



Arco Vara AS

Interim report IV quarter and 12 months 2011



ARCO REAL ESTATE

INTERIM REPORT
FOURTH QUARTER AND 12 MONTHS
ENDED 31 DECEMBER 2011
(UNAUDITED)

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Core activities: Construction of buildings (EMTAK 41000)

Civil engineering (EMTAK 42000)

Specialised construction activities (EMTAK 43000)

Real estate activities (EMTAK 6800)

Financial year: 1 January 2011 – 31 December 2011

Reporting period: 1 January 2011 – 31 December 2011

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

Chief Executive: Lembit Tampere

Auditor: KPMG Baltics OÜ

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Directors' report

Arco Vara group

Arco Vara AS and other entities of Arco Vara group (the "Group") are engaged in various aspects of the real estate business. The Group's three business lines – services, development and construction have been organised into corresponding divisions that provide a broad range of real estate services.

At the end of 2011, the Group comprised 28 subsidiaries (31 December 2010: 28) and 5 joint ventures (31 December 2010: 5).

The performance of all divisions is subject to seasonal fluctuations. The transaction volumes of the Service division usually increase in autumn and spring and the Construction division's turnover and the Development division's investment volumes decline in the winter.

The Service division is engaged in real estate brokerage, valuation, management and consulting as well as short-term investment in residential real estate.

The Development division develops complete living environments and commercial real estate. Fully developed housing solutions are sold to the end-consumer. Commercial properties are developed until they start generating cash flow after which they are sold to a real estate fund or another developer. Despite the strategy, the Group is currently holding some income-yielding commercial properties because they have not been developed to their full potential.

The Construction division provides general construction and environmental engineering services, operating as a general contractor and construction manager as well as a subcontractor.

The Group regards Estonia, Latvia and Bulgaria as its home markets.

Mission, vision and shared values

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

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

Our core values include:

Partnership – our client is our partner

Reliability – we are reliable, open and honest

Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

GROUP STRUCTURE

Company	Domicile	Group's ownership interest	
		31 December 2011	31 December 2010
%			
Service segment			
Subsidiaries			
Arco Real Estate EOOD ¹	Bulgaria	100	100
Arco Real Estate AS	Estonia	100	100
Arco Vara Kinnisvarabüroo ¹	Estonia	100	100
Adepto SIA ¹	Latvia	78.5	80
Arco Real Estate SIA ¹	Latvia	78.5	80

Company	Domicile	Group's ownership interest	
		31 December 2011	31 December 2010
%			
Development segment			
Subsidiaries			
Arco Invest EOOD ¹	Bulgaria	100	100
Arco Facility Management EOOD ¹	Bulgaria	100	100
Arco Project EOOD ¹	Bulgaria	100	100
Alasniidu LA OÜ ¹	Estonia	sold	100
Arco Investeeringute AS	Estonia	100	100
AIP Projekti OÜ ¹	Estonia	100	100
Arco Vara Ärikinnistute OÜ	Estonia	100	100
Fineprojekti OÜ ¹	Estonia	100	-
Kerberon OÜ ¹	Estonia	100	100
Koduküla OÜ ¹	Estonia	100	50
Kolde AS ¹	Estonia	100	100
Lilletee LA OÜ ¹	Estonia	sold	100
Pärnu Turg OÜ ¹	Estonia	100	100
T53 Maja OÜ ¹	Estonia	100	100
Waldrop Investments OÜ ¹	Estonia	100	100
Marsili II SIA ¹	Latvia	100	0
Arco Development SIA ¹	Latvia	70	99.9
Uimana Gatves Nami SIA ¹	Latvia	70	99.9
Arco Invest UAB ¹	Lithuania	100	100
Arco Development UAB ¹	Lithuania	100	100
Arco Capital Real Estate SRL ¹	Romania	100	100
Arco Investments TOV ¹	Ukraine	75	75
Joint ventures			
Arco HCE OÜ ¹	Estonia	50	50
Tivoli Arendus OÜ ¹	Estonia	50	100
AD Saulkrasti SIA ¹	Latvia	35	50
Bišumuižas Nami SIA ¹	Latvia	49.38	49.38
Sporting Riga SIA ¹	Latvia	49.38	49.38
Construction segment			
Subsidiaries			
Arco Ehitus OÜ	Estonia	100	100
AE Ehitusjuhtimine OÜ ¹	Estonia	100	100
Tempera Ehitus OÜ ¹	Estonia	bankrupt	bankrupt

¹ Interest through a subsidiary

CHANGES IN GROUP STRUCTURE

On 7 February 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, divested 29.99% of its ownership interest in Arco Development SIA to SL Development SIA. The sales price of the shares was 104 euros.

On 18 March 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, sold 50% of its stake in Tivoli Arendus OÜ. As a result of the transaction, the interest of Arco Investeeringute AS in Tivoli Arendus OÜ decreased from 100% to 50%. The transaction was conducted at the nominal value of the shares, which was 1,278 euros.

On 26 April 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, established Fineprojekti OÜ, a wholly-owned subsidiary with a share capital of 2,500 euros.

On 27 May 2011, Arco Vara Kinnisvarabüroo AS increased its interest in Koduküla OÜ from 50% to 100%. The additional 50% stake in Koduküla OÜ was acquired for 1 euro. The transaction did not have a significant impact on the Group's operations.

On 15 June 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, sold its 100% interest in Alasniidu LA OÜ for 360,778 euros. Through the transaction, the Group's long-term liabilities decreased by 1,041,937 euros and total assets decreased by 766,908 euros. Sales gain on the transaction amounted to 275,029 euros.

On 5 July 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, established a wholly-owned subsidiary, SIA Mārsili II, with a share capital of 1.071 million Latvian lats (1.5 million euros). The subsidiary's share capital was paid in with a non-monetary contribution consisting of the plots of the Baltezers 5 project that belonged to Arco Investeeringute AS. The transaction did not have a significant impact on the Group's operations.

On 29 July 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, established a 70% subsidiary, Prime Capital SIA, whose share capital is 2,000 Latvian lats (2,846 euros). The transaction did not have a significant impact on the Group's operations.

On 10 August 2011, Balti Kindlus Kinnisvara OÜ in which Arco Vara AS's wholly-owned subsidiary Fineprojekti OÜ has a 4% stake was entered in the Commercial Register. The transaction did not have a significant impact on the Group's operations.

On 25 August 2011, in order to raise financing for privatisation, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, temporarily transferred its interest in Prime Capital SIA for 1,400 Latvian lats (the nominal value of the shares) to Dreilīni-Ulbroka-1 SIA, a related party that is connected to Viktors Savins. The transaction did not have a significant impact on the Group's operations. The acquirer has the obligation to sell the investment back to Arco Investeeringute AS at the latter's first request for 500,000 euros, which is the estimated proportion of self-financing that Arco Investeeringute AS has to put up as final funding for the transaction.

On 15 September 2011, Arco Investeeringute AS, a wholly-owned subsidiary of Arco Vara AS, divested its investment in Lilletee LA OÜ. The investment was acquired by VM Investments OÜ. The transaction did not have a significant impact on the Group's operations.

On 10 October 2011, Arco Vara Riia Valduste OÜ registered a change in business name. The entity's new business name is AIP Projekti OÜ.

On 29 November 2011, in connection with the increase of the share capital of Arco Real Estate SIA that is a subsidiary of Arco Real Estate AS (a wholly-owned subsidiary of Arco Vara AS), Arco Real Estate AS's interest in the subsidiary decreased from 80% to 78.5%. The transaction also lowered the Group's interest in Arco Real Estate SIA's subsidiary Adepto SIA from 80% to 78.5%.

On 12 December 2011, based on an agreement concluded on 1 December 2011, Arco Vara AS transferred a 12.5% stake in Floriston Grupp OÜ to EPRI Invest OÜ, a company related to Indrek Porila. The transaction did not have a significant impact on the Group's financial position and financial performance.

On 21 December 2011, Arco Real Estate SIA that is a subsidiary of Arco Real Estate AS (a wholly-owned subsidiary of Arco Vara AS) acquired a 40% stake in Arco Property Management SIA. The entity is a Latvian property management company whose other shareholder is Viktors Savins who has a related party relationship with Arco Vara.

KEY PERFORMANCE INDICATORS

- The Group's 12-month revenue and other income totalled 46.2 million euros, a roughly two-fold improvement on the previous financial year.
- Operating loss for 2011 was 1.5 million euros, a substantial increase on 2010 when operating loss was 0.1 million euros.
- Net loss for 2011 was 3.6 million euros, a substantial increase on 2010 when net loss was 0.3 million euros.
- Equity to assets ratio at the year-end was 39.7% (31 December 2010: 39.4%). In 2011, return on equity was negative (2010: negative) and also return on invested capital was negative (2010: 1.8%).
- At the end of 2011, the Group's order backlog stood at 11.7 million euros compared with 16.8 million euros at the end of 2010.
- In 2011, the Group sold 111 apartments and plots (2010: 129 apartments and plots).

	12M 2011	12M 2010	Q4 2011	Q4 2010
In millions of euros				
Revenue and other income	46.2	22.8	14.9	8.3
Operating profit/loss	-1.5	-0.1	1.2	0.5
<i>Of which net loss on changes in the value of investment properties and inventories</i>	1.8	-0.3	1.8	-0.2
Profit/loss before tax	-3.6	-0.3	0.0	1.0
<i>Of which net gain/loss on disposal of financial assets</i>	0.3	0.1	0.0	0.2
Net profit/loss	-3.6	-0.3	0.0	1.0
EPS (in euros)	-0.76	-0.06	0.00	0.21
Total assets at period-end	59.8	70.6		
Invested capital at period-end	48.8	59.5		
Net loans at period-end	22.9	27.5		
Equity at period-end	23.7	27.8		
Average loan term (in years)	2.2	0.8		
Average interest rate of loans (per year)	7.4%	6.4%		
ROIC (rolling, 4 quarters)	neg	1.8%		
ROE (rolling, 4 quarters)	neg	neg		
Number of staff at period-end	146	153		

FORMULAS USED

Invested capital = current interest-bearing liabilities + non-current liabilities + equity (at end of period)

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

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

Average equity = past four quarters' equity at end of period / four

Return on equity (ROE) = past four quarters' net profit / average equity

Average invested capital = past four quarters' current interest-bearing liabilities, non-current liabilities and equity / four

Return on invested capital (ROIC) = past four quarters' profit before tax and interest expense / average invested capital

Earnings per share (EPS) = net profit attributable to owners of the parent / (weighted average number of ordinary shares outstanding during the period – own shares)

Group Chief Executive's review

In 2011 the Group reached a turning point in its operating results when after three consecutive years of decreasing sales revenue began to increase. Compared with 2008 when revenue was 40 million euros, 2009 when it was 25 million euros and 2010 when it was 21 million euros, revenue of roughly 43 million euros is a significant improvement. Sales growth is mainly attributable to two factors: increasing activity in the Estonian construction market where the public sector is driving market growth and improvements in the outlook of the development sector of the entire region, which allowed completing an important block transaction in Bulgaria.

The Group's loss for 2011 resulted mostly from the Construction division, which operates in an industry that continues to be adversely affected by unfavourable contracts secured in earlier years and the bankruptcies of construction companies. On the other hand, after a period of several years the Service division earned a profit, and the operating profit of the Development division improved slightly compared with 2010.

In 2011, 111 apartments and plots were sold in Arco Vara's projects: 60 in Estonia, 20 in Latvia and 31 in Bulgaria. In the fourth quarter of 2011 we completed the sale of plots at Merivälja. Major ongoing development projects include the Tivoli apartment building in Tallinn, which is in the design stage, and the Manastirski apartment building in Sofia, which has reached the stage of interior works. Phase I of the Manastirski apartment building, which covers an area in excess of 700 square metres and is scheduled for completion in the first quarter of 2012, is currently our largest active development project. The progress of the construction work can be viewed live at <http://www.arcoinvest.bg/livd/video/camera-one-bg>. We continue to develop the Bišumuiža 1 apartment project and to sell plots in Riga. Construction and sale of apartments also continues in the Kodukolde community in Tallinn where the progress of site operations can be viewed in real time at <http://www.kodukolde.ee/#webcam>.

A significant transaction of the fourth quarter was the signature of a certificate of delivery and acceptance with Cleves EOOD for the delivery of 21 apartments and 13 parking spaces in the Madrid project in Bulgaria. The total price of the transaction that triggered strong growth in the Group's Bulgarian sales was 4.3 million euros, of which 2.5 million euros was prepaid in March 2008 and 1.8 million euros was paid in November 2011. In addition, the Group sold the property at Laeva 2 in Tallinn and, after the reporting date, the right of superficies on the property at Kadaka tee 131 in Tallinn.

For the Service division, 2011 was better than several previous years. Revenue grew and the division ended the year with an operating profit of 0.1 million euros compared with an operating loss of 0.4 million euros for 2010. The number of brokerage transactions increased by 29% and the number of valuation reports issued grew by 39% compared with 2010. At the same time, the number of brokers increased by only 1% and the number of appraisers grew by 17%.

In 2011, the Group secured new construction contracts of 10.9 million euros. Our order backlog as at 31 December 2011 was 11.7 million euros compared with 16.8 million euros at the end of 2010. The Construction division's operating loss is attributable to the unfavourable terms of some construction contracts signed in 2010 and the bankruptcies of its business partners. Due to the joint and several liability of consortium partners, Arco Ehitus had to continue the performance of two contracts on its own.

The largest construction projects that generated a negative contribution in 2011 include:

- Construction of the Aviation Academy building in Tartu, performed in a consortium with OÜ Kristiine Ehitus (bankrupt), which resulted in a loss of 500 thousand euros.
- Reconstruction of the academic building of the University of Life Sciences in Tartu, performed in a consortium with OÜ Wolmreks Ehitus (bankrupt), which resulted in a loss of 600 thousand euros.
- Construction of the water and wastewater networks of Tamsalu community, performed as a subcontractor for AS K&H (bankrupt), which resulted in a loss of 240 thousand euros due to unsettled invoices.
- Construction of the Emajõe drinking water facilities for AS Emajõe Veevärk, performed as a subcontractor for AS K&H (bankrupt), which resulted in unearned revenue of 340 thousand euros.

- Construction and renovation of the water and wastewater networks of Iru village, which resulted in a loss of approximately 660 thousand euros due to incorrect data provided by the customer.
- Construction of the water and wastewater pipelines of the wastewater collection area of Kadrina community, which resulted in a loss of approximately 480 thousand euros, caused by a steep rise in labour, materials and service costs (15-35%) in the first half of 2011.

In the 12 months of 2011, the Group's loans and borrowings decreased by 6.6 million euros while equity to assets ratio remained virtually the same at around 40%. The weighted average interest rate of loans and borrowings rose year over year due to higher margins charged by banks and a higher Euribor and the weighted average duration of loans and borrowings increased.

REVENUE AND PROFIT

	12M 2011	12M 2010	Q4 2011	Q4 2010
In millions of euros				
Revenue				
Service	2.4	1.9	0.6	0.5
Development	23.0	11.0	6.0	3.8
Construction	18.1	8.7	5.3	2.6
Eliminations	-0.4	-0.5	-0.1	-0.1
Total revenue	43.1	21.1	11.8	6.8
Operating profit/loss				
Service	0.1	-0.4	0.0	-0.3
Development	2.3	1.5	2.1	1.2
Construction	-2.9	-0.5	-0.7	-0.6
Eliminations	0.3	0.5	0.1	0.4
Unallocated expenses	-1.3	-1.2	-0.3	-0.2
Total operating profit/loss	-1.5	-0.1	1.2	0.5
Interest income and expense	-1.4	-1.2	-0.2	-0.7
Other finance income and expenses	-0.7	1.0	-0.9	1.2
Net profit/loss	-3.6	-0.3	0.0	1.0

The Development division's revenue for 2011 was significantly boosted by the sale of inventory of 8.3 million euros to joint venture Tivoli Arendus OÜ and a block apartment sale transaction of 4.3 million euros conducted in the fourth quarter in Bulgaria. The revenue of the Construction division grew year over year mainly on account of increasing construction activity while its operating loss is attributable to a rapid upsurge in construction prices that emerged in 2010 and business partner bankruptcies. Finance income and expenses were strongly influenced by interest expense, which grew because the Madrid project was completed and capitalisation of associated borrowing costs was discontinued.

CASH FLOWS

	12M 2011	12M 2010
In millions of euros		
Cash flows from operating activities	-0.7	1.8
Cash flows from investing activities	0.3	6.1
Cash flows from financing activities	-1.6	-7.8
Net cash flow	-2.0	0.1
Cash and cash equivalents at beginning of period	4.2	4.1
Cash and cash equivalents at end of period	2.2	4.2

In March 2011, Arco Investeeringute AS repaid ahead of schedule the remaining 5.27 million euros of the loan taken from SEB Pank for acquiring the land under the Tivoli project and 0.12 million euros of the loan taken for acquiring the land under the Laeva project. Repayment of the Tivoli loan is not reflected in the Group's cash flows because the buyer of the 50% stake in Tivoli Arendus OÜ paid the cash directly to SEB. Nor do the cash flows reflect that in December, following the sale of the Laeva 2 property, the Group repaid to SEB Pank a loan of 1.12 million euros.

Interest payments accounted for 2.0 million euros of the net cash outflow from financing activities. Scheduled settlements of loan principal and those related to inventory sales totalled 6.3 million euros. During the reporting period, the credit limit

was used for financing the construction of the two last phases in the Kodukolde project and the Alasniidu and Lille tee nursery schools to the extent of 4.4 million euros in aggregate. Use of the credit limit by AS Kolde is not reflected in cash flows because invoices received from Merko Ehitus are booked as a loan and there are no actual cash movements.

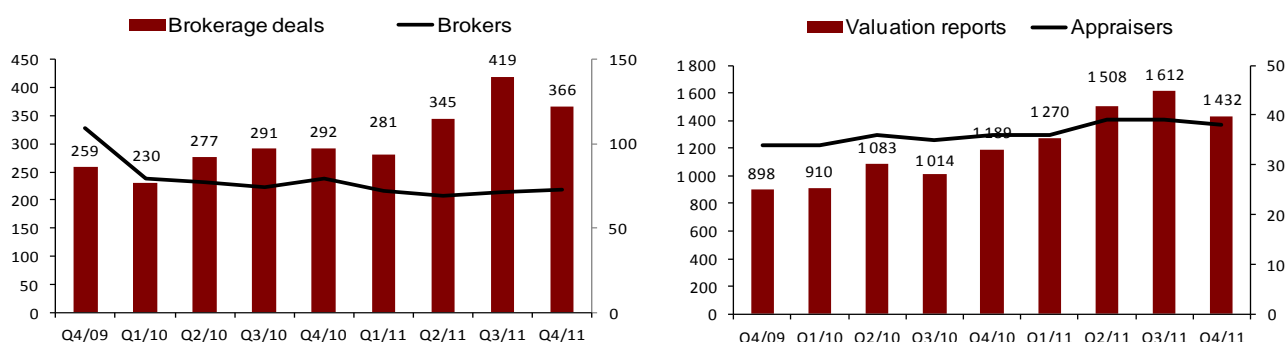
The largest current liabilities to be settled in the next 12 months comprise:

- estimated principal repayments to be made on the sale of reserved premises and payments under the settlement schedule of the loan taken for the Boulevard Residence Madrid project in Sofia of 2.4 million euros;
- repayments of the loan taken for the Manastirski project of 1.3 million euros;
- repayments of an investment loan taken for a cash flow project at Kadaka tee 131 of 2.2 million euros;
- repayments of the construction loan taken by AS Kolde of 1.3 million euros;
- repayments of the loan taken for the Bišumuiža 1 project of 0.8 million euros.

In 2011, the Group made regular repayments under the loans taken for the Kodukolde and the Merivälja 2 projects in Tallinn, the Bišumuiža 1 project in Riga and the Madrid project in Sofia and scheduled settlements under the loans taken for its cash flow generating projects. The Group also followed the principal repayment schedules of the bank loans taken for Koduküla OÜ and the Laeva 2 project.

SERVICE DIVISION

In 2011, the performance of the Service division was in every respect better than in 2010. The division ended 2011 with an operating profit of 0.1 million euros compared with an operating loss of 0.4 million euros for 2010. The number of brokerage transactions increased by 29% and the number of valuation reports issued grew by 39% compared with 2010. At the same time, the number of brokers increased by only 1% and the number of appraisers grew by 17%.



	2011	2010	Change, %
Number of brokerage transactions conducted	1,411	1,090	29%
Number of projects on sale at end of period	139	130	7%
Number of valuation reports issued	5,822	4,196	39%
Number of appraisers at end of period*	42	36	17%
Number of brokers at end of period*	73	72	1%
Number of staff at end of period	45	55	-18%

* Includes people working under service contracts.

DEVELOPMENT DIVISION

In 2011, 111 apartments and plots were sold in Arco Vara's projects of: 17 apartments in the Bišumuiža project and 3 plots in the Baltezers project in Latvia, 56 apartments in the Kodukolde project and 4 plots in the Merivälja project in Estonia, and 31 apartments in the Madrid project in Sofia in Bulgaria.

In the Tivoli project, the Development division partnered up with International Invest Project OÜ and raised financing for phase I. In the reporting period contaminated land was remediated and design work was launched. In the fourth quarter, Tivoli Arendus OÜ was issued a permit for the construction of six residential buildings. According to plan, construction will start in spring 2012.

Phase V of the Kodukolde development project (50 apartments) was completed in June. By the end of the fourth quarter, only one apartment was still unsold. It is used as a show apartment to support sales and promote conclusion of preliminary contracts on the sale of apartments in phase VI. The construction of phase VI at Helme 16 in Tallinn (48 apartments) began in the second quarter of 2011. The work is performed and financed by AS Merko Ehitus Eesti. The buildings are scheduled for completion in the first half of 2012.

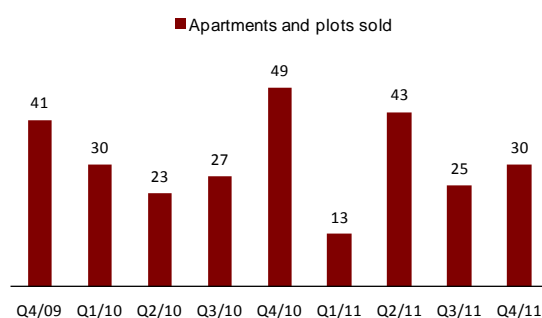
The Alasniidu nursery school building was granted a use permit at the end of May and was delivered to Harku local government with whom a rental agreement had been signed. The entity that owns the nursery school was sold in the second quarter of 2011 and with this the project was successfully completed.

At the end of the first quarter, Lilletee LA OÜ, a wholly-held subsidiary of Arco Investeeringute AS, acquired the right of superficies on the property at Lille tee 23 in Viimsi with a view to building a nursery school for six groups of children. In March 2011, a long-term lease agreement was signed with Viimsi local government. The nursery school should be completed in the first quarter of 2012. Construction work is performed by YIT. In September 2011, Arco Investeeringute AS sold its 100% interest in Lilletee LA OÜ but will remain the project manager until the nursery school is completed.

In Bulgaria, the construction of phase I of the Manastirski project is under way. At the reporting date, 65% of the apartments were reserved. In the commercial and residential building Boulevard Residence Madrid in Sofia the division continues to lease out commercial premises, to deliver reserved apartments under real right contracts, and to sell the remaining free apartments.

At the end of 2011, the Development division employed 24 people (31 December 2010: 26).

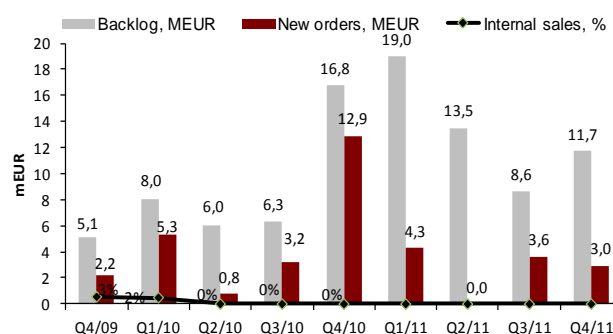
For further information on our projects, please refer to: www.arcorealestate.com/development.



CONSTRUCTION DIVISION

The Construction division is generally actively involved in environmental, infrastructure and civil engineering (mostly educational establishments-related) projects.

At the end of 2011, the largest active construction contracts comprised the design and build of water and wastewater pipelines for the city of Loksa (remaining balance 3.1 million euros) and the design and build of the reconstruction and extension of the public water and wastewater systems of the Suure-Jaani rural municipality (part 1 with the remaining balance of 2.1 million euros and part 2 with the remaining balance of 2.4 million euros).



In 2011, the division secured new construction contracts of 10.9 million euros. At the reporting date, the order backlog stood at 11.7 million euros compared with 16.8 million euros at the end of 2010.

At the end of 2011, the Construction division employed 58 people (31 December 2010: 49).

SUMMARY TABLE OF MAJOR PROJECTS

Project type	Name	Location	Legal interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Commercial	Ahtri 3	Estonia, Tallinn	50%	48,518m ²	Building rights have been obtained.	Investments
Project type	Name	Location	Legal interest	Leasable area	Current status	Classification in the statement of financial position
Cash flow	Kerberon	Estonia, Tallinn	100%	13,236 m ²	Building rights and the right of superficies have been obtained. Generates cash flow.	Investment property
Cash flow	Madrid	Bulgaria, Sofia	100%	6,950 m ²	Building rights have been obtained. Generates cash flow.	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	2,529 m ²	Building rights have been obtained. Generates cash flow.	Investment property
Project type	Name	Location	Legal interest	Building rights according to business plan	Current status	Classification in the statement of financial position
Apartments	Bišumuiža 1	Latvia, Riga	70%	Area of unsold apartments 12,055 m ²	Construction and sale are under way. In 2011 the third building was completed in phase II (phase II consists of 5 buildings). Construction of the second building is under way.	Inventories
Apartments	Bišumuiža 2	Latvia, Riga	49%	87,737 m ²	Building rights have been obtained. Design work is under way.	Investments
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m ²	Building rights have been obtained.	Inventories
Apartments	Kodukolde	Estonia, Tallinn	100%	Area of unsold/ unreserved apartments 2,140 m ²	The right of superficies and building rights have been obtained. Sale of apartments and construction of phase VI are under way.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Area of unsold/ unreserved apartments 2,563 m ²	The building is complete, sales continue. Five apartments have been leased out.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Area of unsold/ unreserved apartments 2,511 m ²	Construction and sales are under way.	Inventories
Apartments	Paldiski mnt 70c	Estonia, Tallinn	33%	ca 34,000 m ²	The initial planning outline for a detailed plan is under preparation.	Investment property
Apartments	Tehnika tn 53	Estonia, Tallinn	100%	1,515 m ²	A detailed plan has been adopted. Design work is under way.	Inventories
Apartments	Tivoli	Estonia, Tallinn	50%	58,470 m ²	A detailed plan has been adopted. A construction permit has been obtained. Construction tenders are being sought.	Investments
Plots	Baltezers-3	Latvia, Riga	70%	604,674 m ² residential land	Land has been privatised. The right of superficies has been obtained. 188 plots. Preparations for construction of phase I infrastructure are under way (phase I comprises 33 plots).	Investment property
Plots	Baltezers-5	Latvia, Riga	100%	No of unsold plots 22	Building rights have been obtained. Construction has been completed. On sale.	Inventories
Plots	Palusambla 1	Estonia, Nõmme	100%	55,466 m ²	A detailed plan for the formation of 12 plots for one detached building each is in the final phase of adoption.	Inventories
Plots	Pärtli	Estonia, Saue	100%	84 plots, average plot 1,500 m ²	No building rights. The detailed plan process is under way. Is awaiting an improvement in the market situation.	Investment property
Plots	Tooma	Estonia, Saue	100%	107 plots, average plot 1,802 m ²	No building rights. The detailed plan process is under way. Is awaiting an improvement in the market situation.	Inventories
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3,363 m ²	Building rights have been obtained. Construction design documentation has been prepared. Is awaiting an improvement in the 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 table, such as building rights according to business plan, current status, project type and classification of the project in the statement of financial position, 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 in connection with changes in the market and the competition environment. 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:

Line item in the statement of financial position	Balance of line item at 31 December 2011	Carrying amount of projects presented in the summary table of major projects at 31 December 2011
In millions of euros		
Total assets	59.8	43.6
Inventories	21.7	20.6
Investment property	24.0	23.0
Investments	0.0	0.0

SIGNIFICANT CHANGES IN DETAILED PLANS IN 2011

Tehnika 53: A detailed plan for the property was initiated on 30 January 2002 for determining building rights. On 7 January 2004, Tallinn City Government approved the detailed plan and put it on public display. Owing to an objection lodged during public display, the adoption proceedings halted until 2009. To date, an updated version of the plan has been adjusted to effective legislation and has been approved by all relevant authorities. The detailed plan has also passed a new public hearing during which three submissions/objections were lodged, all of which have been removed. On 10 November 2010, the Tallinn City Government sent the plan for official adoption to the Tallinn City Council. The Tallinn City Council adopted the detailed plan on 2 December 2010 and the detailed plan took effect on 2 January 2011.

PEOPLE

At the end of 2011, the Group employed 146 people compared with 153 at the end of 2010. Employee remuneration expenses for 2011 totalled 3.8 million euros against 3.5 million euros for 2010.

In 2011 the remuneration of the parent company's member of the management board and members of the supervisory board amounted to 0.2 million euros. In 2010 the corresponding figure was also 0.2 million euros.

Since 5 September 2009, the Group's management board has had one member - Lembit Tampere.

SHARE AND SHAREHOLDERS

Arco Vara AS has issued a total of 4,741,707 shares. At 31 December 2011, the company had 1,857 shareholders and the share price closed at 2.06 euros, a 63% decrease compared with the previous year-end.

The following charts reflect movements in the Arco Vara share price and daily turnover in 2011.

In euros (EUR)



Changes in share price compared with the benchmark index OMX Tallinn in 2011



Index/equity	1 Jan 2011	31 December 2011	+/- %
— OMX Tallinn	698.38	531.17	-23.94
— ARCT	EUR 5.51	EUR 2.06	-62.61

Major shareholders at 31 December 2011	Number of shares	Interest, %
OÜ HM INVESTEERINGUD OÜ	1,025,338	21.62%
OÜ TOLETUM	1,024,681	21.61%
OÜ BALTPLAST	900,000	18.98%
GAMMA HOLDING OÜ	450,563	9.50%
FIREBIRD REPUBLICS FUND LTD	205,064	4.32%
Skandinaviska Enskilda Banken Ab Clients	183,709	3.87%
Central Securities Depository of Lithuania	136,573	2.88%
FIREBIRD AVRORA FUND, LTD.	106,897	2.25%
FIREBIRD FUND L.P.	86,600	1.83%
Other	622,282	13.12%
Total	4,741,707	100.0%

Holdings of members of the management and supervisory boards at 31 December 2011	Position	Number of shares held	Interest, %
Lembit Tampere	Member of Management Board	0	0%
Richard Tomingas (Toletum OÜ)	Chairman of Supervisory Board	1,024,681	21.6%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	Member of Supervisory Board	1,034,845	21.8%
Aare Tark	Member of Supervisory Board	0	0%
Kalev Tanner	Member of Supervisory Board	0	0%
Ragnar Meitern	Member of Supervisory Board	0	0%
Total		2,059,526	43.4%

DESCRIPTION OF THE MAIN RISKS

Credit risk

Credit risk exposure is the greatest at the Construction division. Accordingly, counterparties' settlement behaviour is monitored on an ongoing basis.

Liquidity risk

The Group's free funds are placed in overnight or short-term fixed-interest term deposits with the largest banks operating in Estonia. The duration of a term deposit is generally one week. Owing to high refinancing risk, cash flow management is tight. The Group's cash and cash equivalents balance is constantly smaller than the balance of loans that require refinancing in the next 12 months. At 31 December 2011, the weighted average duration of interest-bearing liabilities was 2.2 years, which means that on average all loans need to be refinanced every two years. Although at the end of 2011 the Group's cash and cash equivalents totalled 2.2 million euros, 0.7 million euros of this was under the Group's own control but the rest was in accounts with restricted withdrawal opportunities (mostly accounts of designated purpose where withdrawals require the bank's consent). Liquidity and refinancing risks continue to be the most significant risks for the Group.

Interest rate risk

The base currency of most of the Group's loan agreements is the euro and the base interest rate is 3 or 6 month EURIBOR. As a result, the Group is exposed to developments in international capital markets. At the moment, the Group does not use hedging instruments to mitigate its long-term interest rate risk. In 2011, the Group's interest-bearing liabilities decreased by 6.6 million euros to 25.1 million euros at 31 December 2011. The period's interest payments on interest-bearing liabilities totalled 2.0 million euros. Compared with 2010, the weighted average interest rate has risen from 6.4% to 7.4%.

Currency risk

Purchase and sales contracts are mostly signed in local currencies: euros (EUR), Latvian lats (LVL) and Bulgarian leva (BGN). The Group is not protected against currency devaluations. After the adoption of the euro in Estonia from 1 January 2011, the currency risk arising from the exchange rate of the Estonian kroon and the euro ceased to exist. Most liquid funds are held in short-term deposits denominated in euros.

The management board confirms that the directors' report provides a true and fair view of the development, financial performance and financial position of Arco Vara group as well as a description of the main risks and uncertainties.



Lembit Tampere

Chief Executive Officer
and Member of the Management Board

29 February 2012

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	12M 2011	12M 2010	Q4 2011	Q4 2010
In thousands of euros					
Revenue from rendering of services		23,214	11,583	6,934	3,051
Revenue from sale of goods		19,918	9,550	4,885	3,744
Total revenue	2	43,132	21,133	11,819	6,795
Cost of sales	3	-42,790	-16,237	-12,150	-4,025
Gross profit/loss		342	4,896	-331	2,770
Other income	6	3,049	1,712	3,031	1,462
Distribution expenses	4	-346	-302	-65	-86
Administrative expenses	5	-3,903	-4,041	-933	-1,330
Other expenses	6	-634	-2,394	-526	-2,274
Operating profit/loss		-1,492	-129	1,176	542
Finance income	7	586	1,682	84	1,357
Finance expenses	7	-2,725	-1,821	-1,256	-930
Profit/loss before tax		-3,631	-268	4	969
Income tax expense/income		0	-26	0	4
Profit/loss for the period		-3,631	-294	4	973
<i>Profit/loss attributable to owners of the parent</i>		<i>-3,621</i>	<i>-281</i>	<i>13</i>	<i>975</i>
<i>Loss attributable to non-controlling interests</i>		<i>-10</i>	<i>-13</i>	<i>-9</i>	<i>-2</i>
Other comprehensive income:					
Exchange differences on translating foreign operations		0	0	0	-11
Total comprehensive income for the period		-3,631	-294	4	962
<i>Total comprehensive income attributable to owners of the parent</i>		<i>-3,621</i>	<i>-281</i>	<i>13</i>	<i>975</i>
<i>Total comprehensive income attributable to non-controlling interests</i>		<i>-10</i>	<i>-13</i>	<i>-9</i>	<i>-13</i>
Earnings per share (in euros)	8				
- Basic		-0.76	-0.06	0.00	0.21
- Diluted		-0.76	-0.06	0.00	0.21

Consolidated statement of financial position

	Note	As at 31 December 2011	As at 31 December 2010
In thousands of euros			
Cash and cash equivalents		2,209	4,209
Trade and other receivables	9	7,012	5,760
Prepayments		309	192
Inventories	10	21,688	35,740
Non-current assets held for sale		469	0
Total current assets		31,687	45,901
Investments		12	996
Trade and other receivables	9	3,058	76
Investment property	11	24,046	22,887
Property, plant and equipment		934	703
Intangible assets		26	20
Total non-current assets		28,076	24,682
TOTAL ASSETS		59,763	70,583
Loans and borrowings	12	9,662	27,126
Trade and other payables	13	7,735	4,813
Deferred income		2,012	4,859
Provisions		1,205	1,378
Total current liabilities		20,614	38,176
Loans and borrowings	12	14,675	3,855
Payables	13	741	724
Total non-current liabilities		15,416	4,579
TOTAL LIABILITIES		36,030	42,755
Share capital	14	3,319	3,030
Statutory capital reserve		2,011	2,011
Retained earnings		18,403	22,787
Total equity		23,733	27,828
Equity attributable to non-controlling interests		155	-70
Equity attributable to equity holders of the parent		23,578	27,898
TOTAL LIABILITIES AND EQUITY		59,763	70,583

Consolidated statement of cash flows

	Note	12M 2011	12M 2010
In thousands of euros			
Loss for the period		-3,631	-293
Interest income and interest expense, net	7	1,381	1,161
Gain/loss on sale of subsidiaries and interests in joint ventures	7	-285	-85
Share of profits and losses of joint ventures under the equity method	7	914	182
Gain/loss on other long-term investments		88	-1,166
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3, 5	99	135
Gain/loss on sale of property, plant and equipment and intangible assets	6	28	3
Change in the fair value of investment property	11	-2,998	1,711
Gain/loss on sale of investment property	6	92	21
Gain/loss on changes in the value of inventories and receivables	3, 5	1,345	-1,079
Foreign exchange gains and losses	7	7	-67
Income tax paid		0	26
Operating cash flow before working capital changes		-2,960	549
Change in receivables and prepayments		-2,471	826
Change in inventories		4,749	2,396
Change in payables and deferred income		12	-2,021
NET CASH USED IN/FROM OPERATING ACTIVITIES		-670	1,750
Acquisition of property, plant and equipment and intangible assets		-94	-40
Proceeds from sale of property, plant and equipment and intangible assets		5	2
Paid on development of investment properties		-967	-238
Proceeds from sale of investment properties		774	1,568
Acquisition of subsidiaries and interests in joint ventures		-4	-32
Proceeds from disposal of subsidiaries and interests in joint ventures		893	1,477
Proceeds from sale of other investments		0	3,323
Loans granted		-631	-231
Repayment of loans granted		114	5
Interest received		197	243
NET CASH FROM INVESTING ACTIVITIES		287	6,077
Proceeds from loans received	12	6,646	4,164
Settlement of loans and finance lease liabilities	12	-6,308	-9,675
Interest paid		-1,955	-2,241
NET CASH USED IN FINANCING ACTIVITIES		-1,617	-7,752
NET CASH FLOW		-2,000	75
Cash and cash equivalents at beginning of period		4,209	4,137
Decrease/increase in cash and cash equivalents		-2,000	75
Effect of exchange rate fluctuations on cash held		0	-3
Cash and cash equivalents at end of period		2,209	4,209

Consolidated statement of changes in equity

	Equity attributable to equity holders of the parent					Non-controlling interests	Total equity
	Share capital	Statutory capital reserve	Own shares	Retained earnings	Total		
In thousands of euros							
Balance at 31 December 2009	60,898	2,011	-255	-34,475	28,179	-76	28,103
Change in non-controlling interests (through change in the Group's interests in subsidiaries)	0	0	0	0	0	19	19
Reduction of share capital	-57,868	0	255	57,613	0	0	0
Total comprehensive income for the period	0	0	0	-281	-281	-13	-294
Balance at 31 December 2010	3,030	2,011	0	22,857	27,898	-70	27,828
Change in non-controlling interests (through change in the Group's interests in subsidiaries)	0	0	0	-235	-235	235	0
Effect of acquisition of a subsidiary	0	0	0	-464	-464	0	-464
Increase of share capital	289	0	0	-289	0	0	0
Total comprehensive income for the period	0	0	0	-3,621	-3,621	-10	-3,631
Balance at 31 December 2011	3,319	2,011	0	18,248	23,578	155	23,733

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 2011 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 IAS 34 *Interim Financial Reporting*, using the same accounting policies and measurement bases that were applied in preparing the consolidated financial statements as at and for the year ended 31 December 2010.

The financial statements are presented in euros. The figures in the tables are in thousands of currency units unless otherwise indicated.

2. Segment reporting by business segments

The Group is organised into the following business segments:

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

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

Construction - general and sub-contracting and construction supervision in the field of buildings construction and civil and environmental engineering.

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	12M 2011	12M 2010	12M 2011	12M 2010	12M 2011	12M 2010	12M 2011	12M 2010	12M 2011	12M 2010	12M 2011	12M 2010
In thousands of euros												
External revenue ¹	22,941	10,917	2,086	1,605	18,102	8,604	3	7	0	0	43,132	21,133
Change	110%	50%	30%	-19%	110%	-43%					104%	-14%
Inter-segment revenues	73	101	318	291	0	56	0	0	-391	-448	0	0
Total revenue	23,014	11,018	2,404	1,896	18,102	8,660	3	7	-391	-448	43,132	21,133
Operating profit/loss	2,262	1,494	140	-358	-2,859	-518	-1,348	-1,234	313	487	-1,492	-129
Of which inventory write-downs and reversals of inventory write-downs, net	-1,214	1,397	0	0	0	0	0	0	0	0	-1,214	1,397
Changes in the value of investment properties, net	2,998	-1,639	0	-72	0	0	0	0	0	0	2,998	-1,711

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	Q4 2011	Q4 2010	Q4 2011	Q4 2010	Q4 2011	Q4 2010	Q4 2011	Q4 2010	Q4 2011	Q4 2010	Q4 2011	Q4 2010
In thousands of euros												
External revenue	5,963	3,805	532	455	5,324	2,535	0	0	0	0	11,819	6,795
Change	57%	28%	17%	12%	110%	-47%					74%	-17%
Inter-segment revenues	27	30	110	76	0	-3	0	0	-137	-103	0	0
Total revenue	5,990	3,835	642	531	5,324	2,532	0	0	-137	-103	11,819	6,795
Operating profit/loss	2,059	1,157	49	-279	-651	-587	-360	-194	79	445	1,176	542
Of which inventory write-downs and reversals of inventory write-downs, net	-1,214	1,752	0	0	0	0	0	0	0	0	-1,214	1,752
Changes in the value of investment properties, net	2,998	-1,639	0	-72	0	0	0	0	0	0	2,998	-1,711

¹ The Development segment's revenue for 2011 includes revenue of 8,309 thousand euros earned on the sale of inventory to the Group's joint venture Tivoli Arendus OÜ on 18 March 2011. Excluding that transaction, the Development segment's revenue for 2011 would have been 34% larger than the corresponding figure for 2010.

3. Cost of sales

	12M 2011	12M 2010	Q4 2011	Q4 2010
In thousands of euros				
Cost of construction services purchased	-20,330	-7,555	-5,937	-2,339
Cost of properties sold ¹	-18,095	-7,481	-4,135	-2,605
Personnel expenses	-2,042	-1,523	-585	-478
Inventory write-downs and reversals of inventory write-downs	-1,214	1,397	-1,214	1,753
Management and administration costs	-773	-768	-188	-280
Vehicle expenses	-203	-182	-57	-50
Depreciation, amortisation and impairment losses	-13	-11	-3	-3
Other costs	-120	-114	-31	-23
Total cost of sales	-42,790	-16,237	-12,150	-4,025

¹ Includes the acquisition cost of inventories sold to the Group's joint venture Tivoli Arendus OÜ on 18 March 2011 of 8,300 thousand euros.

4. Distribution expenses

	12M 2011	12M 2010	Q4 2011	Q4 2010
In thousands of euros				
Advertising expenses	-199	-164	-37	-49
Corporate marketing expenses	-74	-23	-18	-15
Personnel expenses	-48	-67	-6	-17
Market research expenses	-22	-5	-3	-2
Brokerage fees	-3	-43	-1	-3
Total distribution expenses	-346	-302	-65	-86

5. Administrative expenses

	12M 2011	12M 2010	Q4 2011	Q4 2010
In thousands of euros				
Personnel expenses	-1,697	-1,911	-443	-508
Legal and consulting fees	-1,088	-807	-136	-283
Office expenses	-507	-554	-136	-138
Vehicle expenses	-168	-206	-37	-42
Depreciation, amortisation and impairment losses	-86	-124	-24	-41
Expenses from write-down of receivables	-131	-318	-128	-293
Other expenses	-226	-121	-29	-25
Total administrative expenses	-3,903	-4,041	-933	-1,330

6. Other income and other expenses

Other income	12M 2011	12M 2010	Q4 2011	Q4 2010
In thousands of euros				
Gains on fair value adjustments to investment property (note 11) ¹	2,998	429	2,998	213
Gains on sale of investment property	0	48	0	206
Gains on sale of property, plant and equipment	3	0	2	0
Release of provisions	0	1,043	0	1,043
Miscellaneous income	48	192	31	0
Total other income	3,049	1,712	3,031	1,462

Other expenses	12M 2011	12M 2010	Q4 2011	Q4 2010
In thousands of euros				
Losses on fair value adjustments to investment property (note 11)	0	-2,140	0	-2,139
Losses on sale of investment property ²	-92	-70	-92	0
Losses on write-down and disposal of property, plant and equipment	-28	-3	0	0
Late payment interest and penalty charges	-457	-75	-406	-6
Miscellaneous expenses	-57	-106	-28	-129
Total other expenses	-634	-2,394	-526	-2,274

¹ In 2011, gains on fair value adjustments to investment property resulted from the assets of the Madrid project in Bulgaria.

² In 2011, losses on fair value adjustments to investment property resulted from the sale of the Laeva 2 property in December 2011.

7. Finance income and finance expenses

Finance income	12M 2011	12M 2010	Q4 2011	Q4 2010
In thousands of euros				
Gain on sale of investments in subsidiaries	285	230	0	173
Interest income	298	205	84	16
Foreign exchange gains	2	76	0	1
Share of profit of joint ventures	0	5	0	1
Income on other long-term investments	0	1,166	0	1,166
Other finance income	1	0	0	0
Total finance income	586	1,682	84	1,357

Finance expenses	12M 2011	12M 2010	Q4 2011	Q4 2010
In thousands of euros				
Interest expense	-1,679	-1,367	-315	-692
Foreign exchange losses	-9	-9	-3	-48
Losses on sale of investments in joint ventures	0	-145	0	0
Share of losses of joint ventures ¹	-914	-186	-914	-89
Other finance expenses	-123	-114	-24	-101
Total finance expenses	-2,725	-1,821	-1,256	-930

¹ In 2011 the Group wrote down receivables from joint ventures by 914 thousand euros (2010: 95 thousand euros). See also note 15.

8. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

	12M 2011	12M 2010	Q4 2011	Q4 2010
Weighted average number of ordinary shares outstanding during the period	4,741,707	4,741,707	4,741,707	4,741,707
Net loss attributable to equity holders of the parent (in thousands)	-3,621	-281	13	975
Earnings per share (in euros)	-0.76	-0.06	0.00	0.21

Diluted earnings per share are calculated by adjusting the profit or loss attributable to equity holders of the parent and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares. At the reporting date, the Group did not have any dilutive potential ordinary shares. Therefore, diluted earnings per share equalled basic earnings per share.

9. Trade and other receivables

Short-term trade and other receivables

	31 December 2011	31 December 2010
In thousands of euros		
Trade receivables		
Trade receivables	4,874	2,320
Allowance for doubtful items	-130	-320
Total trade receivables	4,744	2,000
Other receivables		
Loans granted	634	1 753
Miscellaneous receivables	517	659
Total other receivables	1,151	2,412
Accrued income		
Accrued interest	200	198
Due from customers under long-term construction contracts	425	429
Prepaid and recoverable taxes	491	548
Other accrued income	1	173
Total accrued income	1,117	1,348
Total short-term trade and other receivables	7,012	5,760

Long-term trade and other receivables

	31 December 2011	31 December 2010
In thousands of euros		
Loans granted ¹	2,981	1
Long-term interest receivables	17	0
Other long-term receivables	60	75
Total long-term trade and other receivables	3,058	76

¹ Including a long-term loan of 2,876 thousand euros given to the Group's joint venture Tivoli Arendus OÜ on the sale of the Tivoli project inventory to Tivoli Arendus OÜ in March 2011.

10. Inventories

	31 December 2011	31 December 2010
In thousands of euros		
Properties purchased and developed for resale	21,409	35,486
Other goods purchased for resale	0	0
Materials and finished goods	155	32
Prepayments to inventory suppliers	124	222
Total inventories	21,688	35,740

11. Investment property

In thousands of euros	
Balance at 31 December 2009	14,005
Acquisitions	1,793
Transfer from inventories	11,833
Sales	-1,568
Transfer to property, plant and equipment	-173
Disposals on disposal of subsidiaries	-1,292
Net loss on changes in fair value (note 6)	-1,711
Balance at 31 December 2010	22,887
Acquisitions	695
Capitalised development costs	1,048
Net gain on changes in fair value (note 6)	2,998
Transfer from inventories	501
Sales	-3,389
Transfer to non-current assets held for sale	-310
Transfer to property, plant and equipment	-384
Balance at 31 December 2011	24,046

12. Loans and borrowings

	31 December 2011			31 December 2010		
	Total	<i>Of which current portion</i>	<i>Of which non- current portion</i>	Total	<i>Of which current portion</i>	<i>Of which non- current portion</i>
In thousands of euros						
Bank loans	22,019	7,381	14,638	29,235	26,775	2,460
Finance lease liabilities	49	12	37	45	12	33
Other loans	2,269	2,269	0	1,701	339	1,362
Total	24,337	9,662	14,675	30,981	27,126	3,855

In 2011, the Group settled loans and borrowings of 6,308 thousand euros (2010: 9,675 thousand euros) through cash transactions and received new loans and borrowings of 6,646 thousand euros (2010: 4,164 thousand euros). As regards non-cash transactions, in 2011 the Group's loans and borrowings were affected the most by the sale of the Tivoli property to the joint venture Tivoli Arendus OÜ as a result of which the counterparty settled the Group's loan liabilities of 5,387 thousand euros. Other major non-cash transactions included the sale of Alasniidu LA OÜ and Lilletee LA OÜ that reduced the Group's loans and borrowings by 1,038 thousand euros and 758 thousand euros respectively. The sale of the Laeva 2 property in December 2011 reduced loans and borrowings by 1,124 thousand euros while an increase of the Group's stake in Koduküla OÜ (from 50% to 100%) increased loans and borrowings by 937 thousand euros.

13. Trade and other payables

Short-term trade and other payables

	31 December 2011	31 December 2010
In thousands of euros		
Trade payables	6,040	2,412
Miscellaneous payables	103	1,180
Taxes payable		
Value added tax	143	66
Corporate income tax	210	157
Personal income tax	68	61
Social security tax	106	103
Other taxes	13	10
Total taxes payable	540	397
Accrued expenses		
Accrued interest payables	3	127
Payables to employees	256	281
Other accruals	793	416
Total accrued expenses	1,052	824
Total short-term trade and other payables	7,735	4,813

Long-term trade and other payables

	31 December 2011	31 December 2010
In thousands of euros		
Interest payable	35	4
Retentions payable	65	79
Other long-term payables	641	641
Total long-term trade and other payables	741	724

14. Share capital

Based on the resolution of the annual general meeting of shareholders held on 12 May 2011, the par value of the shares in Arco Vara AS was increased through a capitalization issue to 0.7 euros per share. The capitalization issue was conducted using retained earnings. As a result, share capital grew by 288,632 euros to 3,319,195 euros. The change in the share capital of Arco Vara AS was registered in the Commercial Register on 31 August 2011.

15. Transactions and balances with related parties

In 2011 the Group performed transactions with or at 31 December 2011 had balances with companies that constitute related parties for the Group. Such companies include:

- 1) **joint ventures;**
- 2) **companies that are under the control of the members of Arco Vara AS's supervisory board and have a significant interest in the Group's parent company:** OÜ Toletum and OÜ HM Investeeringud;
- 3) **other related parties** – companies under the control Arco Vara AS's chief executive and members of the supervisory board (excluding those having a significant interest in the Group's parent company) and companies controlled by Viktors Savins who has significant influence over the Group's Latvian operations.

	For 12M 2011 or as at 31 December 2011	For 12M 2010 or as at 31 December 2010
In thousands of euros		
Transactions and balances with joint ventures		
Revenue	8,311	3
Short-term loan receivables ¹	0	1,029
Long-term loan receivables	2,981	0
Trade receivables	36	5
Short-term interest receivables	85	13
Long-term interest receivables	17	0
Transactions and balances with companies related members of the supervisory board that have a significant interest in the Group's parent company		
Revenue	1	0
Short-term loan receivables	376	376
Short-term interest receivables	114	92
Transactions and balances with other related parties		
Revenue	13	427
Services purchased	924	154
Acquisition of investment properties	0	192
Trade receivables	0	15
Short-term loan receivables	233	182
Short-term interest receivables	84	75
Prepayments for inventories	445	0
Trade payables	43	7
Other short-term payables	309	332
Short-term loan liabilities	408	285
Short-term interest liabilities	3	2

¹ In 2011 the Group wrote down loan receivables from joint ventures by 914 thousand euros (2010: 95 thousand euros). See also note 7.

In 2011, personnel expenses related to the member of the management board and the members of the supervisory board of the Group's parent company totalled 0.2 million euros (2010: 0.2 million euros).

16. Contingent assets and liabilities

Action brought by Indrek Porila against Arco Vara AS

On 13 May 2010, Indrek Porila, a former employee of Arco Vara AS, brought an action against Arco Vara AS at Harju County Court, claiming settlement of a principal liability of 1,342,000 euros and associated late payment interest of 401,000 euros, i.e. 1,743,000 euros in aggregate. In addition, Indrek Porila claimed transfer of a 12.5% stake in Floriston Grupp OÜ that belonged to Arco Vara AS.

On 6 December 2011, Harju County Court approved a compromise agreement between Arco Vara AS, Indrek Porila and EPRI Invest OÜ under which Arco Vara AS undertook to satisfy the claim of Indrek Porila by transferring to EPRI Invest OÜ a share in Floriston Grupp OÜ, which has a par value of 5000 kroons (319.6 euros) and accounts for 12.5% of the entity's share capital. Indrek Porila is the sole shareholder and member of the management board of EPRI Invest OÜ.

The litigation ended with a compromise agreement which fully complied with the proposal made by Arco Vara before the commencement of the litigation.

Action brought by Arco Ehitus OÜ through the Ministry of Education and Research against the Republic of Estonia

On 9 March 2010, Järvamaa Education Centre, a state-owned vocational educational institution administered by the Ministry of Education and Research, Arco Ehitus OÜ and OÜ Kristiine Ehitus signed general renovation contract no 1/344 within the framework of the public procurement of the renovation of the Paide academic building of Järvamaa Education Centre (procurement reference number 115793) (the Contract). Arco Ehitus OÜ was the co-tenderer and OÜ Kristiine Ehitus was the leading partner of the consortium. On 23 March 2010, as required by the public procurement documents, Arco Ehitus OÜ submitted to Järvamaa Education Centre a letter of guarantee of 88,286 euros valid from 23 March 2010 until 31 August 2010.

During construction, it appeared that the documents Järvamaa Education Centre had submitted to the contractor contained a number of deficiencies that were brought to the attention of Järvamaa Education Centre already at the construction meetings. On 24 August 2010, OÜ Kristiine Ehitus notified Järvamaa Education Centre of the fact that if the latter did not discharge its contractual obligations, the Contract would be cancelled on 30 August 2010. Järvamaa Education Centre did not respond by the said date and accordingly the Contract was cancelled.

On 30 August 2010, Järvamaa Education Centre sent Arco Ehitus OÜ and OÜ Kristiine Ehitus a notice of unilateral termination of general renovation contract no 1/344 as of 31 August 2010 and a letter of claim to AS SEB Pank for payment of the guaranteed amount.

On 13 September 2010, Arco Ehitus OÜ and OÜ Kristiine Ehitus filed a statement of claim, seeking recognition of the cancellation of the Contract and the claim for debt. On 27 December 2010, Arco Ehitus OÜ and OÜ Kristiine Ehitus filed additional statements and a specification of the statement of claim according to which their principal claim against the Republic of Estonia amounts to 889,532 euros plus late payment interest. The Republic of Estonia has not accepted the claim and has contested it in full.

The preliminary hearing and hearings in the matter took place at Harju County Court on 17 January 2011 and on 11 April 2011 and 15 June 2011 respectively.

The litigation is pending.

Action brought by the Republic of Estonia through the Ministry of Education and Research against Arco Ehitus OÜ

Harju County Court is conducting proceedings in an action brought by Arco Ehitus OÜ and OÜ Kristiine Ehitus (bankrupt) on 14 September 2010 against the Republic of Estonia (through the Ministry of Education and Research). Arco Ehitus OÜ and OÜ Kristiine Ehitus (bankrupt) have submitted applications to Harju County Court in which they seek recognition of the fact that the contract signed between the parties to the civil matter on 9 March 2010 expired because Arco Ehitus OÜ and OÜ Kristiine Ehitus (bankrupt) cancelled it on 24 August 2010 as from 30 August 2010 and that the Republic of Estonia be ordered to satisfy the pecuniary claims of Arco Ehitus OÜ and OÜ Kristiine Ehitus (bankrupt).

On 23 December 2011, Harju County Court accepted a counter-action brought by the Republic of Estonia against Arco Ehitus OÜ. In its counter-claim, the Republic of Estonia is seeking the following:

1. that Arco Ehitus OÜ be ordered to pay the Republic of Estonia damages of 507,961 euros, including the price difference of 463,739 euros and other costs of 44,222 euros incurred by the counter-claimant due to early termination of the contract;
2. that Arco Ehitus OÜ be ordered to pay the Republic of Estonia a contractual penalty of 4,078 euros;
3. that Arco Ehitus OÜ be ordered to pay the Republic of Estonia late payment interest of 0.026% per day from the date of submission of the counter-claim until the satisfaction of all claims brought in the action.

Arco Ehitus OÜ did not accept the claim and the position of the Republic of Estonia and submitted its response to the counter-claim on 27 January 2012.

The action is in the stage of preliminary proceedings and the date for the hearing has not been set.

Claims of Arco Ehitus OÜ against Plastitase AS

On 18 December 2007, Arco Ehitus OÜ and Plastitase AS signed a construction services contract, under which Arco Ehitus OÜ undertook to build an integrated water treatment system for Plastitase AS. Arco Ehitus OÜ did all of the agreed construction work but Plastitase AS did not pay for work of 151,170 euros.

Plastitase AS was declared bankrupt on 1 March 2011 and Ly Mürsoo was appointed the bankruptcy trustee.

On 9 March 2011, Arco Ehitus OÜ filed a proof of claim in which it requested to be transferred the equipment it had installed under the above contract whose title had not transferred to Plastitase AS, i.e. equipment of 151,170 euros. Arco Ehitus OÜ also requested that if the equipment could not be transferred, a corresponding explanation should be provided and its claim against Plastitase AS should be recognised in the bankruptcy proceedings in an amount of 183,283 euros comprising of a principal claim of 151,170 euros and late payment interest of 32,113 euros.

The creditors' first general meeting was held on 22 March 2011 at Harju County Court and the second creditors' meeting where claims were defended was held on 13 June 2011.

The bankruptcy proceedings are pending.

Claims of Arco Ehitus OÜ against Wolmreks Ehitus OÜ

On 16 December 2010, Arco Ehitus OÜ, OÜ Wolmreks Ehitus and OÜ Savekate signed an annex to a subcontract by which Arco Ehitus OÜ took over all of the rights and obligations of OÜ Wolmreks Ehitus arising from a subcontract signed between OÜ Wolmreks Ehitus and OÜ Savekate on 25 August 2010. In line with the annex, Arco Ehitus OÜ paid 51,768 euros to OÜ Savekate on behalf of OÜ Wolmreks Ehitus and OÜ Wolmreks Ehitus undertook to pay Arco Ehitus OÜ 51,768 euros for taking over the obligation by 20 December 2010 at the latest.

On 28 December 2010, Arco Ehitus OÜ, OÜ Wolmreks Ehitus and AS Parmet signed a new annex to the subcontract by which Arco Ehitus OÜ took over all of the rights and obligations of OÜ Wolmreks Ehitus arising from a subcontract signed between OÜ Wolmreks Ehitus and AS Parmet on 16 December 2010. In line with the annex, Arco Ehitus OÜ paid 15,339 euros to AS Parmet on behalf of OÜ Wolmreks Ehitus and OÜ Wolmreks Ehitus undertook to pay Arco Ehitus OÜ 15,339 euros for taking over the obligation by 31 December 2010 at the latest.

On 6 January 2011, Arco Ehitus OÜ, OÜ Wolmreks Ehitus and engineering bureau Tandem OÜ signed an annex to a design services contract by which Arco Ehitus OÜ took over all of the rights and obligations of OÜ Wolmreks Ehitus arising from a design services contract signed between OÜ Wolmreks Ehitus and engineering bureau Tandem OÜ on 24 May 2010. In line with the annex, Arco Ehitus OÜ paid 3,068 euros to engineering bureau Tandem OÜ on behalf of OÜ Wolmreks Ehitus and OÜ Wolmreks Ehitus undertook to pay Arco Ehitus OÜ 3,068 euros for taking over the obligation by 10 January 2011 at the latest.

According to the agreements between the parties, OÜ Wolmreks Ehitus undertook to pay Arco Ehitus OÜ a total of 70,175 euros for taking over its obligations. By the date of release of this report, OÜ Wolmreks Ehitus has not fulfilled its obligations.

On 21 February 2011, OÜ Wolmreks Ehitus was declared bankrupt and Indrek Lepsoo was appointed the bankruptcy trustee. On 4 March 2011, Arco Ehitus OÜ filed a proof of claim in which it requested recognition of a claim of 71,093 euros.

The bankruptcy proceedings are pending.

Action brought by Arco Ehitus OÜ against Sillamäe City Government and action brought by Sillamäe City Government against Arco Ehitus OÜ

On 6 September 2010, a consortium consisting of OÜ Wolmreks Ehitus, OÜ Kristiine Ehitus and Arco Ehitus OÜ submitted a joint bid in the public procurement of the renovation of the building of Sillamäe sport complex Kalev. The bid included the bidders' authorisation document by which OÜ Kristiine Ehitus and Arco Ehitus OÜ authorised member of the management board of OÜ Wolmreks Ehitus Hanno Muga to be the joint bidders' official representative in matters pertaining to the procurement proceedings and conclusion of the public procurement contract.

On 14 October 2010, Sillamäe City Government adopted a resolution in which it declared the joint bid made by OÜ Wolmreks Ehitus, OÜ Kristiine Ehitus and Arco Ehitus OÜ successful.

On 17 December 2010, Sillamäe City Government submitted to Arco Ehitus OÜ a letter for checking the bidder's qualification. Arco Ehitus OÜ responded to the letter on 22 December 2010 with a statement that Arco Ehitus OÜ had given OÜ Wolmreks Ehitus a letter of authorisation that empowered and obligated OÜ Wolmreks Ehitus to conduct all procedures related to the public procurement of the renovation of the building of Sillamäe sport complex Kalev. With the letter, Arco Ehitus OÜ did not verify the powers granted to Adu Haki.

On 28 January 2011, Arco Ehitus OÜ received a letter from Sillamäe City Government together with a resolution of the Sillamäe City Government of 27 January 2011 that: a) invalidated the resolution by which the bid had been declared successful; b) declared the bid offering the second-best price successful; c) claimed compensation of damages from joint bidders OÜ Wolmreks Ehitus, OÜ Kristiine Ehitus and Arco Ehitus OÜ that had withdrawn the bid that had been declared successful. The amount claimed from the bidders as their joint and several liability was the difference between the price of the withdrawn bid and the price of the bid that was declared successful next, i.e. 12,549 euros including realisation of the guarantee issued by AS SEB Pank as security for the bid.

On 1 February 2011, Arco Ehitus OÜ submitted an explanation to Sillamäe City Government according to which Arco Ehitus OÜ did not notify the City Government in its letter of 22 December 2010 of its intention to withdraw from the public procurement and that Arco Ehitus OÜ had not authorised anyone to withdraw from the public procurement. In addition, Arco Ehitus OÜ explained that in connection with OÜ Wolmreks Ehitus's liquidation and bankruptcy proceedings the bidder did not meet the qualification requirements at the date the procurement contract was signed and therefore Sillamäe City Government did not have the right to sign a procurement contract.

On 16 February 2011, Sillamäe City Government sent Arco Ehitus OÜ a claim for compensation of damages in which it demanded that Arco Ehitus OÜ transfer compensation of 4,880 euros to the current account of Sillamäe City Government by 25 February 2011 at the latest.

On 27 February 2011, Arco Ehitus OÜ filed a claim with Tartu Administrative Court in which it requested that the resolution of Sillamäe City Government of 27 January 2011 be declared invalid. Tartu Administrative Court issued a ruling on 4 March 2011 by which it returned the claim because the mandatory legal procedure for preliminary out-of-court settlement of the matter had not been observed.

Arco Ehitus OÜ did not agree with the ruling of Tartu Administrative Court and found that this was not lawful or justified. Accordingly, on 17 March 2011 Arco Ehitus OÜ lodged an appeal against the ruling with Tartu Administrative Court requesting that the ruling be declared invalid. The appeal has not yet been ruled on.

On 28 March 2011, Arco Ehitus OÜ received a court ruling from Viru County Court together with a statement of claim filed by the City of Sillamäe and an order to respond to the statement of claim. Arco Ehitus OÜ does not accept the claim for compensation submitted by the City of Sillamäe and lodged a response to the statement of claim. Arco Ehitus OÜ is of the opinion that the City of Sillamäe has no basis for claiming compensation for damages from Arco Ehitus OÜ. On the contrary, the City of Sillamäe has the obligation to return to Arco Ehitus OÜ the gain derived on unjust bases from the realisation of the letter of guarantee of 7,669 euros.

On 8 June 2011, the bankruptcy trustee of OÜ Kristiine Ehitus (bankrupt since 23 May 2011) Peeter Sepper filed an application for dismissal of the action. Arco Ehitus OÜ and the City of Sillamäe presented their positions on 27 June 2011 and 17 June 2011 respectively. On 13 July 2011 the court ruled that the action brought by the City of Sillamäe against OÜ Kristiine Ehitus for compensation of damages should be dismissed.

With a ruling dated 19 September 2011, the court satisfied the application of Arco Ehitus OÜ for halting the proceedings in the same matter until the administrative proceedings have ended. Tartu Circuit Court has not yet ruled on the administrative matter.

The litigation is pending.

Claims of Arco Ehitus OÜ against Kristiine Ehitus OÜ

On 31 March 2010, Arco Ehitus OÜ and OÜ Kristiine Ehitus signed a subcontract for construction services by which Arco Ehitus OÜ undertook to build the Estonian Aviation Academy building and OÜ Kristiine Ehitus undertook to pay for the construction work as stated in the signed and submitted delivery documents. Arco Ehitus OÜ performed the work as agreed in the contract and submitted records of delivery as well as associated invoices. OÜ Kristiine Ehitus did not pay Arco Ehitus OÜ for work of 29,552 euros.

On 22 December 2010, Arco Ehitus OÜ, OÜ Kristiine Ehitus and JD Options OÜ signed an annex to the subcontract under which Arco Ehitus OÜ took over all of the rights and obligations of OÜ Kristiine Ehitus arising from a subcontract signed between OÜ Kristiine Ehitus and JD Options OÜ. Arco Ehitus OÜ paid JD Options OÜ 3,719 euros on behalf of OÜ Kristiine Ehitus and OÜ Kristiine Ehitus undertook to pay Arco Ehitus OÜ 3,719 euros for taking over the obligation by 30 December 2010 at the latest.

On 18 February 2011, Arco Ehitus OÜ and OÜ Kristiine Ehitus signed a loan agreement under which Arco Ehitus OÜ gave OÜ Kristiine Ehitus a loan of 3,602 euros for discharging the tax commitments of OÜ Kristiine Ehitus. OÜ Kristiine Ehitus undertook to repay the loan principal with accrued interest by 19 April 2011 at the latest. The obligation was not discharged in line with the agreement nor has it been discharged to date.

On 23 May 2011, OÜ Kristiine Ehitus was declared bankrupt and Peeter Sepper was appointed the bankruptcy trustee. On 13 June 2011, Arco Ehitus OÜ submitted a proof of claim in which it requested that its claim of 79,678 euros should be recognised in full.

The bankruptcy proceedings are pending.

Claims of Arco Ehitus OÜ against AS K&H

On 3 December 2008, AS K&H and Arco Ehitus OÜ signed a contract under which Arco Ehitus OÜ undertook to perform the water management project for the catchment area of the Emajõe and Võhandu rivers, Emajõe subproject; design and build of drinking water facilities (the Emajõe Contract). Arco Ehitus OÜ performed the work as agreed in the Emajõe Contract and submitted invoices to AS K&H. In line with the contract, AS K&H withheld 5% of each invoice as warranty retention. Altogether, 277,308 euros could be withheld based on the Emajõe Contract and associated invoices until the date of issue of a letter of guarantee.

On 28 October 2010, AS K&H and Arco Ehitus OÜ signed an agreement whereby AS K&H undertook to waive the demand for a bank letter of guarantee stipulated in the Emajõe Contract, to accept an Arco Vara AS letter of guarantee as security for the performance of the obligations of Arco Ehitus OÜ and to pay Arco Ehitus OÜ the amount retained on the basis of the Emajõe Contract when a letter of guarantee is issued by Arco Vara AS.

On 28 October 2010, Arco Ehitus OÜ and AS K&H signed a construction services contract for the water management project of the wastewater collection area of Tamsalu (the Tamsalu Contract). AS K&H waived the demand for a bank

letter of guarantee and accepted an Arco Vara AS letter of guarantee as security for the performance of the obligations of Arco Ehitus OÜ.

On 5 April 2011, AS K&H signed a real right contract by which it mortgaged some of its properties under a combined mortgage of 1,000,000 euros to Arco Ehitus OÜ.

On 30 May 2011, Arco Ehitus OÜ sent AS K&H a proof of claim in which it demanded settlement of a claim of 296,087 arising from the Emajõe Contract and settlement of a claim of 569,534 euros arising from the Tamsalu Contract, i.e. 865,621 euros in aggregate.

On 3 June 2011, Arco Ehitus OÜ and AS K&H signed a compromise agreement in which AS K&H accepted the claim arising from the Emajõe Contract in an amount of 289,268 euros and the claim arising from the Tamsalu Contract in an amount of 423,942 euros. The parties also agreed that the above claims constitute the entire claim and that Arco Ehitus OÜ has no other claims against AS K&H in connection with the Emajõe Contract and that the claims will fall due as of the signature of the compromise agreement. Under an agreement on the discharge and transfer of claim, AS K&H transferred to Arco Ehitus OÜ a claim of 200,995 euros and associated collateral claims against AS Tamsalu Vesi. Under the compromise agreement, Arco Ehitus OÜ transferred the combined mortgage to the extent of 350,000 euros free of charge to law office Varul AS. Thus, since 3 June 2011, the value of the combined mortgage created for the benefit of Arco Ehitus OÜ is 650,000 euros.

On 18 July 2011, Tartu County Court declared AS K&H bankrupt and appointed Sirje Tael as the bankruptcy trustee.

On 15 August 2011, Arco Ehitus OÜ submitted a statement of claim to the bankruptcy trustee in which it requested that the claim of Arco Ehitus OÜ should be recognised in the bankruptcy proceedings of AS K&H in an amount of 512,215 euros.

The creditors' first general meeting was held at Tartu County Court on 22 August 2011.

The bankruptcy proceedings are pending.

Claims of Arco Ehitus OÜ against AS Tamsalu Vesi

On 28 September 2010, Tamsalu Vesi AS and AS K&H signed a contract for performing construction work in the framework of Contract No 3 of Tamsalu Wastewater Catchment Area Water Project Part I (the Contract). On 28 October 2008, Arco Ehitus OÜ and AS K&H signed contract no 31E/10 (the Subcontract) on doing work under Tamsalu Wastewater Catchment Area Water Project Part I, public procurement no 118789.

On 3 June 2011, Arco Ehitus OÜ and AS K&H signed a compromise agreement under which AS K&H recognised Arco Ehitus OÜ's claim of 423,942 euros arising from the Subcontract and assigned all its claims against AS Tamsalu Vesi arising from the Contract to Arco Ehitus OÜ. On 3 June 2011, Arco Ehitus OÜ and AS K&H signed an agreement on the satisfaction and assignment of claim by which AS K&H assigned to Arco Ehitus OÜ its claims against AS Tamsalu Vesi that totalled 200,995 euros together with associated collateral claims. The object of the compromise agreement and claim assignment agreement was assignment of a future claim as defined in section 165 of the Law of Obligations Act. AS K&H assigned to Arco Ehitus OÜ all its claims against AS Tamsalu Vesi arising from the Contract and, among other things, Arco Ehitus OÜ obtained the right to demand acceptance of work from AS Tamsalu Vesi and payment for work delivered directly to Arco Ehitus OÜ.

On 29 June 2011, Arco Ehitus OÜ submitted the claim assignment agreement to AS Tamsalu Vesi and explained that AS K&H had assigned its claims against AS Tamsalu Vesi that totalled 200,995 euros together with associated collateral claims to Arco Ehitus OÜ. In accordance with section 164(2) of the Law of Obligations Act, in connection with the assignment of the claims, Arco Ehitus OÜ assumed the position of AS K&H and AS Tamsalu Vesi was obligated to pay 200,995 euros for the work done under the Contract signed on 28 September 2010 directly to Arco Ehitus OÜ.

AS Tamsalu Vesi accepted the work done by Arco Ehitus OÜ and based on the certificate of delivery and acceptance, on 31 August 2011 Arco Ehitus OÜ submitted invoice no 20111124 on 145,275 euros and invoice no 20111125 on 35,977 euros. Despite repeated claims for payment submitted by Arco Ehitus OÜ, AS Tamsalu Vesi has not settled its liability and negotiations regarding settlement of its debt are pending.

Action brought by Arco Ehitus OÜ against Tallinn University of Technology

On 6 April 2010, Tallinn University of Technology and a consortium consisting of OÜ Wolmreks Ehitus, Kristiine Ehitus and Arco Ehitus OÜ signed general contract no 117117 (the Contract). On 21 September 2010 the same parties signed additional contract no 120605 (the Additional Contract). The object of the Contract and the Additional Contract was renovation of the university's study complex no IV lat Ehitajate tee 5 in Tallinn. The works agreed in the Contract and its annexes were delivered to Tallinn University of Technology against a certificate signed on 20 April 2011. On 22 September 2011, AS LHV Pank issued a guarantee of 30,538 euros as a security for the performance of Arco Ehitus OÜ's obligations under the Contract and Additional Contract (free replacement or rectification of the defective aspects of the object of the Contract and Additional Contract).

On 16 September 2011, Tallinn University of Technology submitted Arco Ehitus OÜ a claim regarding the performance of the Contract according to which as a result of a water accident in rooms 312 and 316 water had reached the lower floor and had damaged the finishing and furnishings of the rooms located there. Tallinn University of Technology took the position that the water damage was caused by unsatisfactory work by Arco Ehitus OÜ. Arco Ehitus OÜ did not agree and the negotiations that followed did not produce a compromise. On 5 October 2011, Tallinn University of Technology announced that it would have the unsatisfactory work rectified by a third party and would seek payment from AS LHV Pank, the guarantor.

On 12 December 2011, AS LHV Pank received a written claim from Tallinn University of Technology in which the latter requested payment of 2,168 euros under the guarantee provided. The bank notified Arco Ehitus OÜ of making the guaranteed payment on 13 December 2011. Arco Ehitus OÜ is of the opinion that Tallinn University of Technology had no right to enforce the guarantee. Accordingly, on 14 December 2011 the company submitted a statement of claim to Harju County Court in which it requested recognition of the absence of the right to demand enforcement of the guarantee and applied for preliminary regulation of the disputed legal relationship. Harju County Court accepted the action and with a ruling for securing the action dated 15 December 2011 AS LHV Pank was obligated to suspend satisfaction of the pecuniary claims of Tallinn University of Technology under the guarantee issued on 22 September 2011 for the duration of the proceedings related to the action. Tallinn University of Technology has sent a response to the statement of claim in which it does not agree with the position of Arco Ehitus OÜ.

The action is in the stage of preliminary proceedings and the date for the hearing has not been set.

The claim of Merkton Ehitus OÜ (bankrupt) against Arco Ehitus OÜ

On 30 December 2011, the bankruptcy trustee of Merkton Ehitus OÜ (bankrupt) sent a claim to Arco Ehitus OÜ in which he demanded repayment of 986,099 euros under sections 113(1)2)&3) and 117(2)5) of the Bankruptcy Act.

The payments outlined in the claim were made to Arco Ehitus OÜ by Merkton Ehitus OÜ based on and for proper performance of contract no 7/345 A (the Contract) signed between Arco Ehitus OÜ and Merkton Ehitus OÜ on 6 April 2010.

On 3 February 2012, Arco Ehitus OÜ sent a response to the bankruptcy trustee Peep Lillemäe in which it stated that the claim for the repayment of the money was baseless and Arco Ehitus OÜ would not accept it because:

1. The claim for repayment of 650,110 euros is based on section 113(1)2) of the Bankruptcy Act. The basis for the claim is the fact that in making payments Merton Ehitus OÜ preferred one creditor over others and made payments (i.e.

satisfied its obligations) within three months before the appointment of an interim trustee. The claim does not indicate that in making payments for proper performance of the Contract Merton Ehitus OÜ (i) preferred one creditor over others (ii) damaged the interests of its creditors. Arco Ehitus OÜ emphasises that both parties signed and performed the Contract in the ordinary course of their business.

2. The claim for repayment of 335,989 euros is based on sections 113(1)3) and 117(2)5) of the Bankruptcy Act. The claim is based on the allegation that in making payments Merton Ehitus OÜ performed an obligation to the benefit of a person connected to the debtor within two years before the appointment of an interim trustee. Arco Ehitus OÜ is a connected person because allegedly it shares economic interests with the debtor. The claim does not reflect what the nature of the shared interest is. Conclusion and proper performance of the Contract does not constitute shared economic interests as defined in section 117(2)5) of the Bankruptcy Act. Moreover, Merkton Ehitus OÜ (bankrupt) did not make a payment of 29,568 euros to Arco Ehitus OÜ on the date specified in the claim (14 June 2010).

To date bankruptcy trustee Peep Lillemäe has not responded nor brought an action against Arco Ehitus OÜ.

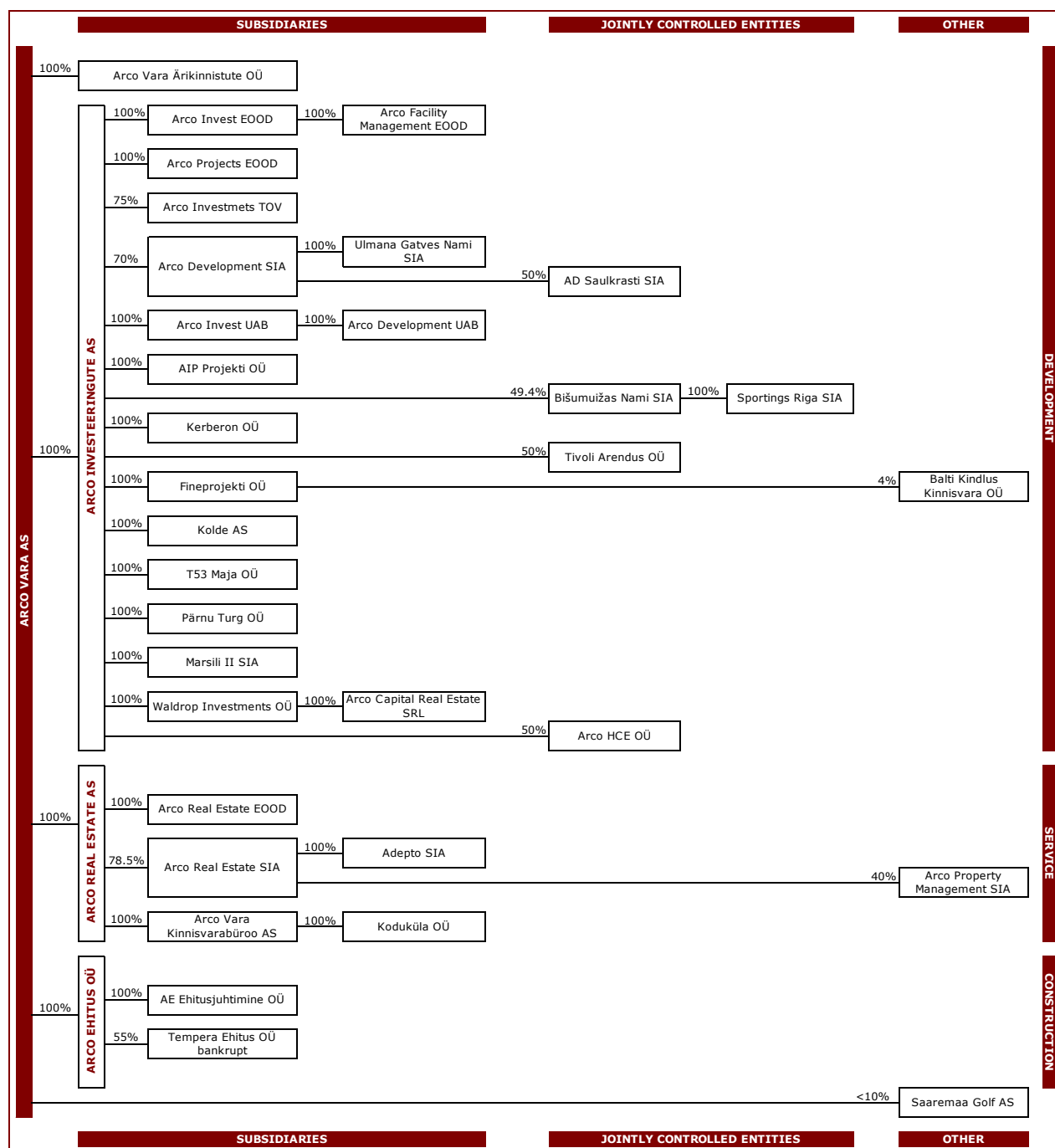
17. Events after the reporting date

On 10 February 2012, an extraordinary general meeting of the shareholders of Arco Vara AS decided not to recall Ragnar Meitern, Aare Tark and Kalev Tanner from the supervisory board of Arco Vara AS.

On 23 February 2012, OÜ Kerberon, a subsidiary of Arco Investeeringute AS (a wholly-held subsidiary of Arco Vara AS), signed an agreement on the sale of the right of superficies on Kadaka tee 131 in Tallinn to AS Astro Holding. The sales price was 3.4 million euros, which was settled by the buyer at the time of the transaction. As a result of the transaction, the Group incurred a loss of 695 thousand euros, the Group's assets decreased by 2,925 thousand euros and its liabilities decreased by 2,230 thousand euros. The transaction reduces the Group's annual revenue by approximately 500 thousand euros. The purpose of the sale was to improve the Group's liquidity and to reduce its liabilities.

18. Structure of Arco Vara Group

As at 31 December 2011



Statement by the management board

The management board of Arco Vara AS has prepared the interim report for the fourth quarter and twelve months of 2011 as set out on pages 2-36.

The interim report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and it gives 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

Chief Executive Officer and Member of the Management Board

29 February 2012