



Arco Vara AS

Interim report 12 months of 2008

FOURTH QUARTER AND TWELVE MONTHS 2008
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

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Core activities: Real estate development and investment (EMTAK 701)

Real estate services (EMTAK 702, 703)

Construction (EMTAK 45)

Financial year: 1 January 2008 – 31 December 2008

Reporting period: 1 January 2008 – 31 December 2008

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

Management board: Lembit Tampere, Veiko Taevere, Heigo Metsoja

Auditor: Ernst & Young Baltic AS

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Management report for the fourth quarter and twelve months of 2008

KEY FINANCIALS

- Revenue and other income for the twelve months totalled 684.5 million kroons (43.7 million euros), 21.1% down year-over-year.
- EBIT amounted to -1 118.6 million kroons (-71.5 million euros);
- Net loss was -1,159.6 million kroons (-74.1 million euros), of which fair value adjustments -1,104.2 million kroons (70.6 million euros);
- Equity ratio was 36.0% (12 months 2007: 54.1%). ROE -74.5% (12 months 2007: 14.3%). ROIC -39.6% (12 months 2007: 10.0%);
- Group's order backlog in the construction business stood at 185.0 million kroons (11.8 million euros) against 331.0 million kroons (21.2 million euros) last year.
- During the 12 month period, 128 apartments and plots were sold or booked (12 months 2007: 113).

	EEK				EUR			
	2008	2007	Q4 2008	Q4 2007	2008	2007	Q4 2008	Q4 2007
In millions								
Revenue and other income	684,5	867,3	144,5	199,4	43,7	55,4	9,2	12,7
EBIT	-1 118,6	103,1	-1 011,9	-9,3	-71,5	6,6	-64,7	-0,6
Profit / loss before tax	-1 150,8	250,3	-1 059,1	-28,9	-73,6	16,0	-67,7	-1,8
Net profit / loss	-1 159,6	235,5	-1 057,1	-28,6	-74,1	15,1	-67,6	-1,8
Incl. net revaluations and write-offs of all assets	-1 104,2	76,6	-1 043	10,5	-70,6	4,9	-66,7	0,7
EPS (in kroons and euros)	-12,14	2,76	-11,0	-0,30	-0,78	0,18	-0,70	-0,02
Total assets at period end	1 973,0	3 564,0			126,1	227,8		
Invested capital at period end	1 760,7	3 283,6			112,5	209,9		
Net loans at period end	838,0	517,7			53,6	33,1		
Equity at period end	709,7	1 929,6			45,4	123,3		
Average loan term (in years)	2,5	2,2			2,5	2,2		
Average interest rate of loans (per year)	7,0%	6,7%			7,0%	6,7%		
ROIC (rolling 4 quarters)	-39,6%	10,0%			-39,6%	10,0%		
ROE (rolling 4 quarters)	-74,5%	14,2%			-74,5%	14,2%		
Number of staff at period end	396	664			396	664		

Comments by the CEO

- Our clients have purchased or booked 128 apartments and plots in twelve months – 15 more than the previous year. In the fourth quarter substantial correction in the margins and sales periods of the business resulted in additional write downs of all assets in accounting and in continuing business at a much lower price level. A significant shift in the market took place in October when the interbank lending market froze, whereas the negative long term effect of the situation on liquidity, outlook and price expectations of property market in the Group's home markets became obvious by the end of the year. Considering the situation the Group initiated a fixed cost reduction programme in value of at least 50 million kroons (3.2 million euros). As at the end of March 2009 the Group employed about 250 people. Top management salaries have also been cut by 10% after the balance sheet date.
- As at the end of the year the Group has liquid assets in value of 213.0 million kroons (13.6 million euros). Interest-bearing liabilities amount to 1,051.0 million kroons (67.2 million euros) of which 351.5 million kroons (22.5 euros) are short-term. To decrease liquidity and refinancing risks the Group has to sell some of the land bank and cash flow generating properties. The goal for 2009 is to decrease the net debt position by 300 million kroons (19.2 million euros). The refinancing risk in 2009 is mainly related to Latvian SEB and Sampo Bank in Estonia.
- The restructuring programme in service division is ongoing: the offices in Lithuania and Romania are closed, also some of the offices in smaller locations have been closed or franchised. The Group is no longer subsidising the brokerage offices in Ukraine and Bulgaria. The number of employees in service division has decreased to 107 by March 2009. After the balance sheet date it can be said that the service division does not yet break-even but there has been a substantial decrease in losses. The division concentrates its activities foremost on the Estonian, Latvian and Bulgarian markets.
- Development division's performance indicators (planning, construction, vacancies and apartment sales) for the twelve months were positive. Highlights of the period included: adoption of zonings in projects Tivoli, Laeva 2 and MB-2, exiting from the Simferopol project and the apartment sales block deal in Sofia. It is essential to complete the ongoing projects within the year 2009 (Madrid in Sofia, Merivälja and Kolde in Tallinn, Bišumuiža-1 and Mazais Baltezers-3 in Riga) to enable us to sell the already booked product and to decrease the leverage. By the beginning of March 2009 an additional more than 20 apartments have already been sold, including 13 in Kolde project in Tallinn.
- It is a growing challenge for the construction division to turn a profit and to be able to win environmental engineering tenders in both Estonia and Latvia. Many contracts have been signed in the industry as a whole, however, the state financing is pending. Internal sales have almost vanished and future pipeline consists mainly of external orders. After the balance sheet date the number of employees has been decreased substantially due to completion of a major project in Latvia.

REVENUE AND PROFIT

	EEK				EUR			
	2008	2007	Q4 2008	Q4 2007	2008	2007	Q4 2008	Q4 2007
In millions								
Revenue and other income								
Service	94,7	139,6	11,0	43,2	6,1	8,9	0,7	2,8
Development	217,2	566,3	21,5	91,5	13,9	36,2	1,4	5,8
Construction	435,3	425,5	112,0	131,8	27,8	27,2	7,2	8,4
Asset management	6,8	10,2	0,1	0,0	0,4	0,7	0,0	0,0
Eliminations	-69,5	-274,3	0,0	-67,1	-4,4	-17,5	0,0	-4,3
Total revenue and other income	684,5	867,3	144,6	199,4	43,7	55,4	9,2	12,7
EBIT								
Service	-50,1	8,6	-17,0	-5,1	-3,2	0,6	-1,1	-0,3
Development	-1 163,5	78,1	-1 095,6	16,7	-74,4	5,0	-70,0	1,1
Construction	4,8	14,9	-2,9	7,0	0,3	1,0	-0,2	0,4
Asset management	2,4	4,4	0,0	0,0	0,2	0,3	0,0	0,0
Eliminations	103,4	17,2	103,4	-5,2	6,6	1,1	6,6	-0,3
Unallocated expenses	-15,7	-20,2	0,0	-22,7	-1,0	-1,3	0,0	-1,5
EBIT	-1 118,6	103,1	-1 011,9	-9,3	-71,6	6,7	-64,7	-0,6
Interest income and expense	-17,3	-3,7	-39,9	6,6	-1,1	-0,2	-2,5	0,4
Net other financial items	-14,9	150,9	-7,4	-26,3	-1,0	9,6	-0,5	-1,7
Income tax expense	-8,8	-14,8	2,0	0,3	-0,6	-0,9	0,1	0,0
Net profit / loss	-1 159,6	235,5	-1 057,2	-28,6	-74,3	15,2	-67,6	-1,9

The bulk of the Group's revenue was generated by the construction division which increased 12 month sales by 2.3% to 435.3 million kroons (27.8 million euros). The plunge in sales may be attributed to the performance of the development division. Although 128 apartments and land plots were sold or booked, the majority of revenue and gross profit is recorded at the end of 2009 and in spring 2010, after completion of the projects Madrid, Merivalja, Kolde and BM-1. Around 50% of the spaces of the Madrid project have already been booked.

For the twelve months we had to accept net loss of 1,159.6 million kroons (74.3 million euros). This includes write down of inventory in the amount of 439.9 million kroons (28.1 million euros), 544.3 million kroons (34.8 million euros) write down of real estate investments, 45% write down (54.5 million kroons; 3.5 million euros) claim of AS Uhendatud Kapital, write down of other claims totalling 44.1 million kroons (2.8 million euros) and the write down of property, plant and equipment and intangible assets including Goodwill adjustments in the amount of 18.0 million kroons (1.2 million euros).

Financial income of the twelve months resulted mainly from: interest income 49.7 million kroons (3.0 million euros), including cancellation of the claim of interest and principal payment of the Kippsala project in the amount of 27.9 million kroons (1.8 million euros) and the currency rate gains 4.6 million kroons (0.3 million euros).

Financial expenses of the twelve months resulted mainly from: the 45.1 million kroons (2.9 million euros) loss due to disposal of shares in AVEC Asset Management AS and interest expenses in the amount of 67.0 million kroons (4.3 million euros).

CASH FLOWS

	EEK				EUR			
	2008	2007	Q4 2008	Q4 2007	2008	2007	Q4 2008	Q4 2007
In millions								
Cash flows from operating activities	-274,9	-547,9	-173,5	-129,6	-17,6	-35,0	-11,1	-8,3
Cash flows from investing activities	-52,9	136,7	75,8	-22,1	-3,4	8,7	4,8	-1,4
Cash flows from financing activities	-264,6	1 118,4	58,8	68,8	-16,9	71,5	3,8	4,4
Net cash flow	-592,4	707,2	-38,9	-82,9	-37,9	45,2	-2,5	-5,3
Cash and cash equivalents at beginning of period	765,0	58,3	211,5	848,2	48,9	3,7	13,5	54,2
Effect of exchange rate fluctuations	0,0	-0,5	0,0	-0,3	0,0	0,0	0,0	0,0
Cash and cash equivalents at end of period	172,6	765,0	172,6	765,0	11,0	48,9	11,0	48,9

The main components of negative operating cash flow were the changes in inventories where investments in Kolde, BM-1, Madrid and Manastirski residential projects are recorded. Although VAT receivable has decreased the balance is still considerable at 46,7 million kroons (3.0 million euros), including the VAT receivable from the Latvian Tax Board – 22.0 million kroons (1.4 million euros).

The main components of negative investment cash flow were: payables for acquired subsidiaries due in the amount of 44.0 million kroons (2.8 million euros), Ukraine investments and loans of 108.4 million kroons (6.9 million euros) and depositing and investing liquid assets to short-term bonds.

The main components of financing cash flow were: 81.6 million kroons (5.2 million euros) of interests cost, 57.7 million kroons (3.7 million euros) of gross dividend payment, 239.5 million kroons (15.30 million euros) change in net debt, the majority of which were extraordinary principal repayments during refinancing transactions or the redemption of bonds.

A major setback for the short term liquidity has been the default of AS Ühendatud Kapital to pay its 11 million USD outstanding debt (136.4 million kroons, 8.7 million euros). The parties are currently negotiating new payment terms and additional guarantees. The claim by Arco is already due.

In January 2009 the company made an extraordinary repayment of 40 million kroons related to Tivoli and Laeva loans to SEB Bank to release the obligation to maintain liquid assets worth 150 million kroons (9.6 million euros) in SEB bank accounts. After the payment the level of short term liabilities decreases to 310 million kroons (19.8 million euros) of which commercial papers coming due in the summer amount to 60 million kroons (3.8 million euros), the land acquisition loan for Ahtri project is 97.2 million kroons (6.2 million euros) and the loan for Hills in Vilnius ca 20 million kroons (1.3 million euros). In addition, 90 million kroons (5.6 million euros) of loans are accounted as short term, because the repayment depends on the sales of apartments and the management's estimation of sales period. Unless the apartments are sold, the loan will not have to be repaid in 2009.

Approximately 650 million kroons (41.5 million euros) of total interest-bearing liabilities are related to Estonian projects of which 240 million kroons (15.3 million euros) are nominated in kroons and the rest in euros. 190 million kroons (12.1 million euros) are related to Bulgarian projects of which the majority is nominated in euros. 190 million kroons (12.1 million euros) are related to Latvian projects of which the majority is nominated in euros.

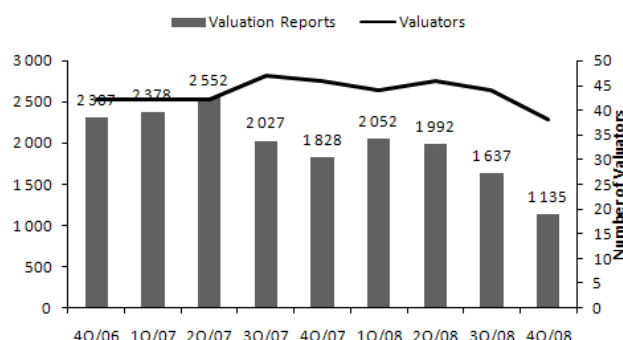
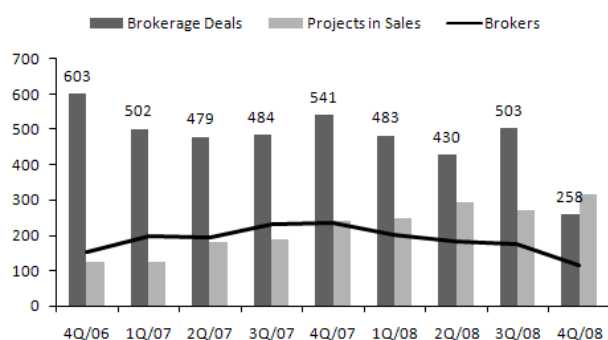
SERVICE DIVISION

The number of brokerage transactions in 12 months has decreased by 17%, the number of valuation reports has decreased by 22%. The fall has been particularly significant in the fourth quarter – the number of transactions diminished by 47% and the number of valuation reports by 44%. Considering the market situation we have closed 10 offices within 12 months and exited the Lithuanian and Romanian markets. As at the end of December the service division operates in 18 locations.

The Bulgarian and Kiev offices are no longer subsidised and will have to be self-reliant. The number of top and middle management in the division has been cut substantially. The main focus in the service division is on adjusting the business model and the cost structure in line with the 50% fall of the market volumes.

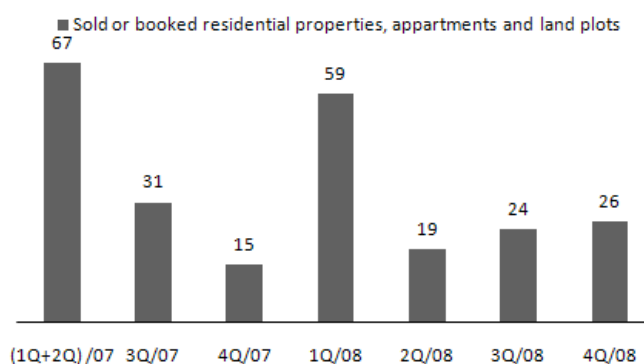
As at the end of the year the division employed 139 people (402 in 2007).

	12 months 2008	12 months 2007	Change, %	Q4 2008	Q4 2007	Change, %
Number of properties brokered	1 674	2 006	-17%	258	484	-47%
Number of projects on sale	282	183	54%	317	188	69%
Number of valuation reports issued	6 816	8 785	-22%	1 135	2 027	-44%
Number of appraisers	38	46	-17%			
Number of real estate brokers	114	237	-52%			
Average number of staff	139	402	-65%			



DEVELOPMENT DIVISION

The main risk factor for the development division is the refinancing of loans for the land bank in Estonia. Ongoing projects must be completed and for that the bank funding is secured in Estonia, Latvia and Bulgaria. Over 20 units of apartments have been already sold or booked during first two months of 2009. In the Madrid project in Sofia 50% of the total volume has already been pre-booked, in the Manastirski project it is 10% respectively. In the Kolde project in Tallinn the construction of a new house will be completed and 62 apartments will be put on market.



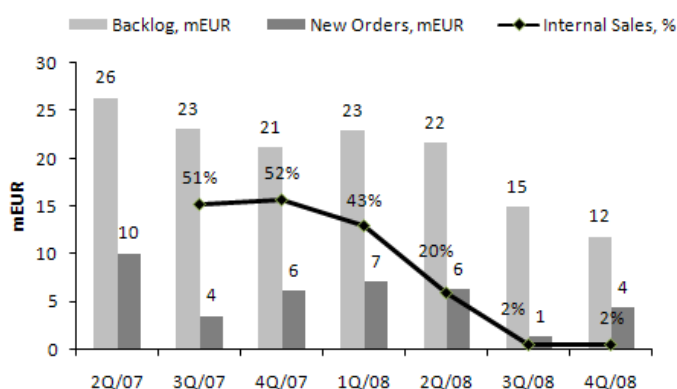
In order to cope with the liquidity risk, the prices in current projects in the Baltics as well as in Sofia have been decreased substantially and during the year we aim at selling cash flow generating projects and partially also the land bank.

As at the end of the year the division employed 44 people (55 in 2007). Further information on the projects: www.arcorealestate.com/arendus.

CONSTRUCTION DIVISION

The construction division has only won tenders of environmental and infrastructure engineering. The average volume of the tenders has decreased and the contractor is usually the state or local governments. A major tender won in the fourth quarter was the construction and design of a tunnel for pedestrians for Stockmann department store in Riga.

In the fourth quarter the division was awarded construction contracts worth 69.0 million kroons (4.4 million euros). At the end of the reporting period, the division's order backlog was 185 million kroons (11.89 million euros) and the internal sales accounted for 2%. As at the end of the year the division employed 191 people (183 in 2007).



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%	Ca 44.500m ²	The old plan and building permit are in effect. Municipality is processing a new detail plan. In the new plan, above-ground building rights extend to ca 51,100 m ² . Negotiations with potential tenants ongoing.	Investment property
Commercial	Ilmarine	Estonia, Tallinn	50%	Ca 80,000 m ²	Adoption of the thematic plan "Location of high rise buildings in Tallinn" is under way.	Investment property
Commercial	Laeva 2	Estonia, Tallinn	100%	7,776 m ²	Detail plan approved Construction permit in place. Negotiations with potential tenants.	Assets under construction
Commercial	Paldiski mnt 80	Estonia, Tallinn	100%	24,000 m ²	No building rights. Municipality is processing the detail plan.	Investment property
Cash flow	Enerpoint	Estonia, Kuressaare	100%	3,352 m ²	Generates cash flow. Construction to extend a new production building is completed. Building rights in place.	Investment property
Cash flow	Kaarli 2	Estonia, Tallinn	33%	Plot i4,791 m ²	Generates cash flow. Café with a total area of 242 m ² and a car park.	Investment property
Cash flow	Kerberon	Estonia, Tallinn	100%	15,750 m ²	Generates cash flow. Building rights in place, building rights.	Investment property
Cash flow	Melon	Estonia, Tallinn	50%	5,728 m ²	Generates cash flow. Building rights in place. We are applying for additional building rights on the yard ca 11,000m ² . Sketches of the approved detail plan are subject to proceedings at the Tallinn City Planning Department.	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	2,529 m ²	Generates cash flow. Building rights in place.	Investment property
Cash flow	Raekoja 10	Estonia, Kuressaare	50%	1,493 m ²	Generates cash flow.	Investment property
Cash flow	Rüütli str. 16 / 18	Estonia, Tallinn	50%	980 m ²	Generates cash flow. Building rights in place.	Investment property
Cash flow	TOP Commercial premises	Estonia, Tallinn	50%	17,754 m ²	Generates cash flow. Building rights according to the existing construction. New detail plan is being adopted, the whole volume at least 74.675 m ² .	Investment property

Apartments	Bišumuiža 1	Latvia, Riga	80%	Unsold building rights 18,800 m2	Sales of the apartments in progress	Inventories
Apartments	Bišumuiža 2	Latvia, Riga	40%	87,770 m2	Design work is under way.	Inventories
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m2	Building rights in place. The project is on sale.	Inventories
Apartments	Kolde	Estonia, Tallinn	100%	Unsold building rights 18,580 m2	Leasehold right. Sales of apartments in progress.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Unsold building rights 12,349 m2	Building rights. Construction and sale of apartments are under way.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Unsold building rights 26,075 m2	Building rights. Construction and sale of apartments are under way.	Inventories
Apartments	Tivoli	Estonia, Tallinn	100%	58,470 m2	Construction right in place. The zoning is completed.	Inventories
Apartments	TOP Residential premises	Estonia, Tallinn	50%	33,770 m2	No building rights. Planning is in the initial stage	Investment property
Plots	Baltezers-2	Latvia, Riga	80%	1,940 m2	7 plots on sale.	Investment property
Plots	Baltezers-3	Latvia, Riga	80%	172,380 m2, land total 861,900 m2	Leasehold right. 189 plots. Preparations for first stage (33 plots) infrastructure construction.	Inventories
Plots	Baltezers-5	Latvia, Riga	80%	48 plots unsold	Building rights in place. Construction has been completed. Sale is ongoing.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold 63,572 m2, 52 plots	Road and communications construction will be started. Sale of plots ongoing.	Inventories
Plots	Pärtli	Estonia, Saue	50%	84 plots, average plot 1,500 m2	No building rights. Adoption of a detail plan suspended until improvement of market situation.	Investment property
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1,802 m2	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 m2	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, particularly 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 31.12.08	Book values of projects presented in the summary table at 31.12.08	Balance sheet item at 31.12.08	Book values of projects presented in the summary table at 31.12.08
In millions				
Total assets	1,973.0	1,299.8	126.1	83.1
Inventories	849.4	753.0	54.3	48.1
Investment property	529.4	529.4	33.8	33.8
Assets under construction	60.3	17.4	3.9	1.1

SIGNIFICANT CHANGES IN DETAIL PLANS IN TWELVE MONTHS OF 2008:

Tivoli: Tallinn City Council adopted a detail plan for the property. The gross enclosed area of up to five-floor apartment blocks is 51,400 m2 and the area for commercial premises is 7000 m2. In addition, the plan foresees underground parking spaces on up to 21,150 m2. An apartment owner in the neighbouring community has filed a challenge and initial court protection is requested on his behalf. The case continues.

Ahtri: The property has a detail plan with building rights. We have submitted a draft of a new detail plan to the city government. Until the new plan is adopted, the building rights provided in the previous plan will apply. In the new detail plan we apply for 51.110 m2 of above ground construction right.

Laeva 2: Detail plan approved. According to the plan we are allowed to construct a 6-storey building, total volume of gross space 7,776 m2. There will be an underground car park for 72 cars.

PM80: Detail plan is subject to adoption proceedings in the City Council and to forwarding to public review.

Baltezeres-3: Detail plan adopted by Garkalne municipality. The size of the plot is 86 ha, 60 ha of which can be built up with an intensity of 30% so that maximum building rights extend to 172,380 m2 of gross enclosed area.

CHANGES IN THE GROUP'S STRUCTURE

The most significant change in the Group's structure was the divestment of shares in AVEC Asset Management AS. The largest transaction involved exchange of interests in subsidiaries – the Group exchanged its entire holding in Tallinna Linnaehituse AS for full ownership in Kolde AS and Kerberon OÜ. Furthermore, the construction division acquired a 55% holding in a small enterprise Tempera Ehitus OÜ, which has after the reporting period proven to be a bad investment and is being terminated. Holdings were sold in smaller enterprises such as UAB Ikas Projekt and SIA Plavnieku Centrs. The effect of the transactions on the Group's consolidated finances is presented in notes 3 and 4 to the financial statements.

SHARE AND SHAREHOLDERS

As at the end of the fourth quarter the company has 1,767 shareholders, 98% of them holding less than 100,000 shares and 67% of them holding less than 1,000 shares. The company has 95,284,150 shares. The closing price of the share at the end of September was 2.82 kroons (0.18 euros). The company owns 450,000 own shares with the average acquisition cost of 8.87 kroons (0.57 euros). The share price has fallen by 88.3% in twelve months.

The changes in the share price (EUR) of Arco Vara AS and in the transaction volumes in 2008 are illustrated by the following table:



10 major shareholders at 31.12.08	Number of shares	Ownership interest
TOLETUM OÜ	20 718 508	21,74%
HM INVESTEERINGUD OÜ	20 675 883	21,70%
FREIER PROJEKT OÜ	19 929 133	20,92%
SEB Ab Clients	11 549 471	12,12%
JPMORGAN CHASE BANK, UK RESIDENTS	6 901 743	7,24%
Central Securities Depository of Lithuania	2 897 556	3,04%
GAMMA HOLDING OÜ	1 429 192	1,50%
SEB PROGRESSIIVNE PF	684 471	0,72%
SEB KASVUFOND	582 250	0,61%
UNICREDIT BANK AUSTRIA AG	491 520	0,52%
Other	9 424 423	9,89%

Shareholdings of management and the board at 31.12.2008	Position	Number of shares	Ownership interest
Lembit Tampere	Chairman of the Management Board	0	0.00%
Veiko Taevere	Member of the Management Board	0	0.00%
Heigo Metsoja	Member of the Management Board	0	0.00%
Richard Tomingas (Toletum OÜ)	Chairman of the Supervisory Board	20 718 508	21.74%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	Member of the Supervisory Board	20 734 558	21.76%
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		41 453 0660	43.50%

FORMULAS USED IN THE CALCULATION OF RATIOS

Invested capital = current interest-bearing liabilities + non-current liabilities + equity

Net loans = current interest-bearing liabilities at end of period + non-current liabilities at end of period – cash and cash equivalents at end of period – short-term investments in financial assets

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

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

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

Average invested capital = the past four quarters' current interest bearing liabilities + non-current liabilities + equity / 4

ROIC = the past four quarters' profit before tax plus interest expense / average invested capital

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

Condensed consolidated interim financial statements

Condensed consolidated interim income statement (EEK)

	Note	2008	2007	Q4 2008	Q4 2007
In EEK , thousands					
Rendering of services		488 249	345 856	119 421	113 422
Sale of goods		172 301	381 332	33 482	20 023
Total revenue	5	660 550	727 188	152 903	133 445
Cost of sales		-995 501	-542 135	-564 788	-107 194
Gross profit		-334 951	185 053	-411 885	26 251
Other income	6	23 979	140 090	-8 385	65 943
Selling and distribution costs		-12 351	-22 534	-575	-3 771
Administrative expenses	7	-225 436	-136 053	-115 491	-42 867
Other expenses	8	-569 844	-63 498	-475 534	-54 816
EBIT		-1 118 603	103 058	-1 011 870	-9 260
Finance income	9	93 659	215 005	37 518	16 874
Finance expenses	10	-125 868	-67 744	-84 700	-36 515
Profit / loss before tax		-1 150 812	250 319	-1 059 052	-28 901
Income tax expense		-8 811	-14 808	1 976	304
Net profit / loss		-1 159 623	235 511	-1 057 076	-28 597
<i>Attributable to minority interests</i>		-2 516	7 924	-9 712	-243
<i>Attributable to equity holders of the parent</i>		-1 157 107	227 587	-1 047 364	-28 354
Earnings per share (in kroons)	11				
- basic		-12,14	2,76	-10,99	-5,38
- diluted		-12,14	2,76	-10,99	-5,38

Condensed consolidated interim income statement (EUR)

	Note	2008	2007	Q4 2008	Q4 2007
In EUR, thousands					
Rendering of services		31 205	22 104	7 632	7 249
Sale of goods		11 012	24 372	2 140	1 280
Total revenue	5	42 217	46 476	9 772	8 529
Cost of sales		-63 624	-34 649	-36 097	-6 852
Gross profit		-21 407	11 827	-26 324	1 677
Other income	6	1 533	8 953	-536	4 215
Selling and distribution costs		-789	-1 440	-37	-241
Administrative expenses	7	-14 408	-8 695	-7 381	-2 740
Other expenses	8	-36 420	-4 058	-30 392	-3 503
EBIT		-71 490	6 587	-64 670	-592
Finance income	9	5 986	13 741	2 398	1 078
Finance expenses	10	-8 044	-4 330	-5 413	-2 334
Profit / loss before tax		-73 549	15 998	-67 685	-1 848
Income tax expense		-563	-946	126	19
Net profit / loss		-74 111	15 052	-67 559	-1 829
<i>Attributable to minority interests</i>		<i>-161</i>	<i>506</i>	<i>-621</i>	<i>-16</i>
<i>Attributable to equity holders of the parent</i>		<i>-73 953</i>	<i>14 546</i>	<i>-66 939</i>	<i>-1 813</i>
Earnings per share (in euros)	11				
- basic		-0,78	0,18	-0,70	-0,34
- diluted		-0,78	0,18	-0,70	-0,34

Condensed consolidated interim balance sheet

		EEK		EUR	
	Note	31.12.2008	31.12.2007	31.12.2008	31.12.2007
In thousands					
Cash and cash equivalents		172 581	765 008	11 030	48 893
Other financial assets		40 416	78 595	2 583	5 023
Receivables	12	295 672	297 189	18 897	18 994
Prepayments		6 328	10 450	404	668
Inventories	13	849 440	1 148 433	54 289	73 398
Biological assets		3 679	8 360	235	534
Total current assets		1 368 116	2 308 035	87 438	147 510
Other financial assets		1 635	48 515	104	3 101
Receivables	12	1 176	40 124	75	2 564
Investment property	14	529 377	999 999	33 833	63 912
Property, plant and equipment	15	60 265	141 863	3 852	9 067
Intangible assets	16	12 475	25 505	797	1 630
Total non-current assets		604 928	1 256 006	38 661	80 274
TOTAL ASSETS		1 973 044	3 564 041	126 099	227 784
Loans and borrowings	17	351 508	753 077	22 465	48 130
Other liabilities	18	138 197	223 591	8 832	14 290
Deferred income	19	65 174	47 216	4 165	3 018
Provisions		8 936	3 468	571	222
Total current liabilities		563 815	1 027 352	36 033	65 660
Loans and borrowings	17	693 827	600 938	44 344	38 407
Other liabilities	18	4 404	4 607	281	294
Deferred income tax liability		20	1 321	1	84
Provisions		1 271	251	81	16
Total non-current liabilities		699 522	607 117	44 707	38 801
TOTAL LIABILITIES		1 263 337	1 634 469	80 740	104 461
Share capital		952 842	952 842	60 898	60 898
Share premium		712 514	712 514	45 538	45 538
Statutory capital reserve		31 463	20 084	2 011	1 284
Other reserves		84	37	5	2
Retained earnings		-986 818	218 830	-63 069	13 986
Own shares (minus)		-3 992	0	-255	0
Total equity attributable to equity holders of the parent		706 093	1 904 307	45 128	121 708
Minority interests		3 614	25 265	231	1 615
Total equity		709 707	1 929 572	45 359	123 323
TOTAL LIABILITIES AND EQUITY		1 973 044	3 564 041	126 099	227 784

Condensed consolidated interim cash flow statement

	EEK		EUR	
	2008	2007	2008	2007
In thousands				
Net profit / loss	-1 159 623	235 511	-74 111	15 053
Interest income and expense	17 265	3 663	1 103	234
Gains and losses on disposal of subsidiaries and interests in jointly controlled entities	63 895	-131 083	4 084	-8 378
Gains and losses on other financial assets	-31 033	-47 861	-1 983	-3 059
Impairment losses on financial assets	7 411	25 768	474	1 647
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	20 194	-13 606	1 291	-871
Goodwill adjustments and recognition of negative goodwill as revenues	347	-283	22	-18
Gain / loss on the sale of property, plant and equipment and intangible assets	1 625	-57	104	-4
Gain / loss on the sale of investment property	-1 536	1 633	-97	104
Change in the fair value of investment property and biological assets	545 864	-59 874	34 887	-3 827
Exchange gains and losses	-4 564	2 252	-292	144
Corporate income tax expense	8 811	14 591	563	933
Operating cash flow before working capital changes	-531 344	30 654	-33 955	1 959
Change in receivables and prepayments	-151 959	-80 085	-9 712	-5 118
Fair value adjustments of inventory and biological assets	159 855	-424 902	10 217	-27 156
Change in payables and deferred income	248 546	-73 596	15 885	-4 704
NET CASH USED IN OPERATING ACTIVITIES	-274 902	-547 929	-17 565	-35 019
Acquisition of property, plant and equipment and intangible assets	-31 512	-47 204	-2 014	-3 017
Proceeds from sale of property, plant and equipment and intangible assets	737	8 436	47	539
Acquisition of investment property	-4 218	-12 000	-270	-767
Proceeds from sale of investment property	53 664	51 834	3 430	3 313
Acquisition of subsidiaries and interests in jointly controlled entities	-128 326	-20 176	-8 202	-1 289
Proceeds from disposal of subsidiaries and interests in jointly controlled entities	1 330	222 650	85	14 230
Acquisition of other financial assets	-202 665	-92 529	-12 953	-5 914
Proceeds from sale of other financial assets	286 164	14 639	18 289	936
Loans granted	-58 945	-52 681	-3 767	-3 367
Repayment of loans granted	2 423	40 878	155	2 613
Interest received	28 464	19 684	1 819	1 258
Dividends received	0	3 147	0	201
NET CASH USED IN / FROM INVESTING ACTIVITIES	-52 884	136 678	-3 381	8 736
Proceeds from loans received	343 945	800 488	21 982	51 161
Repayment of loans and payment of finance lease liabilities	-583 420	-572 650	-37 287	-36 599
Change in overdraft	-13 875	-18 516	-887	-1 183
Change in group account liability	131 656	382	8 414	24
Interest paid	-81 560	-55 486	-5 213	-3 546
Issue of share capital	0	987 514	0	63 114
Repurchase of own shares	-3 992	0	-255	0
Dividends paid	-42 274	-16 006	-2 702	-1 023
Income tax paid on dividends	-15 121	-7 324	-966	-468
NET CASH USED IN / FROM FINANCING ACTIVITIES	-264 641	1 118 402	-16 914	71 480
NET CASH FLOW	-592 427	707 151	-37 860	45 196
Cash and cash equivalents at beginning of period	765 008	58 345	48 893	3 729
Decrease / increase in cash and cash equivalents	-592 427	707 151	-37 863	45 196
Effect of exchange rate fluctuations		-488	-1	-31
Cash and cash equivalents at end of period	172 581	765 008	11 030	48 893

Condensed consolidated interim statement of changes in equity

	Equity attributable to equity holders of the parent								Minority interests	Total equity
	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Own shares (minus)	Retained earnings	Total		
In EEK, thousands										
At 31.12.06	304,530	0	123,083	5,486	-184	0	292,002	724,917	16,964	741,881
Foreign currency translation differences	0	0	0	0	-9		0	-9	0	-9
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0		0	0	577	577
Bonus issue	373,312	0	123,083	0	0		-250,229	0	0	0
Issue of share capital	0	275,000	712,857	0	0		0	987,857	0	987,857
Dividends declared	0	0	0	0			-25,430	-25,430	-200	-25,630
Initial recognition of the put options of minority shareholders	0	0	0	0	0		-10,502	-10,502	0	-10,502
Transfer to capital reserve	0	0	0	14,598	0		-14,598	0	0	0
Profit for the period	0	0	0	0	0		255,941	255,941	8,167	264,108
At 30.09.07	677,842	275,000	712,857	20,084	-193	0	247,184	1,932,774	25,508	1,958,282
At 31.12.07	952,842	0	712,514	20,084	37	0	218,830	1,904,307	25,265	1,929,572
Foreign currency translation differences	0	0	0	0	47	0	0	47	0	47
Dividends declared	0	0	0	0	0	0	-37,160	-37,160	-1,252	-38,412
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	0	-17,883	-17,883
Transfer to capital reserve	0	0	0	11,379		0	-11,379	0	0	0
Purchase of own shares (note 20)	0	0	0	0	0	-3,992	0	-3,992	0	-3,992
Profit / loss for the period	0	0	0	0	0		-1,157,107	-1,157,107	-2,516	-1,159,623
At 31.12.08	952,842	0	712,514	31,463	84	-3,992	-986,816	706,095	3,614	709,709

	Equity attributable to equity holders of the parent								Minority interest s	Total equity
	Share capital	Unregistere d share capital	Share premium	Statutory capital reserve	Other reserv es	Own shares (minus)	Retaine d earnings	Total		
In EUR, thousands										
At 31.12.06	19,463	0	7,866	351	-12	0	18,662	46,330	1,084	47,414
Foreign currency translation differences	0	0	0	0	-1	0	0	-1	0	-1
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	0	37	37
Bonus issue	23,859	0	-7,866	0	0	0	-15,993	0	0	0
Issue of share capital	0	17,576	45,560	0	0	0	0	63,136	0	63,136
Dividends declared	0	0	0	0	0	0	-1,625	-1,625	-13	-1,638
Initial recognition of the put options of minority shareholders	0	0	0	0	0	0	-671	-671	0	-671
Transfer to capital reserve	0	0	0	933	0	0	-933	0	0	0
Profit for the period	0	0	0	0	0	0	16,358	16,358	522	16,880
At 30.09.07	43,322	17,576	45,560	1,284	-13	0	15,798	123,527	1,630	125,157
At 31.12.07	60,898	0	45,538	1,284	3	0	13,986	121,708	1,615	123,323
Foreign currency translation differences	0	0	0	0	2	0	0	-41	0	-41
Dividends declared	0	0	0	0	0	0	-2,375	-2,375	-80	-2,455
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	0	-1,143	-1,143
Transfer to capital reserve	0	0	0	727	0	0	-727	0	0	0
Purchase of own shares (note 20)	0	0	0	0	0	-255	0	-255	0	-255
Profit / loss for the period	0	0	0	0	0	0	-73,953	-73,953	-161	-74,113
At 31.12.08	60,898	0	45,538	2,011	5	-255	-63,069	45,128	231	45,359

Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the fourth quarter and twelve months of 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, using the same accounting policies and measurement bases which were applied in preparing the consolidated financial statements for the year ending on 31 December 2007.

According to the management's estimation, the new and revised standards and interpretations issued but not yet effective at the balance sheet date will not affect the Group's significant accounting policies. The requirements of these standards and interpretations will be observed as of their dates of taking effect which in the case of the standards and interpretations applicable to the Group are either 1 July 2008 (IFRIC 13) or 1 January 2009 (IFRS 8, IAS 1, and IAS 23):

IAS 1 *Presentation of Financial Statements* (revised)

IAS 23 *Borrowing Costs* (revised)

IFRS 8 Operating Segments

IFRIC 13 *Customer Loyalty Programmes*¹

¹ The interpretation has no direct impact on the Group's operations.

Changes in the presentation of segment reporting

The Group's management decided to create a separate Asset Management segment as of 1 January 2008, comprising of the Group's interest in the jointly controlled entity AVEC Asset Management AS. In prior periods, the entity was included in the service segment. The change was instigated by growth in AVEC Asset Management AS' operating volumes, different strategies and risks of AVEC Asset Management AS and those of the Service segment and changes in the segments' management structure.

The Group sold its shareholding in AVEC Asset Management (see Note 4).

2. Scope of consolidation

	Estonia	Latvia	Lithuania	Ukraine	Bulgaria	Romania	Total
Subsidiaries							
At 31.12.07	16	8	3	2	3	2	34
Acquisitions	1	-	-	-	-	-	1
Disposals	-2	-2	-1	-	-	-1	-6
At 31.12.08	15	6	2	2	3	1	29
Interests in joint ventures							
At 31.12.07	17	3	0	0	0	0	20
Acquisitions	-	-	-	-	-	-	-
Disposals	-2	-1	-	-	-	-	-3
At 31.12.08	15	2	0	0	0	0	17
Associates (not consolidated)							
At 31.12.07	1	-	-	-	-	-	1
Acquisitions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
At 31.12.08	1	-	-	-	-	-	1

The Group acquired a subsidiary to the construction division in 2008 (note 3). A subsidiary of the construction division and two subsidiaries of the service division were sold (Note 4) and two service division entities were merged. Three joint-ventures were sold (Note 4).

3. Business combinations

Termination of Tempera Ehitus OÜ

Tempera Ehitus OÜ was declared bankrupt on 26 February 2009. The trustee in bankruptcy established that the solvency problems were caused by the mistakes made by the management of Tempera Ehitus OÜ, by taking on disproportionate contracts, excessive optimism in making business plans during the period of rapid economic growth and changed business environment. For these reasons Arco Ehitus refused making any additional investments to the company.

Acquisition of an interest in the construction company Tempera Ehitus OÜ

On 2 April 2008, the Group acquired a 55% stake in the construction company Tempera Ehitus OÜ. Initial acquisition cost of the shares was 6.300 thousand kroons (403 thousand euros), of which 2.100 thousand kroons (134 thousand euros) was paid at the signing of the purchase agreement. According to the agreement, if Tempera Ehitus OÜ makes losses for three consecutive years after the acquisition, the Group is not under an obligation to pay the rest of the acquisition price as long as accumulated profit brakes even. The final acquisition cost of Tempera Ehitus OÜ was 2.100 thousand kroons (134 thousand euros).

The cost of acquisition has been allocated to the net assets acquired and goodwill as follows:

	EEK	EUR
In thousands		
Acquisition cost	2,100	134

Fair value of net assets acquired ¹	1,468	94
Goodwill (note 16)	632	40

¹ At the date of acquisition, the fair values of the assets, liabilities and net assets of Tempera Ehitus OÜ were equal to their carrying amounts.

The goodwill acquired in the business combination represents mainly the benefits arising from the customer base of Tempera Ehitus OÜ and the entity's relations with potential customers which allow the Group to enter into a larger number of profitable sales contracts than could have been achieved without the acquisition of Tempera Ehitus OÜ. At the end of third quarter Group's management considers unlikely to close profitable agreements in value that covers goodwill. This is the reason why Group has written off the goodwill in amount of 632 thousand kroons (40 thousand euros). In 2008 financials the write down of the acquisition cost of Tempera Ehitus OÜ is 2,100 thousand kroons (134 thousand euros).

The acquisition cost is distributed to 55% of assets and liabilities of Tempera Ehitus OÜ as follows:

	EEK	EUR
In thousands		
Cash	326	21
Receivables and prepayments	5,031	322
Inventories	124	8
Property, plant and equipment (note 15)	1,440	92
Goodwill (note 16)	632	40
Liabilities	-5,453	-349
Acquisition cost	2,100	134

The audit of Tempera Ehitus OÜ established after the balance sheet date that the accounting had been insufficient and therefore the assets and liabilities of the company cannot be adequately estimated. Hence the management decided not to consolidate Tempera Ehitus OÜ. The Group's consolidated financial statements for the first nine months of 2008 include Tempera Ehitus OÜ's revenue and expenses for the period from March to September and assets and liabilities as at 30.09.08. In the three months to 30 September 2008 Tempera Ehitus OÜ contributed sales revenue of 16.622 thousand kroons (1.062 thousand euros) and its loss reduced net profit attributable to equity holders of the parent by - 3.779 thousand kroons (-242 thousand euros).

4. Disposals and acquisitions from minority shareholders

Exchange of interests in subsidiaries

In April 2008 the Group exchanged shareholdings in subsidiaries so that after the transaction Group gained full ownership of Kerberon OÜ and Kolde AS. According to the deal structure Group had to dispose its shareholding in Tallinna Linnaehituse AS.

	Interest divested / acquired	EEK		EUR	
		Cost of transaction	Gain / loss on the transaction (note 4)	Cost of transaction	Gain / loss on the transaction (note 4)
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
Total			-1,533		-98

The effect of the disposal of the shares in Tallinna Linnaehituse AS on the Group's assets and liabilities was as follows:

	EEK	EUR
In thousands		
Cash and cash equivalents	-8,105	-518
Other current assets	-9,402	-601
Property, plant and equipment (note 15)	-65	-4
Goodwill (note 16)	-4,014	-257
Payables	-5,064	-324
Other short-term liabilities	-909	-58

In December 2008 the Group sold its 100% holding in the subsidiary Arco Real Estate UAB. The transaction had the following effect on the Group's financial results for 2008:

	EEK	EUR
In thousands		
Cash and cash equivalents	-104	-7
Other current assets	-581	-37
Long-term financial assets	-112	-7
Property, plant and equipment (note 15)	-29	-2
Intangible assets (note 16)	-32	-2
Payables	-2 306	-147
Other payables	-21	-1
Long-term loan liabilities	-10 179	-651

In December 2008 the Group sold its holding in the subsidiary Arco Real Estate SRL. The transaction had the following effect on the Group's financial results for 2008

	EEK	EUR
In thousands		
Cash and cash equivalents	-55	-4
Other current assets	-974	-62
Long-term financial assets	0	0
Property, plant and equipment (note 15)	-1 548	-99
Intangible assets (note 16)	-78	-5
Payables	-2 857	-183
Short-term provisions	-15 904	-1 016

Disposal of an interest in a joint venture

On 1 April 2008 the Group sold its subsidiary Hopson Capital OÜ. The value of the transaction was 700 thousand kroons (45 thousand euros). The subsidiary was a project company holding immovable property and was therefore carried in inventories. Accordingly, the effects of the transaction have been accounted for as sales in the income statement and as operating cash flow in the cash flow statement.

On 20 June 2008 the Group sold its interest in the joint venture AVEC Asset Management AS. The sale price of the interest was 15,647 thousand kroons (1,000 thousand euros) which was immediately satisfied in cash and a deferred payment consisting of 25% of the amount that will be distributed by Explorer Property Fund AB on the dissolution of the fund. According to management's estimates, at 31.12.08 the value of the receivable was 0 kroons (0 euros) (note 12). Under the sales contract, the Group retains control of the assets, liabilities and equity of the fund until the fund is disbursed.

The effect of the disposal of shares in AVEC Asset Management AS on the Group's assets and liabilities was as follows:

	EEK	EUR
In thousands		
Cash and cash equivalents	-6,558	-419
Other current assets	-4,353	-278
Long-term financial assets	-25,082	-1,603
Property, plant and equipment (note 15)	-274	-18
Intangible assets (note 16)	-195	-12
Payables	-2,981	-191
Short-term provisions	-518	-33

5. Segment reporting by business segments

Segment	Development		Service		Construction		Asset management		Eliminations		Consolidated	
	2 008	2 007	2 008	2 007	2 008	2 007	2 008	2 007	2 008	2 007	2 008	2 007
In thousands, EEK												
External revenue	202 570	418 372	83 697	115 184	367 500	193 631	6 783	10 174	0	-10 173	660 550	727 188
<i>Change</i>	-52%	0	-27%	0	90%	0	-33%	0	0	0	-9%	0
Other external income	9 975	133 746	1 816	8 588	12 188	44	0	0	0	-2 288	23 979	140 090
Revenue and other income from other segments	4 696	14 142	9 211	15 849	55 579	231 809	0	0	-69 486	-261 800	0	0
Total revenue and other income	217 241	566 260	94 724	139 621	435 267	425 484	6 783	10 174	-69 486	-274 261	684 529	867 278
	0	0	0	0	0	0	0	0	0	0	0	0
Segment result	-1 163 471	78 094	-50 092	8 624	4 787	14 902	2 412	4 415	103 418	17 226	-1 102 946	123 261
Unallocated expenses	0	0	0	0	0	0	0	0	0	0	-15 657	-20 203
Operating profit / loss	0	0	0	0	0	0	0	0	0	0	-1 118 603	103 058
Revaluation of investment property	-541 223	52 874	-4 641	4 955	0	0	0	0	0	0	-545 864	57 829
Depreciation, amortisation and impairment losses	-7 959	-948	-1 646	1 359	-37	-1 789	-40	-9	3 342	0	-6 340	-3 661
	0	283	0	0	-632	0	0	0	0	0	-632	283
Finance income	0	0	0	0	0	0	0	0	0	0	0	0
Finance expenses	0	0	0	0	0	0	0	0	0	0	93 659	215 005
Income tax expense	0	0	0	0	0	0	0	0	0	0	-125 868	-67 744
Net profit / loss	0	0	0	0	0	0	0	0	0	0	-1 159 623	235 511

Segment	Development		Service		Construction		Asset management		Eliminations		Consolidated	
	2 008	2 007	2 008	2 007	2 008	2 007	2 008	2 007	2 008	2 007	2 008	2 007
In thousands, EUR												
External revenue	12 947	26 739	5 349	7 362	23 488	12 375	434	650	0	-650	42 217	46 476
<i>Change</i>	-52%	0	-27%	0	90%	0	-33%	0	0	0	-9%	0
Other external income	638	8 548	116	549	779	3	0	0	0	-146	1 533	8 953
Revenue and other income from other segments	300	904	589	1 013	3 552	14 815	0	0	-4 441	-16 732	0	0
Total revenue and other income	13 885	36 191	6 054	8 924	27 819	27 193	434	650	-4 441	-17 528	43 750	55 429
	0	0	0	0	0	0	0	0	0	0	0	0
Segment result	-74 359	4 991	-3 201	551	306	952	154	282	6 610	1 101	-70 491	7 878
Unallocated expenses	0	0	0	0	0	0	0	0	0	0	-1 001	-1 291
Operating profit / loss	0	0	0	0	0	0	0	0	0	0	-71 492	6 587
Revaluation of investment property	-34 590	3 379	-297	317	0	0	0	0	0	0	-34 887	3 696
Depreciation, amortisation and impairment losses	-509	-61	-105	87	-2	-114	-3	-1	214	0	-405	-234
	0	0	0	0	0	0	0	0	0	0	0	0
Finance income	0	0	0	0	0	0	0	0	0	0	5 986	13 741
Finance expenses	0	0	0	0	0	0	0	0	0	0	-8 044	-4 330
Income tax expense	0	0	0	0	0	0	0	0	0	0	-563	-946
Net profit / loss	0	0	0	0	0	0	0	0	0	0	-74 113	15 052

6. Other income

	2008	2007	2008	2007
In thousands				
Gains on fair value adjustments to investment property	16 103	133 029	1 029	8 502
Gains on sale of investment property	1 548	2 620	99	167
Gains on fair value adjustments to biological assets	1 568	2 756	100	176
Gains on sale of property, plant and equipment	89	57	6	4
Miscellaneous income	4 671	1 628	299	105
Total other income	23 979	140 090	1 533	8 954

7. Administrative expenses

	EEK	2005	EUR	
	2008	2007	2008	2007
In thousands				
Personnel expenses	-60 803	-85 110	-3 886	-5 440
Office expenses	-28 217	-31 108	-1 803	-1 988
Legal and consulting fees	-1 976	-953	-126	-61
Depreciation, amortisation and impairment losses	-17 775	-3 131	-1 136	-200
Goodwill adjustments and goodwill recording as revenues	-347	283	-22	18
Allowance for doubtful receivables	-98 589	-1 481	-6 301	-95
Vehicle expenses	-8 848	-9 832	-565	-628
Miscellaneous expenses	-8 881	-4 721	-568	-303
Total administrative expenses	-225 436	-136 053	-14 408	-8 697

8. Other expenses

	EEK		EUR	
	2008	2007	2008	2007
In thousands				
Losses on fair value adjustments to investment property	-561 967	-75 200	-35 916	-4 806
Losses on sale of investment property	-12	-4 253	-1	-271
Losses on disposal and impairment of property, plant and equipment	-1 714	18 739	-111	1 198
Interest on arrears and penalty charges ¹	-4 780	-481	-305	-31
Miscellaneous expenses	-1 371	-2 303	-88	-147
Total other expenses	-569 844	-63 498	-36 421	-4 058

¹ Includes also the fees paid as a result of a compromise with Faalanaks OÜ in value of 1.250 thousand kroons (80 thousand euros) and fees paid to Hexanor OÜ in the amount of 2.900 thousand kroons (185 thousand euros) (note 22).

9. Finance income

	EEK		EUR	
	2008	2007	2008	2007
In thousands				
Gains on sale of investments in subsidiaries	5 890	123 414	376	7 888
Gains on sale of interests in jointly controlled entities	14 875	10 650	951	681
Interest income	49 694	30 177	3 177	1 929
Foreign exchange gains	14 370	39	918	2
Income on other non-current financial assets	8 830	50 725	564	3 243
Total finance income	93 659	215 005	5 985	13 743

10. Finance expenses

	EEK		EUR	
	2008	2007	2008	2007
In thousands				
Losses on sale of investments in subsidiaries (note 4)	-24 441	-2 981	-1 562	-191
Losses on sale of investments in joint ventures	-39 454	0	-2 521	0
Interest expenses	-66 959	-33 840	-4 279	-2 163
Expenses on other non-current financial assets ¹	22 203	-2 864	1 419	-183
Foreign exchange losses	-9 806	-2 291	-627	-146
Impairment losses on financial assets ²	-7 411	-25 768	-474	-1 647
Total finance expenses	-125 868	-67 744	-8 044	-4 330

¹ Expenses on other non-current financial assets comprises the loss incurred on re-measuring the investment in Explorer Property Fund – Baltic States AB to fair value.

² Impairment losses on financial assets in 2008 comprise of the reversal of an impairment loss of 25,248 thousand kroons (1,614 thousand) related to a receivable from the Kipsala project.

11. Earnings per share

	EEK		EUR	
	2008	2007	2008	2007
Weighted average number of ordinary shares outstanding (pcs)	95 284 150	82 516 293	6 089 767	5 273 752
Profit / loss attributable to equity holders of the parent (in thousands)	-1 157 107	227 587	-73 953	14 545
Earnings per share (in kroons per share)	-12,14	2,76	-12,14	2,76

12. Receivables

	EEK		EUR	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
In thousands				
Trade receivables				
Receivables from customers	96 349	48 236	6 157	3 083
Allowance for doubtful receivables	-6 066	-70	-388	-4
Total trade receivables	90 283	48 166	5 769	3 079
Other short-term receivables				
Receivables from jointly controlled entities	23 608	53 719	1 509	3 433
Loans granted ¹	80 297	12 391	5 132	792
Miscellaneous receivables	27 807	47 449	1 777	3 033
Total other receivables	131 712	113 559	8 418	7 258
Accrued income				
Interest receivable	11 397	5 807	728	371
Due from customers under long-term construction contracts	7 612	21 635	486	1 383
Prepaid and recoverable taxes	53 034	107 406	3 389	6 864
Other accrued income	1 634	616	104	39
Total accrued income	73 677	135 464	4 707	8 657
Total current receivables	295 672	297 189	18 894	18 994

¹ Loans granted as at 31.12.08 also includes the claim against Sigma Real Estate Ltd. in the amount of 108.838 thousand kroons (6.956 thousand euros). Group made a prepayment in spring 2008 for the shares in Simferopol shopping centre project in Ukraine. The down payment was in value of 79.096 thousand kroons (5.055 thousand euros) and in addition the Group granted subordinated loan in value of 20.598 thousand kroons (1.316 thousand euros) to a project related entity. As at 31.12.08 the Group's management has decided to exit the project and to claim back the down payment with extra debt granted and accrued interest. The parties are negotiating on additional guarantees and payment terms. The claim has been discounted 45% and the new balance sheet value stands at 67.829 thousand kroons (4.335 thousand euros).

Non-current receivables

	EEK		EUR	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
In thousands				
Receivables from jointly controlled entities	0	38 538	0	2 463
Long-term loan receivables	254	907	16	58
Prepayments for long-term financial assets	234	0	15	0
Other non-current receivables	688	679	44	43
Total non-current receivables	1 176	40 124	75	2 564

13. Inventories

	EEK		EUR	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
In thousands				
Properties purchased and developed for resale	785 907	1 111 527	50 229	71 040
Other goods purchased for resale	4 806	4 498	307	287
Materials and finished goods	61	529	4	34
Prepayments to suppliers	58 666	31 879	3 749	2 037
Total inventories	849 440	1 148 433	54 289	73 398

14. Investment property

	EEK	EUR
In thousands		
At 31.12.06	1 479 281	94 543
Acquisitions	3 016	193
Disposals	-58 949	-3 768
Disposals through divestment of interests in subsidiaries and transformation of subsidiaries into jointly controlled entities	-192 500	-12 303
Transfer to inventories	-300 000	-19 173
Transfer from property, plant and equipment (note 15)	11 322	724
Gain or loss on change in fair value (note 6,8)	57 829	3 696
At 31.12.07	999 999	63 912
Acquisitions	0	0
Disposals	55 200	3 527
Transfer from property, plant and equipment	20 042	1 281
Gain or loss on change in fair value (note 6,8)	-545 864	-34 887
At 31.12.08	529 377	33 833

15. Property, plant and equipment

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total
In EEK , thousands					
Carrying amount at 31.12.06	21 329	2 261	4 324	53 799	81 713
Additions	7 207	3 115	5 396	56 119	71 837
Capitalised borrowings costs	0	662	0	14 530	15 192
Additions through business combinations	0	482	789	0	1 271
Disposals	0	-569	-79	-8 965	-9 613
Disposals through divestment of subsidiaries	-96	0	0	0	-96
Transfers	0	0	0	-6 801	-6 801
Transfer to investment property	-63	300	-300	-6 876	-6 939
Depreciation charge for the period (note 5)	-1 437	-1 117	-2 147	0	-4 701
Carrying amount at 31.12.07	26 940	5 134	7 983	101 806	141 863
<i>Incl. acquisition cost</i>	<i>37 083</i>	<i>9 108</i>	<i>13 637</i>	<i>101 806</i>	<i>161 634</i>
<i>Incl. accumulated amortisation</i>	<i>-10 143</i>	<i>-3 974</i>	<i>-5 654</i>	<i>0</i>	<i>-19 771</i>
Carrying amount at 31.12.07	26 940	5 134	7 983	101 806	141 863
Additions	369	3 115	5 396	2 341	11 221
Capitalised borrowings costs	0	662	0	1 832	2 494
Disposals	0	-5 633	-4 768	-8 965	-19 366
Additions through business combinations (note 3)	0	482	789	0	1 271
Disposals through divestment of subsidiaries (note 4)	0	0	0	-6 801	-6 801
Transfer to non-current assets held for sale	-1 701	0	0	0	-1 701
Transfers	1 619	0	0	0	1 619
Adjustments	-3 420	0	0	-27 266	-30 686
Transfer to investment property (note 14)	0	0	0	-33 832	-33 832
Depreciation charge for the period (note 5)	-1 692	-1 264	-2 863	0	-5 819
Carrying amount at 31.12.08	22 115	2 496	6 537	29 115	60 263
<i>Incl. acquisition cost</i>	<i>33 950</i>	<i>7 734</i>	<i>15 054</i>	<i>29 115</i>	<i>85 853</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>

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total
In EUR, thousands					
Carrying amount at 31.12.06	1 363	145	276	3 438	5 222
Additions	461	199	345	3 587	4 592
Capitalised borrowings costs	0	42	0	929	971
Additions through business combinations	0	31	50	0	81
Disposals	0	-36	-5	-573	-614
Disposals through divestment of subsidiaries	-6	0	0	0	-6
Transfers	0	0	0	-435	-435
Transfer to investment property	-4	19	-19	-439	-443
Depreciation charge for the period (note 5)	-92	-71	-137	0	-300
Carrying amount at 30.09.07	1 722	328	510	6 507	9 068
<i>Incl. acquisition cost</i>	<i>2 370</i>	<i>582</i>	<i>872</i>	<i>6 507</i>	<i>10 331</i>
<i>Incl. accumulated amortisation</i>	<i>-648</i>	<i>-254</i>	<i>-361</i>	<i>0</i>	<i>-1 263</i>
Carrying amount at 31.12.07	1 722	328	510	6 507	9 067
Additions	24	199	345	149	717
Capitalised borrowings costs	0	42	0	116	158
Disposals	0	-360	-305	-573	-1 238
Additions through business combinations (note 3)	0	31	50	0	81
Disposals through divestment of subsidiaries (note 4)	0	0	0	-435	-435
Transfer to non-current assets held for sale	-109	0	0	0	-109
State aid	-219	0	0	-1 743	-1 962
Transfer to investment property (note 14)	0	0	0	-2 162	-2 162
Depreciation charge for the period (note 5)	-108	-81	-183	0	-372
Carrying amount at 31.12.08	1 413	160	418	1 861	3 746
<i>Incl. acquisition cost</i>	<i>2 170</i>	<i>494</i>	<i>963</i>	<i>1 861</i>	<i>5 488</i>
<i>Incl. accumulated amortisation</i>	<i>-756</i>	<i>-336</i>	<i>-545</i>	<i>0</i>	<i>-1 637</i>

16. Intangible assets

	Goodwill	Software	Total
In EEK, thousands			
Carrying amount at 31.12.06	15 558	1 147	16 705
Additions	0	872	872
Additions through business combinations	5 941	11	5 952
Depreciation charge for the period (note 7)	0	-319	-319
Carrying amount at 30.09.07	21 499	1 711	23 210
Carrying amount at 31.12.07	23 957	1 548	25 505
Additions	0	482	482
Disposals	0	-229	-229
Additions through business combinations (note 3)	4 310	0	4 310
Adjustment of acquisition cost	-3 678	0	-3 678
Disposals through divestment of subsidiaries and interests in jointly controlled entities (note 4)	-4 014	-195	-4 209
Fair value adjustment	-9 185	0	-9 185
Depreciation charge for the period (note 7)	0	-521	-521
Carrying amount at 31.12.08	11 390	1 085	12 475
<i>Incl. acquisition cost</i>	<i>11 390</i>	<i>2 095</i>	<i>13 485</i>
<i>Incl. accumulated amortisation</i>	<i>0</i>	<i>-1 010</i>	<i>-1 010</i>

	Goodwill	Software	Total
In EUR, thousands			
Carrying amount at 31.12.06	994	73	1 068
Additions	0	56	56
Additions through business combinations	380	1	381
Depreciation charge for the period (note 7)	0	-20	380
Carrying amount at 30.09.07	1 374	109	1 483
Carrying amount at 31.12.07	1 531	99	1 630
Additions	0	31	31
Disposals	0	-15	-15
Additions through business combinations (note 3)	275	0	275
Adjustment of acquisition cost	-235	0	-235
Disposals through divestment of subsidiaries and interests in jointly controlled entities (note 4)	-257	-12	-269
Fair value adjustment	-587	0	-587
Depreciation charge for the period (note 7)	0	-33	-33
Carrying amount at 30.09.08	727	70	797
<i>Incl. acquisition cost</i>	<i>728</i>	<i>134</i>	<i>862</i>
<i>Incl. accumulated amortisation</i>	<i>0</i>	<i>-65</i>	<i>-65</i>

17. Loans and borrowings

	31.12.2008		31.12.2007	
	Total	Including current portion	Total	Including current portion
In EEK , thousands				
overdrafts	0	0	0	0
Debt securities	59 303	59 303	139 284	124 545
Bank loan	911 946	256 095	1 094 580	563 689
Finance lease liabilities	6 258	1 894	6 712	2 475
Other loans ¹	67 828	34 216	113 439	62 368
Total (note 35)	1 045 335	351 508	1 354 015	753 077

	31.12.2008		31.12.2007	
	Total	Including current portion	Total	Including current portion
In EUR, thousands				
Overdrafts	0	0	0	0
Debt securities	3 790	3 790	8 902	7 960
Bank loans	58 284	16 367	69 956	36 026
Finance lease liabilities	400	121	429	158
Other loans ¹	4 335	2 187	7 250	3 986
Total (note 35)	66 809	22 465	86 537	48 130

¹ Other loans include loan liabilities to related parties in the amount of 50.139 thousand kroons (3.204 thousand euros). As at 31.12.2007 loan liabilities to related parties totalled 100,484 thousand kroons (6,422 thousand euros). For further information on transactions with related parties, please refer to note 21.

18. Payables and other liabilities

Payables	EEK		EUR	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
In thousands				
Trade payables	72 172	60 612	4 613	3 874
Miscellaneous payables				
Payables to jointly controlled entities	0	6 386	0	408
Liabilities from securities transactions	1 236	48 616	79	3 107
Miscellaneous payables	25 128	29 496	1 605	1 885
Total other payables	26 364	84 498	1 684	5 400
Taxes payable				
Value added tax	3 102	1 761	197	113
Income tax on dividends	0	3 449	0	220
Personal income tax	2 054	2 535	131	162
Social tax	3 569	4 841	228	309
Other taxes	2 228	4 037	141	258
Total taxes payable	10 953	16 623	697	1 062

... continues	EEK		EUR	
Accrued expenses				
Interest payable	10 054	7 164	643	458
Payables to employees	8 871	27 671	567	1 768
Dividends payable	1 232	8 743	79	559
Other accrued expenses	8 551	18 280	547	1 169
Total accrued expenses	28 708	61 858	1 836	3 954
Total payables	138 197	223 591	8 830	14 290

Other liabilities, non-current items

	EEK		EUR	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
In thousands				
Liabilities from securities transactions	248	1 211	16	77
Deposits received	1 402	1 461	90	93
Miscellaneous long-term liabilities	2 754	1 935	175	124
Total other liabilities	4 404	4 607	281	294

19. Deferred income

	EEK		EUR	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
In thousands				
Advances for sale of real estate	58 845	23 758	3 761	1 518
Deferred income from long-term service contracts	5 578	2 114	356	135
Other deferred income	751	21 344	48	1 365
Total deferred income	65 174	47 216	4 165	3 018

20. Equity

On 9 July 2008 Arco Vara AS launched a share repurchase programme. Based on a resolution adopted by the management board, the company will spend up to 4.0 million kroons (0.26 million euros) on repurchasing up to 450,000 shares. The repurchase period commenced on 10 July 2008 and expired on 5 September 2008.

Own shares are utilised for motivation program or for decrease of share capital.

During the program Arco Vara AS repurchased 450,000 shares for a total of 3.992 thousand kroons (255 thousand euros).

21. Transactions with related parties

	EEK		EUR	
	12m 2008 or 31.12.2008	12m 2007 or 31.12.07	12m 2008 or 31.12.2008	12m 2007 or 31.12.07
In thousands				
Transactions with jointly controlled entities				
Sales revenue	1 567	5 657	100	362
Services purchased	-48	-48	-3	-3
Short-term loan receivables (note 12)	71 567	52 530	4 574	3 357
Long-term loan receivables (note 12)	43 594	37 688	2 786	2 409
Trade receivables (note 12)	491	963	31	62
Short-term interest receivables (note 12)	1 841	226	118	14
Long-term interest receivables (note 12)	2 018	850	129	54
Payables (note 18)	5 566	6 386	356	408
Transactions with companies having joint control over Group companies				
Sales revenue	0	135	0	9
Services purchased	-334	-375	-21	-24
Short-term loan receivables (note 12)	14 286	3 490	913	223
Short-term loan receivables (note 17)	74 686	51 852	4 773	3 314
Dividends payable	0	8 743	0	559
Trade payables	276	24	18	2
Interest payable	3 259	2 101	208	134
Long-term loan liabilities	31 341	38 898	2 003	2 486
Long-term interest liabilities	1 341	815	86	52
Transactions with key staff of the Group and the Group's management				
Sales revenue	11 747	3 357	751	215
Trade receivables	262	1 377	17	88
Short-term loan receivables (note 17)	1 699	1 945	109	124
Interest payable	604	373	39	24
Transactions with other related parties				
Sales revenue	1 869	4 689	119	300
Services purchased	-33	-2 086	-2	-133
Short-term loan receivables (note 12)	3 175	12 391	203	792
Interest receivable	1 346	1 242	86	79
Other short-term receivables	1 279	2 825	82	181
Long-term loan receivables	0	907	0	58
Short-term loan receivables (note 17)	298	298	19	19
Trade payables	0	17	0	1
Other payables	34 310	28 406	2 193	1 815
Long-term interest liabilities	1 437	997	92	64
Long-term loan liabilities	7 241	7 491	463	479

The remuneration of the parent company's management board and division managers for the 12 months of 2008, including associated taxes, totalled 14.271 thousand kroons (912 thousand euros). The corresponding figure for the 12 months of 2007 was 24.313 thousand kroons (1.554 thousand euros).

22. Contingent liabilities

Pending lawsuits

Litigation against the subsidiary Arco Investeeringute AS

Action brought by Profitor Group OÜ

06.10.2008 the Harju County Court issued a decision not to take cognisance of the action by Profitor Group OÜ.

On 12.11.2008 the Harju County Court made a default judgement taking effect on 30.12.2008 and ordering the payment of 4,367,529 thousand kroons to be made to Arco Investeeringute AS.

By the time of preparing the report the legal proceedings have been concluded and the court ruling forwarded to the bailiff to be proceeded.

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 April 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 11.08.2008 and dismissed the appeals by Tallinn City Council and Arco Investeeringute AS.

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

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

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

On 14 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.

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

At the time of preparing the report the Tallinn Administrative Court is still in the process of making the decision.

Actions brought by the subsidiary Arco Ehitus OÜ

Bankruptcy action against OÜ Kaanon Kinnistud

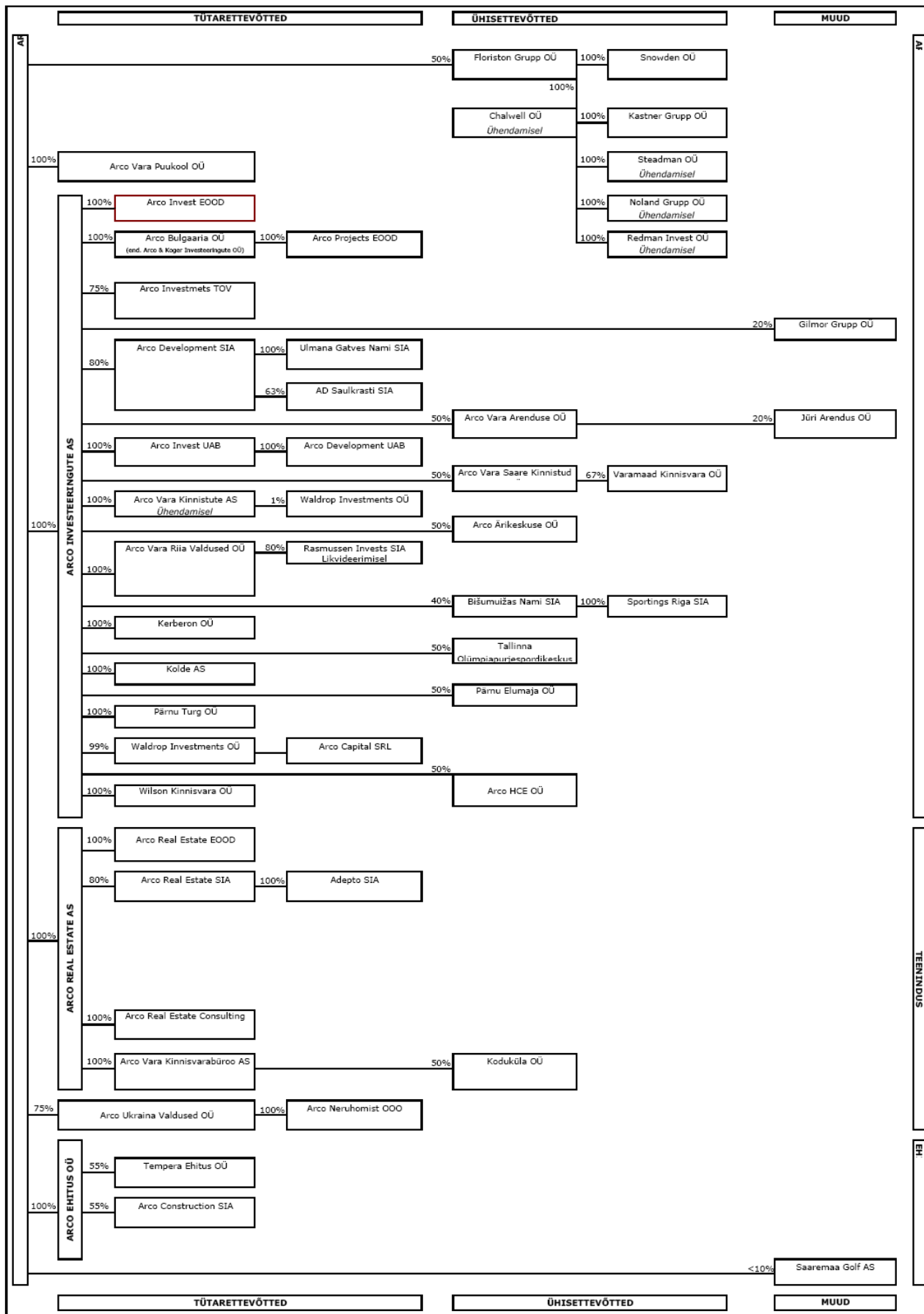
On 26 June 2008 Arco Ehitus OÜ filed a motion with Harju County Court in which it requested that bankruptcy proceedings be initiated against OÜ Kaanon Kinnistud and that OÜ Kaanon Kinnistud be declared bankrupt. The Group management finds that the request for bankruptcy against OÜ Kaanon Kinnistud is fully justified. Arco Ehitus OÜ and OÜ Kaanon Kinnistud agreed on 01.04.2006 on the construction and designing of sewage system for OÜ Kaanon Kinnistud OÜ. Arco Ehitus OÜ submitted delivery documents concerning all works performed on 31.07.2007 and OÜ Kaanon Kinnistud signed the documents. Arco Ehitus OÜ has invoiced OÜ Kaanon Kinnistud for services rendered and the customer has not disputed the amounts charged. As at 30.05.2008 the Group's receivables from OÜ Kaanon Kinnistud totalled 1,887 thousand kroons (the principal liability of 516 thousand kroons and interest 1,371 thousand kroons), 121 thousand euros respectively (principal liability 33 thousand euros and interest 88 thousand euros). Although Arco Ehitus OÜ has cautioned OÜ Kaanon Kinnistud about the bankruptcy action, OÜ Kaanon Kinnistud has not responded to the caution or settled the debt.

As at 30 June 2008 the receivable from Kaanon Kinnistud OÜ is classified as fully impaired (irrecoverable).

25.08.2008 the Harju County Court decided that in order to proceed with the case Arco Ehitus OÜ must pay a 15 thousand kroons (1 thousand euros) remuneration fee of an interim trustee. As the Group had already started separate negotiations with OÜ Kaanon Kinnistud and one of the conditions set was the withdrawal of the application, on 11 September 2008 Arco Ehitus OÜ submitted an application to the court to terminate the bankruptcy proceeding.

To date the litigation has ended.

24. The Group's structure at 31.12.2008



Statement by the management board

The management board of Arco Vara AS has prepared the condensed consolidated interim financial statements for the twelve months and fourth quarter presented on pages 2 to 37.

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and they give a true and fair view of the financial position, financial performance and cash flows of Arco Vara AS. Arco Vara AS is a going concern.

Lembit Tampere

Chairman of the Management Board

Veiko Taevere

Member of the Management Board

Heigo Metsoja

Member of the Management Board