonia provides that the equity of a company has to make up at least a half of the nominal value of the share capital. Cancelling of shares enables us to meet this requirement.

### 30 Contingent liabilities and potential assets

	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Retained earnings at 31 December	-596 263	-984 668	-38 108	-62 932
Contingent income tax liability	0	0	0	0
Possible dividends	0	0	0	0

#### Arco Vara AS and Arco Ehitus OÜ creditors claims towards 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 Grupp OÜ).

On 20.11.2009 a meeting for securing claims of OÜ Tempera Ehitus (bankrupted) was held 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 42 thousand kroons (3 thousand euros); therefore the defended was the claim in the amount of 2,301 thousand kroons (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 towards AS Ühendatud Kapital

Arco Investeeringute AS, Sigma Real Estate Ltd and AS Ühendatud Kapital have concluded a memorandum of understanding on 26 February 2008. The purpose of the memorandum is to set out basic conditions and principles for acquisition of a 50 % interest in a Cypriot business that owned and maintained the development of trade centres in Ukraine by Arco Vara AS. Based on the memorandum, Arco Investeeringud AS has made a prepayment and given subordinated loans in a total amount of 10,000 US dollars (111,052 thousand kroons; 7,098 thousand euros), that Arco Vara AS is entitled to recall and that is secured by a guarantee by AS Ühendatud Kapital. Considering that AS Ühendatud Kapital and Sigma Real Estate Ltd did not agree with a compromise proposal by Arco Investeeringute AS to set a supplementary security and postpone the debt, the realisation of AS Ühendatud Kapital guarantee was started.

On 19.02.2009, Arco Investeeringute AS filed a statement of claim at the Court of Arbitration of the Estonian Chamber of Commerce and Industry to collect 10,907 thousand US dollars (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

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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 euros), 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 Investeeringute AS in amount of 1,099 thousand Estonian kroons (70 thousand euros). Additional information see note 17.

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

#### Adoption of a detail plan for Narva mnt 67

On 19 May 2008 a resident of the Liivaoja residential area brought an action for annulment of Resolution No 72 *Adoption of a Detail Plan for Narva mnt 67 in the City Centre* passed by Tallinn City Council on 17 April 2008, filing also a request for the application of provisional legal protection According to the complainant, the detail plan adopted for the property known as the Tivoli plot is unlawful and violates the rights of the complainant.

Since the property belongs to Arco Investeeringute AS, the Group is involved in the proceedings as a third party On 8 July 2008 Tallinn Administrative Court ruled that the request for provisional legal protection would be satisfied and execution of Tallinn City Council Resolution 72 of 17.04.2008 would be suspended until the completion of litigation and entry into force of a judicial decision.

On 18 July 2008 both the Tallinn City Council and Arco Investeeringute AS filed an appeal with Tallinn Circuit Court in which they requested annulment of the ruling on provisional legal protection.

The Tallinn Circuit Court heard the appeal against the court ruling on 11 August 2008 and dismissed the appeals by Tallinn City Council and Arco Investeeringute AS.

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

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

On 14 October 2008 Arco Investeeringute AS submitted a request for annulment of the ruling on provisional legal protection to Tallinn Circuit Court. Arco Investeeringute AS and Tallinn City Council agreed to make a compromise in regard of adding parking spaces to the area subject to the plan, the opinions on the shortcomings of the detail plan as indicated in the ruling on provisional legal protection were also explained and reasoned by documents as well as factually. Yet, the court did not annul the ruling on provisional legal protection.

On 5 May 2009, the Tallinn Administrative Court made a decision in favour of the claim and cancelled the decision by Tallinn City Council by which the detail plan of Narva mnt 67 was established. The decision of the court was based on its earlier standpoints.

On 3 June 2009, Tallinn City Council and on 4 June 2009, Arco Investeeringute AS filed an appeal against the decision of Tallinn Administrative Court of 05.05.2009. The Tallinn District Court scheduled 29.10.2009 for the court session.

On 27.10.2009, the contestor of the detailed plan filed an application of disclaiming to the Tallinn District Court and the court satisfied it by its decree, annulled the decision of Tallinn Administration Court by which the detailed plan of the property was annulled originally, and terminated the proceeding. Thus, the detailed plan of the property at Narva mnt 67 entered into force in its original version.

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

## 31 Government grants

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Greenhouses	0	843	0	54
Watering beam	0	142	0	9
Inventory	0	33	0	2
<b>Total</b>	<b>0</b>	<b>1 018</b>	<b>0</b>	<b>65</b>

In 2009, the Group received no finances for government grant. In 2008, resources for government grant in the amount of 1,018 thousand kroons (65 thousand euros) were received from the foundation Environmental Investments Centre.

## 32 Financial instruments and financial risk management

The Group's activities expose it to various financial risks: market risk (interest rate risk and currency risk), credit risk and liquidity risk.

The Group's risk management programme is based on the assumption that the financial markets are unpredictable and appropriate measures have to be adopted to minimise potential adverse impacts on the Group's financial activities. The Group can use derivative financial instruments to hedge certain risk exposures.

The Group's risk management process is based on the premise that the Group's success depends on constant monitoring, careful analysis and effective management of the risks faced by the Group. Centralised financial risk management is the responsibility of the Group's financial team. The main objective of financial risk management is to prevent any damage or financial loss that could jeopardise the Group's equity and continuous operation. The Group establishes risk management policies and activities which are aimed at identifying, evaluating, monitoring and managing risks and spreading risks across time, activities and geographical areas. Risk management policies and activities are implemented by the managers of Group entities.

By implementing financial risk management process the critical issue is to monitor the Group's risk exposure in development segment due to the concentration of interest rate and liquidity risk in one business segment –development and geographically in Estonia. The main reason is that the property development is very capital intensive and several large development projects are under process at the same time.

### Information on financial instruments by category

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Cash and cash equivalents (note 34)	71 392	172 574	4 563	11 029
<i>Loans and receivables</i>	71 392	172 574	4 563	11 029
Receivables (note 17)	170 379	301 023	10 889	19 239
<i>Loans and receivables</i>	170 379	301 023	10 889	19 239
Financial investments (note 16)	15 613	40 671	998	2 599
<i>Loans and receivables</i>	129	129	8	8
<i>Current investments in equity instruments – carried at fair value</i>	15 484	40 542	990	2 591
<b>Total financial assets</b>	<b>257 384</b>	<b>514 268</b>	<b>16 450</b>	<b>32 867</b>
Loans and borrowings (note 23)	802 232	1 046 336	51 272	66 873
<i>Liabilities carried at amortized cost</i>	802 232	1 046 336	51 272	66 873
Payables (note 25)	97 023	137 081	6 201	8 761
<i>Liabilities carried at amortized cost</i>	97 023	137 081	6 201	8 761
<b>Total financial liabilities</b>	<b>899 255</b>	<b>1 183 417</b>	<b>57 473</b>	<b>75 634</b>

## Income, expense, gains and losses on financial instruments can be assigned to the following categories:

2009

In thousands EEK	Loans and receivables	Derivatives	Current investments in equity instruments – carried at fair value	Liabilities carried at amortized cost	Total
Interest income (note 12)	4 958	0	684	0	5 642
Interest expense (note 12)	0	0	0	-38 462	-38 462
Gains and losses from other non-current financial assets (note 12)	1 793	0	725	0	2 518
Impairment losses on financial assets (note 12)	-15 684	0	0	0	-15 684
<b>Net result</b>	<b>-8 933</b>	<b>0</b>	<b>1 409</b>	<b>-38 462</b>	<b>-45 986</b>

2009

In thousands EUR	Loans and receivables	Derivatives	Current investments in equity instruments – carried at fair value	Liabilities carried at amortized cost	Total
Interest income (note 12)	317	0	44	0	361
Interest expense (note 12)	0	0	0	-2 458	-2 458
Gains and losses from other non-current financial assets (note 12)	115	0	46	0	161
Impairment losses on financial assets (note 12)	-1 002	0	0	0	-1 002
<b>Net result</b>	<b>-570</b>	<b>0</b>	<b>90</b>	<b>-2 458</b>	<b>-2 938</b>

2008

In thousands EEK	Loans and receivables	Derivatives	Current investments in equity instruments – carried at fair value	Liabilities carried at amortized cost	Total
Interest income (note 12)	48 511	826	3 927	0	53 264
Interest expense (note 12)	0	-156	0	-48 028	-48 184
Gains and losses from other non-current financial assets (note 12)	0	0	2 429	0	2 429
Impairment losses on financial assets (note 12)	-72 435	0	0	0	-72 435
<b>Net result</b>	<b>-23 924</b>	<b>670</b>	<b>6 356</b>	<b>-48 028</b>	<b>-64 926</b>

2008

In thousands EUR	Loans and receivables	Derivatives	Current investments in equity instruments – carried at fair value	Liabilities carried at amortized cost	Total
Interest income (note 12)	3 100	53	251	0	3 404
Interest expense (note 12)	0	-10	0	-3 070	-3 080
Gains and losses from other non-current financial assets (note 12)	0	0	155	0	155
Impairment losses on financial assets (note 12)	-4 629	0	0	0	-4 629
<b>Net result</b>	<b>-1 529</b>	<b>43</b>	<b>406</b>	<b>-3 070</b>	<b>-4 150</b>

### Claims by their term

The Group has some trade receivables which are overdue but for which no impairment allowance has been made. The Group's management has assessed the recoverability of such receivables on an individual basis and has come to the conclusion that the items are not impaired.

The following table provides an overview of overdue receivables:

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
undue or up to 3 months	43 991	54 892	2 812	3 509
3 - 6 months	4 227	18 620	270	1 190
6 - 12 months	1 598	11 695	102	747
More than 12 months	3 599	5 120	230	327
<b>Total trade receivables (note 17)</b>	<b>53 415</b>	<b>90 327</b>	<b>3 414</b>	<b>5 773</b>

### Liquidity risk

Liquidity risk is the risk that a change in financial position will cause the Group to encounter difficulty in meeting the obligations associated with financial liabilities in a due and timely manner, or that the Group will be unable to dispose of property at market price and within the desired timeframe. Above all, the Group's liquidity is affected by the following factors:

- Group entities' ability to generate independent positive net operating cash flows and the volatility of those cash flows;
- Mismatch in the maturities of assets and liabilities and flexibility in adjusting it;
- Marketability of long-term assets;
- Volume and pace of property development;
- Volume and pace of geographical expansion;
- Financing structure.

The Group's financial team manages the Group's liquidity based on a relevant strategy which is aligned with the Group's investment plan.

Short-term liquidity management of Group is first and foremost based on steadily observing of quarterly cash flow forecast. The purpose of short-term liquidity management is to guarantee the availability of sufficient highly liquid funds (i.e. cash and cash equivalents and highly liquid investments). The main tools for short-term liquidity management are the group account, which pools the funds of Group entities, and, in the case of foreign Group entities, loans from the Parent.

Long-term liquidity is primarily influenced by investment decisions. The Group observes the principle that Group entities' net cash inflows from operating and investing activities have to cover the Group's cash outflows from financing activities. Accordingly, the purpose of long-term liquidity management is to ensure sufficient liquidity of the investment (property) portfolio, harmonize the timing of cash flows from investing and financing activities, and determine the optimal financing structure. Long-term projects are monitored to ensure that the timing and amounts of investing cash flows do not differ significantly from the timing and amounts of financing cash flows. The following table illustrates the Group's open position in refinancing loan liabilities:



## Maturity structure of financial assets and financial liabilities

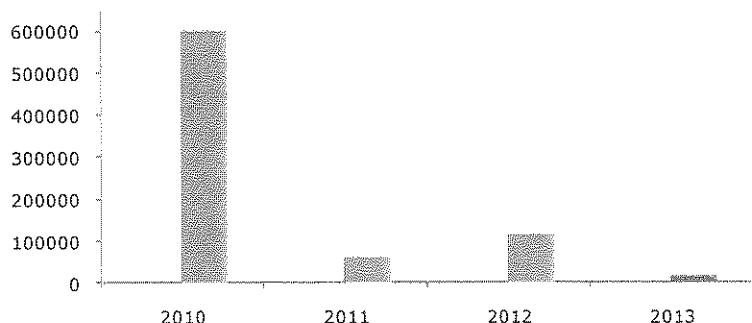
Maturity structure of financial assets and financial liabilities	31.12.2009				
	< 3 months	3-12 months	1-5 years	> 5 years	Total
In thousands EEK					
Cash and cash equivalents	71 392	0	0	0	71 392
Receivables	56 093	107 982	6 304		170 379
Financial investments	0	0	15 613	0	15 613
<b>Total assets</b>	<b>127 485</b>	<b>107 982</b>	<b>21 917</b>	<b>0</b>	<b>257 384</b>
Loans and borrowings	272 992	332 455	196 666	119	802 232
Payables	60 475	30 269	6 279	0	97 023
<b>Total liabilities</b>	<b>333 467</b>	<b>362 724</b>	<b>202 945</b>	<b>119</b>	<b>899 255</b>
31.12.2008					
	< 3 months	3-12 months	1-5 years	> 5 years	Total
In thousands EEK					
cash and cash equivalents	172 574	0	0	0	172 574
Receivables	100 900	193 452	6 671	0	301 023
Financial investments	40 416	0	255	0	40 671
<b>Total assets</b>	<b>313 890</b>	<b>193 452</b>	<b>6 926</b>	<b>0</b>	<b>514 268</b>
Loans and borrowings	18 958	334 459	576 126	116 793	1 046 336
Payables	92 175	40 502	4 404	0	137 081
<b>Total liabilities</b>	<b>111 133</b>	<b>374 961</b>	<b>580 530</b>	<b>116 793</b>	<b>1 183 417</b>
31.12.2009					
	< 3 months	3-12 months	1-5 years	> 5 years	Total
In thousands EUR					
Cash and cash equivalents	4 563	0	0	0	4 563
Receivables	3 585	6 901	403	0	10 889
Financial investments	0	0	998	0	998
<b>Total assets</b>	<b>8 148</b>	<b>6 901</b>	<b>1 401</b>	<b>0</b>	<b>16 450</b>
Loans and borrowings	17 447	21248	12 569	8	51 272
Payables	3 865	1 935	401	0	6 201
<b>Total liabilities</b>	<b>21 312</b>	<b>23 183</b>	<b>12 970</b>	<b>8</b>	<b>57 473</b>
31.12.2008					
	< 3 months	3-12 months	1-5 years	> 5 years	Total
In thousands EUR					
Cash and cash equivalents	11 029	0	0	0	11 029
Receivables	6 449	12 364	427	0	19 240
Financial investments	2 583	0	16	0	2 599
<b>Total assets</b>	<b>20 061</b>	<b>12 364</b>	<b>443</b>	<b>0</b>	<b>32 868</b>
Loans and borrowings	1 212	21 376	36 821	7 464	66 873
Payables	5 891	2 589	281	0	8 761
<b>Total liabilities</b>	<b>7 103</b>	<b>23 965</b>	<b>37 102</b>	<b>7 464</b>	<b>75 634</b>

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With regard to the repayment terms of the liabilities within the loan portfolio, the weighted duration of loan liabilities as of 31 December 2009 is 0.9 years (31.12.2008: 2.5 years). The division of loan liabilities on the year-over-year basis is displayed on the following chart.

#### Breakdown of loans and borrowings by maturity (in thousands of kroons)



Refinancing risk is managed by monitoring the liquidity position on a daily basis and analysing different financing options on a consistent and ongoing basis. In addition, partner banks and professionals qualified in analysing developments in capital markets are involved in the process already in the initial stage.

In 2010, the term for loan liabilities in the amount of 605,249 thousand kroons (38,682 thousand euros) will be due. With regard to short-term loan liabilities, 29,028 thousand kroons (1,855 thousand euros) are mostly loans from related parties and extension of their payment terms is usually not a problem. 225,202 thousand kroons (14,393 thousand euros) of short-term loan liabilities are loans that are related to ongoing development projects and the redemption of which is related to sales transactions. For these loans, there is no substantial need for refinancing as the term of loans is usually related to project end date.

The risk of refinancing loans is bigger with regard to these loans the purpose of which is acquisition of land, and the start of active development activity has been postponed. Such short-term loan liabilities make up 307,984 thousand kroons (19,683 thousand euros). The Group is actively minimising the risk of refinancing these loans by negotiating with various credit institutions and possible investors. As an alternative, project disposal is considered. In some cases The Group has broken material loan covenants that gives to the creditor the right to accelerate the loan payment. Although the creditors have waived the covenant breaches so far, The Group has accounted these loans as short-term. The Group is in constant negotiation mode with all of its creditors in order to prolong the loans and make the historic covenant package more suitable to new market situation.

#### Interest rate risk and currency risk

Interest rate risk is the risk that a rise in market interest rates will increase interest expense to an extent that will have a significant impact on the Group's operating efficiency. Exposure to interest rate risk results from:

1. use of loans and borrowings with a floating interest rate, and
2. the need for refinancing in connection with the arrival of the due dates of liabilities or the involvement of new loans in connection with the realisation of the investment plan in a situation where the volatility of financial markets is increasing and the economic environment is changing.

Most of the Group's long-term loans and borrowings are linked to EURIBOR. Therefore, the Group is exposed to developments on the international financial markets. Interest rate risk is managed, among other things, by monitoring movements in the money market interest rate curve, which reflects the market participants' expectations of market interest rates and allows estimating a trend for euro-denominated interest rates.

In response to a 1.95 percentage decrease in EURIBOR in 2009, the Group analysed the sensitivity of its profit before tax and cash flows to a 1 percentage change in interest rates.

The sensitivity analysis of generated cash flows to changes in interest rate demonstrated that a 1 percentage point change (rise or decline) in interest rates would affect (increase or reduce) the cash flows generated in 2009 by 7,138 thousand kroons (456 thousand euros) (2008: 9,147 thousand kroons (585 thousand euros)). The sensitivity analysis of profit before tax demonstrated that a 1 percentage point change (rise or decline) in interest rates would affect (increase or reduce) profit before tax for 2009 by 3,625 thousand kroons (232 thousand euros) (2008: 5,628 thousand kroons (360 thousand euros)). In managing its short-term interest rate risks, the Group regularly compares potential losses from changes in interest rates against corresponding risk hedging expenses. To date, no financial instruments have been used to hedge short-term interest rate risks because according to management's assessment hedging expenses would exceed the losses which might be incurred.

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## The Group's interest-bearing assets and liabilities

					31.12.2009
By maturity	< 3 months	3-12 months	1-5 years	> 5 years	Total
In thousands EEK					
Interest-bearing assets	58 486	42 711	1 632	0	102 829
Interest-bearing liabilities	272 992	332 455	196 666	119	802 232
<b>Net position</b>	<b>-214 506</b>	<b>-289 744</b>	<b>-195 034</b>	<b>-119</b>	<b>-699 403</b>
					31.12.2008
By maturity	< 3 months	3-12 months	1-5 years	> 5 years	Total
In thousands EEK					
Interest-bearing assets	163 678	103 905	254	0	267 837
Interest-bearing liabilities	18 958	334 459	576 126	116 793	1 046 336
<b>Net position</b>	<b>144 720</b>	<b>-230 554</b>	<b>-575 872</b>	<b>-116 793</b>	<b>-778 499</b>
					31.12.2009
By maturity	< 3 months	3-12 months	1-5 years	> 5 years	Total
In thousands EUR					
Interest-bearing assets	3 738	2 730	104	0	6 572
Interest-bearing liabilities	17 447	21 248	12 569	8	51 272
<b>Net position</b>	<b>-13 709</b>	<b>-18 518</b>	<b>-12 465</b>	<b>-8</b>	<b>-44 700</b>
					31.12.2008
By maturity	< 3 months	3-12 months	1-5 years	> 5 years	Total
In thousands EUR					
Interest-bearing assets	10 461	6 641	16	0	17 118
Interest-bearing liabilities	1 212	21 376	36 821	7 464	66 873
<b>Net position</b>	<b>9 249</b>	<b>-14 735</b>	<b>-36 805</b>	<b>-7 464</b>	<b>-49 755</b>

Currency risks are hedged by performing most transactions and signing most agreements and contracts in euros or currencies pegged to the euro. The main currency risk is the devaluation of the local currency against the euro. In view of the low probability of the devaluation, the risk is not significant. USD/EEK exchange rate fluctuations affect the Group somewhat due to receivable against Sigma Real Estate Ltd nominated in USD.

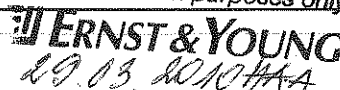
## Breakdown of loans and borrowings by currency

	EEK		EUR		share, %	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands						
EUR	782 468	793 877	50 009	50 738	98	76
EEK	19 647	239 597	1 256	15 313	2	23
Other currencies	117	12 862	7	822	0	1
<b>Total</b>	<b>802 232</b>	<b>1 046 336</b>	<b>51 272</b>	<b>66 873</b>	<b>100</b>	<b>100</b>

## Breakdown of interest-bearing assets by currency

	EEK		EUR		share, %	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands						
EEK	99 524	211 248	6 361	13 501	100	79
Other currencies	0	56 589	0	3 617	0	21
<b>Total</b>	<b>99 524</b>	<b>267 837</b>	<b>6 361</b>	<b>17 118</b>	<b>100</b>	<b>100</b>

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The Group's liabilities are denominated mainly in the euro or in the Estonian kroon and operating volumes are the largest in countries whose local currency is pegged to the euro. Therefore, the currency risk is insignificant. Currency risks arising from open positions are hedged by euro-denominated transactions between countries and matching the timing of receipts and payments in the country involved.

### Credit risk

Credit risk is the risk that the other party to a financial instrument will cause a financial loss to the Group by failing to discharge an obligation.

Credit risk is managed by making sure that there are no major concentrations of credit risk. Group entities prevent and minimize credit risk by monitoring and managing customers' settlement behaviour on a daily basis so that appropriate measures could be applied in due time. In addition, sales and construction activities are partly financed with customer prepayments and in real estate transactions, where the other party is often financed by a credit institution, the Group cooperates with banks. Consequently, the risks arising from customer insolvency are well hedged.

Allowances are made for potential losses. Potential losses are estimated based on historical experience, the other party's ability to meet existing obligations in the short term, and developments in the economic environment.

Group entities perform transactions only with counterparties who are considered creditworthy. As a rule, immediate payment is demanded. Credit is granted against additional collateral only. Accordingly, management believes that the need for additional hedging of credit risk is minimal. The maximum potential credit risk equals the total carrying amount of receivables, cash and cash equivalents and investments in financial assets. Additional information about receivables can be found in note 17.

### Fair value

The main financial assets and financial liabilities of Group entities are recognised in the balance sheet. The Group does not have any significant off-balance sheet financial assets or liabilities which have not been disclosed in the financial statements. Because of the accounting and reporting principles applied, the carrying amounts of the financial assets and financial liabilities do not differ significantly from their fair values.

The fair values of assets and liabilities with a fixed interest rate are not significantly different from their carrying amounts because the fixed interest rate does not differ significantly from current market interest rates.

### Hedging

All derivative financial instruments which are used to hedge risks are recognised as assets or liabilities. Regardless of their purpose, they are initially recognised at their fair values. Changes in the fair values of such derivative instruments are recognised in the income statement in finance income and expenses (in "Interest expense/interest income").

As of 31.12.2009, the Group had no valid risk hedging transactions. As of 31.12.2008, the Group has no valid risk hedging transactions.

## Other information

### 33 Capital management

The objective of capital management is to maintain a capital base which ensures the Group's continuous operation and development and to prevent risks which could jeopardise the Group's equity.

The Group finances its operations with both debt and equity capital. Property development is very capital intensive. Therefore, as a rule, related investment projects are financed on the assumption that equity financing should be at least 30 % of the cost of the project.

In designing the optimal financing structure and identifying and measuring risks, the Group monitors the proportion of equity in the consolidated balance sheet. At 31.12.2009, equity accounted for 27.8 % (2008: 36 %) of the balance sheet total.

Management makes a proposal for the distribution of dividends based on the Group's results of operation and investment plan, and developments in the economic environments of the markets in which the Group operates. In recent years, the Group was announcing dividends in the amount of up to 15 % of the consolidated net profit, and intends to continue the distribution of dividends pro rata to its net profit. Nevertheless the Group cannot warrant that dividend payments will be continuing at the same rate in the future, because the exact sum of dividends depends on the results of the latest financial year of the Group and the estimated liquidity position in the medium run.

In January 2009, 41,500 thousand kroons (2,652 thousand euros) from the loan principals related to the Tivoli and Laeva projects were paid back to SEB bank on an extraordinary basis, by releasing the Group from the obligation to keep liquid assets in an amount of 150,000 thousand kroons (9,587 thousand euros) in the SEB bank. On an extraordinary basis, smaller loans and principal amounts have been paid back, too. In order to improve liquidity, holdings in three joint ventures were sold, as a result of which the Group earned 55,000 thousand kroons (3,515 thousand euros) by the end of the year. We have extended and restructured a half of our commercial papers in the amount of 26,208 thousand kroons (1,675 thousand euros), whereof approx. 7,338 thousand kroons (469 thousand euros) have been paid as a result of the sales of security assets.

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 were in euros.

### 34 Cash and cash equivalents

Cash comprises cash on hand, bank cheques and demand deposits. In accordance with IAS 7 "Cash Flow Statements", cash and cash equivalents also include term deposits with a maturity of less than three months.

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Cash and demand deposits	12 906	49 313	825	3 151
Term deposits <sup>1</sup>	58 486	123 261	3 738	7 878
<b>Total cash and cash equivalents</b>	<b>71 392</b>	<b>172 574</b>	<b>4 563</b>	<b>11 029</b>

<sup>1</sup>As of 31.12.2009, the time deposits consist of deposits with a length of up to 3 months in the amount of 41,157 thousand kroons (2,630 thousand euros), at the end of 2008 respectively 92,763 thousand kroons (5,929 thousand euros), and overnight deposits in the amount of 17,329 thousand kroons (1,108 thousand euros), at the end of 2008 respectively 30,498 thousand kroons (1,949 thousand euros).

The interest rates of time deposits were in 2009 between 1.3 % and 11 % (2008: 1.8 % to 7.85 %) per year.

The overnight deposits interest rates of demand deposits were 0.25 % to 5.7 % (2008: 0.25 % to 0.5 %) per year.

Although the consolidated cash and cash equivalents balance of the Group at the end of 2009 is 71,392 thousand kroons (4,563 thousand euros), 33,877 thousand kroons (2,165 thousand 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. In 2008, the cash and cash equivalent balance was 172,574 thousand kroons (11,029 thousand euros), whereof 117,862 thousand kroons (7,533 thousand euros) were under the company's own control.

### 35 Transactions with related parties

For the purposes of these consolidated financial statements related parties comprise:

- jointly controlled entities
- associated companies
- companies and other persons having control, joint control or significant influence over the Group or Group entities (this includes venture partners and shareholders of the Parent);
- key members of the Group's management (this includes members of the Parent's supervisory board and members of the management boards of the Group's subsidiaries and jointly controlled entities);
- other related parties (this includes companies related to members of the Parent's supervisory board).

Transactions and balances with related parties have been presented as follows:

	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				
<b>Transactions with joint companies<sup>1</sup></b>				
Sales revenue	136	1 690	9	108
Service purchased	0	-52	0	-3
Short-term loan receivables (note 17)	13 893	13 855	888	885
Long-term loan receivables (note 17)	0	5 750	0	367
Trade receivables (note 17)	918	1 030	59	66
Other current receivables (note 17)	0	2 205	0	141
<b>Transactions with companies having joint control over Group companies</b>				
Purchase of fixed assets	10 190	0	651	0
Service purchased	0	-445	0	-28
Other current receivables (note 17) <sup>2</sup>	8 728	13 348	558	853
Other current receivables (note 17)	2 114	0	135	0
Short-term loan liabilities (note 23)	15 329	16 377	980	1 047
Trade payables (note 25)	0	368	0	24
Interest payable (note 25)	2 447	968	156	62
Other long-term liabilities (note 25)	5 201	0	332	0
<b>Transactions with key staff of the Group and the Group's management</b>				
Sales revenue <sup>3</sup>	1 704	11 747	109	751
Service purchased	-1 448	0	-93	0
Trade receivables	0	262	0	17
Short-term loan liabilities (note 23)	10 491	85	670	5
Interest payable (note 25)	748	0	48	0
<b>Transactions with other related parties</b>				
Sales revenue	0	1 869	0	119
Service purchased	0	-33	0	-2
Current loans and borrowings	0	11 424	0	730
Non-current loans and borrowings	0	31 151	0	1 991

<sup>1</sup> On 9 March 2009 Arco Ehitus, a subsidiary of Arco Vara, concluded an 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).

<sup>2</sup> Other short-term receivables from entities having joint control over the Group entities as of 31.12.2009 included the taking over of the receivables from the Group's related parties by the owner companies of Arco Vara AS in the amount of 8,728 thousand kroons (558 thousand euros). The corresponding figure for 2008 was 8,728 thousand kroons (558 thousand euro). This receivable will be cleared upon distribution of dividends with the dividend obligations of the Group.

<sup>3</sup> 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 in 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.

Arco Vara AS transferred its 86.66 % 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 86.66 %. 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“). Jury Nikitin, the owner and manager of Bagatini OÜ is also one of the board members of Arco Ukraina Valduste OÜ.

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 buildings market. Through dividend income, the Group has gained back its acquisition cost of the share capital in Arco Construction SIA. During the next years, the Group investments into the Latvian development projects would have been up to 15,000 thousand kroons (approx. 959 thousand 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 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.

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).

In 2009, the remuneration paid to members of the supervisory board, including the associated taxes amounted to 647 thousand kroons (41 thousand euros). The corresponding figure for 2008: 590 thousand kroons (38 thousand euros).

## 36 Events after the reporting period

### Bankruptcy petition against Arco Vara

On 21.01.2010 Indrek Porila filed the bankruptcy petition to the Harju County Court. Arco Vara AS has considered from the beginning the bankruptcy petition by Indrek Porila as a malicious act aimed at discrediting the reputation of the company and deeming it as extortion. Indrek Porila has previously claimed pay out from Arco Vara AS in amount of 37 943 thousand kroons (2 425 thousand euros). Arco Vara AS has objected the unfounded claim and contested it. Despite the lack of proof about the claim and solvency of the company, Indrek Porila filed the bankruptcy petition.

The management board of Arco Vara AS stipulated in the 2007 in Initial Public Offering prospectus (IPO prospectus) that Indrek Porila has right for the bonus in amount of 12.5% from the equity capital of the Floriston Group, which is subject of payment after realization of Floriston Group's real estate projects. In IPO prospectus the partial equity capital is valued in amount of 37 943 thousand kroons (2 425 thousand euros). Since last autumn Indrek Porila did not want to obtain 12.5% equity of the Floriston Grupp OÜ as was agreed by oral agreement in 2001, instead demanded Arco Vara AS to pay a sum mentioned prior. Arco Vara AS has not acknowledged Indrek Porila's such kind of claim contrary with the agreement, since non one of the real estate projects on the basis of which the equity considered to be divided, has been unrealized.

On 16.03.2010 Harju County Court with its judgment decided not to commence bankruptcy proceedings against Arco Vara AS and dismissed Indrek Porila bankruptcy petition. According to the Bankruptcy Act, the court shall not initiate proceedings if a claim is not clear and is being disputed. With its judgment the Court stroked the vagueness and contestability of the claim and that Arco Vara AS is not insolvent, therefore there will not exist any ground to start bankruptcy proceedings.

**Enforcement of the detailed plan for the property at Paldiski Street 80**

On 26.11.2009 By the decision No. 239 of the Tallinn City Council, the detailed plan for the surroundings of the property at Paldiski Street 80 was approved. Since the decision was not disputed, it came into force at the beginning of current year. The property at Paldiski Street 80 belongs to Wilson Kinnisvara OÜ, a 100% subsidiary of Arco Investeeringute AS. The intended purpose of the property of 8,200 m<sup>2</sup> is commercial land. The maximum gross enclosed area allowed by the detailed plan is: on ground – 24,000 m<sup>2</sup>, underground – 6,300 m<sup>2</sup>. The number of planned parking places is 257. The only difference from the current comprehensive plan is an increase in the planned height of the building. The maximum height of the building will be 44 meters and up to 12 stories, however, this will not apply for the whole building volume.

**Loan refinancing with Piræus Bank Bulgaria**

Arco Invest EOOD, a 100% subsidiary of Arco Vara Group, refinanced under favorable conditions for the Group the loan taken for the development of the Madrid project in Sofia. As a result of that loan amount increased from 242 500 thousand kroons to 258 000 thousand kroons (from 15 500 thousand euros to 16 500 thousand euros), base rate is 3-month EURIBOR and the annual margin 6.5%.

As a result of refinancing, the repayment term was extended for 3 years from 2012 to 2015 and the loan amount increased by 15 600 thousand kroons (1 000 thousand euros).

According to the refinancing agreement between Piræus Bank Bulgaria and Arco Group, the repayment of the principal starts in July 2010 and ends in June 2015. Extension of the repayment term is a proof of Arco Vara credibility among foreign major banks. Thanks to refinancing, the financial risks of the group have considerably decreased.

The Madrid's residential and business building development project located in the city centre of Sofia and will be finished on first half of this year.

**Executing a contracting and financing contract with AS Merko Ehitus**

On 01.03.2010 AS Kolde, a 100% subsidiary of the Arco Vara AS Group, and AS Merko Ehitus concluded a contracting contract for building and financing of the construction of 4 apartment buildings of the next stage of Arco Vara's Kodukoide property development project.

The estimated comprehensive value of the contract is 80 000 thousand kroons (5 200 thousand euros), and the contract is financed by AS Merko Ehitus through providing a credit limit of up to 40 000 thousand kroons (2 600 thousand euros). The maturity date of the loan for financing the construction is February 2013.

The residential complex consists of 96 apartments with the closed net area of 6370 m<sup>2</sup>, and of thirty-two underground garage units. Construction work will start within three months from the signing of the contract and will last for up to 20 months. According to the contracting contract the first two buildings will be completed in the spring of 2011.

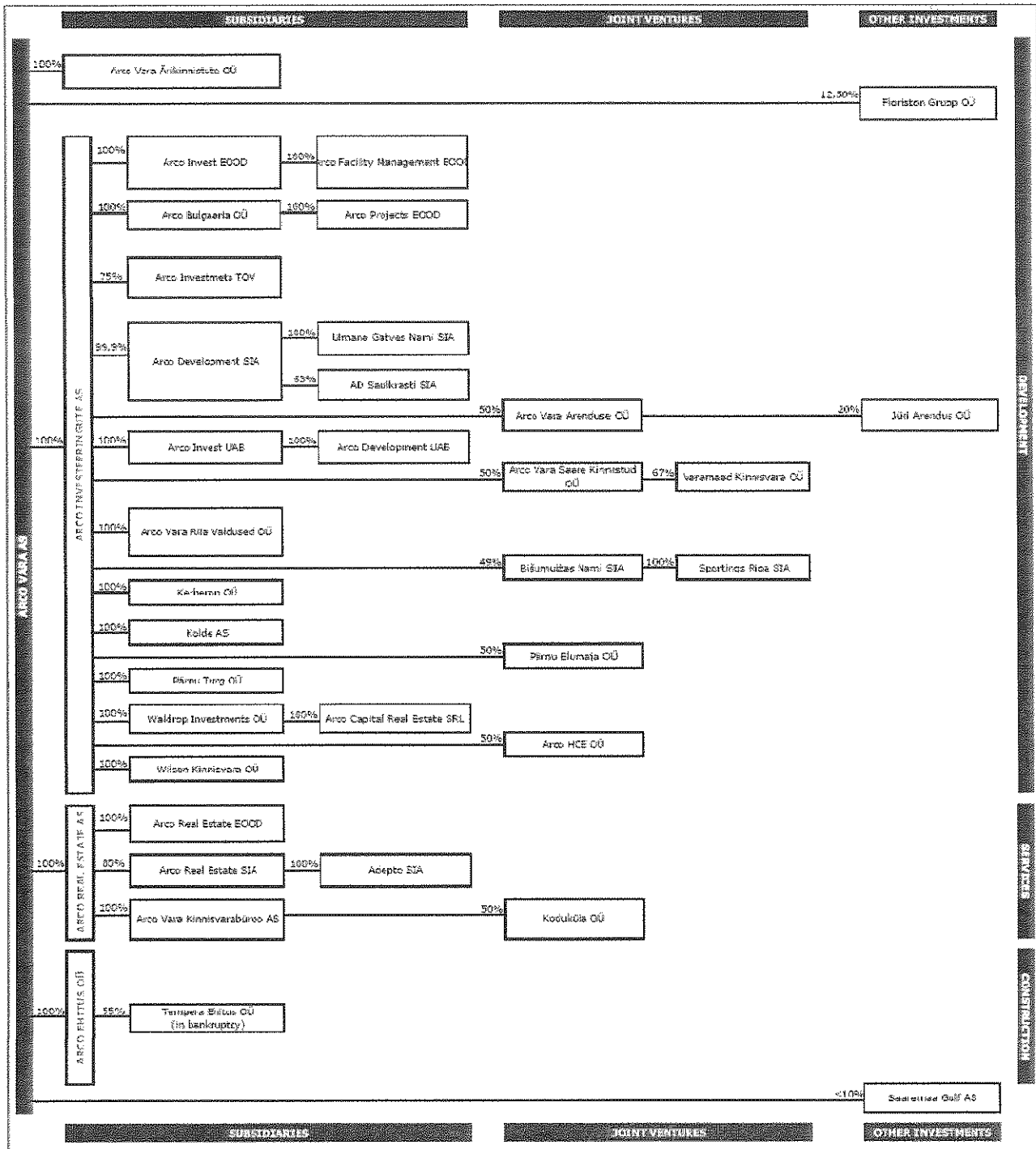
**Selling of the shares of Arco Vara Saare Kinnistud OÜ**

On 11.03.2010 Arco Vara AS 100-percent subsidiary Arco Investeeringute AS sold its shares of Arco Vara Saare Kinnistute OÜ (50% related company of Arco Investeeringute AS) with the share capital of 200 thousand kroons (12 thousand euros). The transaction is following strategic approach to exit from operations and activities which are not under full control and management of the Company. The value of the transaction was 6 000 thousand kroons (383 thousand euros) and the Group made loss 5 009 thousand kroons (320 thousand euros). The final value of the transaction could eventually be 3 000 thousand kroons (192 thousand euros) smaller due to potentially possible tax claim against the sold entity.



# 37 Structure of Arco Vara Group

At 31.12.2009



**38 Financial information on the parent company****UNCONSOLIDATED INCOME STATEMENT**

	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Revenue from rendering of services	7 422	18 742	474	1 198
Cost of sales	-1 473	-3 936	-94	-252
<b>Gross profit</b>	<b>5 949</b>	<b>14 806</b>	<b>380</b>	<b>946</b>
Other income	-9 142	0	-584	0
Selling and distribution expenses	-1 215	-2 555	-78	-163
Administrative expenses	-22 386	-28 478	-1 431	-1 820
Other expenses	-4 108	-16 773	-262	-1 072
<b>Operating profit</b>	<b>-30 902</b>	<b>-33 000</b>	<b>-1 975</b>	<b>-2 109</b>
Gain / loss on shares in subsidiaries and jointly controlled entities	1 327	9 343	85	597
Finance income	113 519	160 414	7 255	10 252
Finance expenses	-661 459	-17 323	-42 275	-1 107
<b>Profit / loss before tax</b>	<b>-577 515</b>	<b>119 434</b>	<b>-36 910</b>	<b>7 633</b>
Income tax expense	0	-12 682	0	-811
<b>Net profit / loss</b>	<b>-577 515</b>	<b>106 752</b>	<b>-36 910</b>	<b>6 822</b>

## UNCONSOLIDATED BALANCE SHEET

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
Cash and cash equivalents	33 893	117 861	2 166	7 533
Financial investments	0	40 416	0	2 583
Receivables	1 061 758	1 099 074	67 859	70 244
Prepayments	43	130	3	8
<b>Total current assets</b>	<b>1 095 694</b>	<b>1 257 481</b>	<b>70 028</b>	<b>80 368</b>
Financial investments	81 619	555 555	5 216	35 506
Investment property	0	7 075	0	452
Property, plant and equipment	390	4 293	25	274
Intangible assets	636	650	41	42
<b>Total non-current assets</b>	<b>82 645</b>	<b>567 573</b>	<b>5 282</b>	<b>36 274</b>
<b>TOTAL ASSETS</b>	<b>1 178 339</b>	<b>1 825 054</b>	<b>75 310</b>	<b>116 642</b>
Loans and borrowings	18 870	99 346	1 206	6 349
Payables	18 089	6 729	1 156	430
<b>Total current liabilities</b>	<b>36 959</b>	<b>106 075</b>	<b>2 362</b>	<b>6 779</b>
Loans and borrowings	0	84	0	5
<b>Total non-current liabilities</b>	<b>0</b>	<b>84</b>	<b>0</b>	<b>5</b>
<b>TOTAL LIABILITIES</b>	<b>36 959</b>	<b>106 159</b>	<b>2 362</b>	<b>6 784</b>
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	161 067	26 068	10 294	1 866
Treasury shares (minus)	-3 992	-3 992	-255	-255
<b>Total equity</b>	<b>1 141 380</b>	<b>1 718 895</b>	<b>72 948</b>	<b>109 858</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1 178 339</b>	<b>1 825 054</b>	<b>75 310</b>	<b>116 642</b>

## UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory capital reserve	Treasury shares (minus)	Retained earnings	Total
In thousands EEK						
At 31.12.2007	952 842	712 514	20 084	0	-32 144	1 653 296
Transfer to capital reserve	0	0	11 379	0	-11 379	0
Dividend distribution	0	0	0	0	-37 161	-37 161
Profit for the period	0	0	0	0	106 752	106 752
Treasury shares (minus)	0	0	0	-3 992	0	-3 992
At 31 December 2008	952 842	712 514	31 463	-3 992	26 068	1 718 895
Loss allocation for the period	0	-712 514	0	0	712 514	0
Profit for the period	0	0	0	0	-577 515	-577 515
At 31.12.2009	952 842	0	31 463	-3 992	161 067	1 141 380
In thousands EUR						
At 31.12.2007	60 898	45 538	1 284	0	-2 054	105 665
Transfer to capital reserve	0	0	727	0	-727	0
Dividend distribution	0	0	0	0	-2 375	-2 375
Profit for the period	0	0	0	0	6 822	6 822
Treasury shares (minus)	0	0	0	-255	0	-255
At 31 December 2008	60 898	45 538	2 011	-255	1 666	109 858
Loss allocation for the period	0	-45 538	0	0	45 538	0
Profit for the period	0	0	0	0	-36 910	-36 910
At 31.12.2009	60 898	0	2 011	-255	10 294	72 948

## Adjusted unconsolidated equity

	EEK		EUR	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousands				
The Parent's unconsolidated equity	1 141 380	1 718 895	72 948	109 858
Carrying amount of interests in subsidiaries and jointly controlled entities in the Parent' unconsolidated balance sheet	0	-199 613	0	-12 758
Carrying amount of interests in subsidiaries and jointly controlled entities under the equity method	-757 330	-811 123	-48 402	-51 840
<b>The Parent's adjusted equity</b>	<b>384 050</b>	<b>708 159</b>	<b>24 546</b>	<b>45 260</b>

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29.03.2010 HAA

## UNCONSOLIDATED CASH FLOW STATEMENT

	EEK		EUR	
	2009	2008	2009	2008
In thousands				
Operating profit	-30 902	-33 000	-1 975	-2 109
Adjustments for:	13 077	7 745	836	495
<i>Depreciation and amortisation</i>	617	1 481	39	95
<i>Gain / loss on sale of investment property</i>	44	6 264	3	400
<i>Change in fair value of investment property</i>	12 416	0	794	0
<b>Operating profit after adjustments</b>	<b>-17 825</b>	<b>-25 255</b>	<b>-1 139</b>	<b>-1 614</b>
Change in receivables and prepayments	6 439	-9 796	412	-626
Change in prepayments	13 536	-2 460	865	-157
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>2 150</b>	<b>-37 511</b>	<b>138</b>	<b>-2 397</b>
Acquisition of property, plant and equipment and intangible assets	-232	-631	-15	-40
Acquisition of subsidiaries and interests in jointly controlled entities	-116 898	-41 964	-7 471	-2 682
Proceeds from disposal of subsidiaries and interests in jointly controlled entities	6 100	0	390	0
Acquisition of other financial investments	0	-202 665	0	-12 953
Proceeds from disposal of other financial investments	40 416	243 871	2 583	15 586
Loans granted	-49 808	-207 964	-3 183	-13 291
Repayment of loans granted	15 373	93 139	983	5 953
Change in group account receivables	96 467	-296 229	6 165	-18 932
Interest received	3 073	44 296	196	2 831
Dividends received	0	0	0	0
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-5 509</b>	<b>-368 147</b>	<b>-352</b>	<b>-23 528</b>
Proceeds from loans received	0	60 709	0	3 880
Repayment of loans	-43 294	-144 839	-2 767	-9 257
Change in overdraft	0	-14	0	-1
Change in group account liability	-32 002	-18 515	-2 045	-1 183
Interest paid	-4 233	-8 310	-271	-531
Repurchase of won shares	0	-3 992	0	-255
Dividends paid	0	-42 274	0	-2 702
Income tax paid on dividends	0	-15 300	0	-978
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>-79 529</b>	<b>-172 535</b>	<b>-5 083</b>	<b>-11 027</b>
<b>NET CASH FLOW</b>	<b>-82 888</b>	<b>-578 193</b>	<b>-5 297</b>	<b>-36 952</b>
Cash and cash equivalents at beginning of period	117 861	687 926	7 533	43 966
Increase / decrease	-82 888	-578 193	-5 297	-36 952
Effect of exchange rate fluctuations	-1 080	8 128	-70	519
<b>Cash and cash equivalents at end of period</b>	<b>33 893</b>	<b>117 861</b>	<b>2 166</b>	<b>7 533</b>

For identification purposes only

ERNST &amp; YOUNG

19.03.2010 HAA

Translation of the Estonian Original

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Arco Vara AS

We have audited the consolidated financial statements of Arco Vara AS and its subsidiaries (hereafter "the Group"), which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The audited financial statements, which we have identified on the accompanying pages, are enclosed with the current report.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Arco Vara AS as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

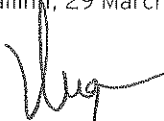
### *Emphasis of Matter*

Without qualifying our opinion we draw attention to the Note 29 in the financial statements. The equity of the Group as at 31 December 2009 did not comply with the requirements of the Commercial Code. In Note 29 post balance sheet events are disclosed after which the Group's equity meets the requirements of the Commercial Code.

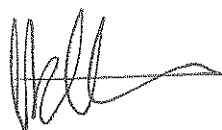
Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The financial information of Arco Vara AS as a parent company in Note 38 is presented because it is required by the Estonian Accounting Law and is not a required part of the consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union. Such financial information has been subject to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is prepared in all material respects in accordance with the requirements of the Estonian generally accepted accounting principles and in relation to the consolidated financial statements taken as whole.

Tallinn, 29 March 2010



Ivar Kiigemägi  
Ernst & Young Baltic AS



Urmo Kallakas  
Authorised Auditor

## Loss allocation proposal

The Management Board proposes that the General Meeting of the shareholders of Arco Vara AS allocate at the 31.12.2009 year net loss for the amount 324 412 thousand kroons ( 20 734 thousand euros) of the retained earnings.

Retained loss at 31.12.2009	-596 263 thousand kroons (38 108 thousand euros)
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Cancellation of own shares with according Note 29	-3 992 thousand kroons (225 thousand euros)
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Note 29 is indicating event after reporting period where with retained earnings in amount	905 424 thousand kroons (57 867 thousand euros).
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The retained earnings at 16.03.2009 is	305 169 thousand kroons (19 504 thousand euros).
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Lembit Tampere  
Member of the Management Board

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2010



## Signatures

We hereby confirm that the information presented in the consolidated financial statements of Arco Vara AS for 2009 is true and fair.

\_\_\_\_\_ 2010  
Richard Tomingas  
Chair of the Supervisory Board

\_\_\_\_\_ 2010  
Hillar-Peeter Luitsalu  
Member of the Supervisory Board

\_\_\_\_\_ 2010  
Ragnar Meitern  
Member of the Supervisory Board

\_\_\_\_\_ 2010  
Kalev Tanner  
Member of the Supervisory Board

\_\_\_\_\_ 2010  
Aare Tark  
Member of the Supervisory Board

\_\_\_\_\_ 2010  
Lembit Tampere  
Member of the Management Board

## The list of activities

EMTAK	Activities	EEK		EUR	
		31.12.2009	31.12.2008	31.12.2009	31.12.2008
In thousand					
42000	Civil engineering	207 200	253 305	13 242	16 189
41000	Construction of buildings	95 274	172 301	6 089	11 012
68101	Buying and selling own real estate	47 957	43 101	3 065	2 755
68321	Management of dwellings and apartment houses	33 730	98 507	2 156	6 296
68311	Real estate agencies	17 792	71 696	1 137	4 582
82991	Other business support service activities	2 770	20 869	177	1 334
	<b>Total</b>	<b>404 723</b>	<b>659 779</b>	<b>25 666</b>	<b>42 168</b>