



Arco Vara AS

Interim report II quarter 2012



ARCO REAL ESTATE

**INTERIM REPORT FOR THE
SECOND QUARTER AND SIX MONTHS
ENDED 30 JUNE 2012
(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 2012 – 31 December 2012
Reporting period: 1 January 2012 – 30 June 2012
Supervisory board: Richard Tomingas, Hillar-Peeter Luitsalu, Toomas Tool,
Stephan David Balkin, Aivar Pilv
Chief executive: Lembit Tampere
Auditor: AS PricewaterhouseCoopers

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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 the second quarter of 2012, the Group comprised of 28 companies (30 June 2011: 28) and 3 joint ventures (30 June 2011: 5).

The Service division is engaged in real estate brokerage, valuation, management and consulting as well as in 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 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 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

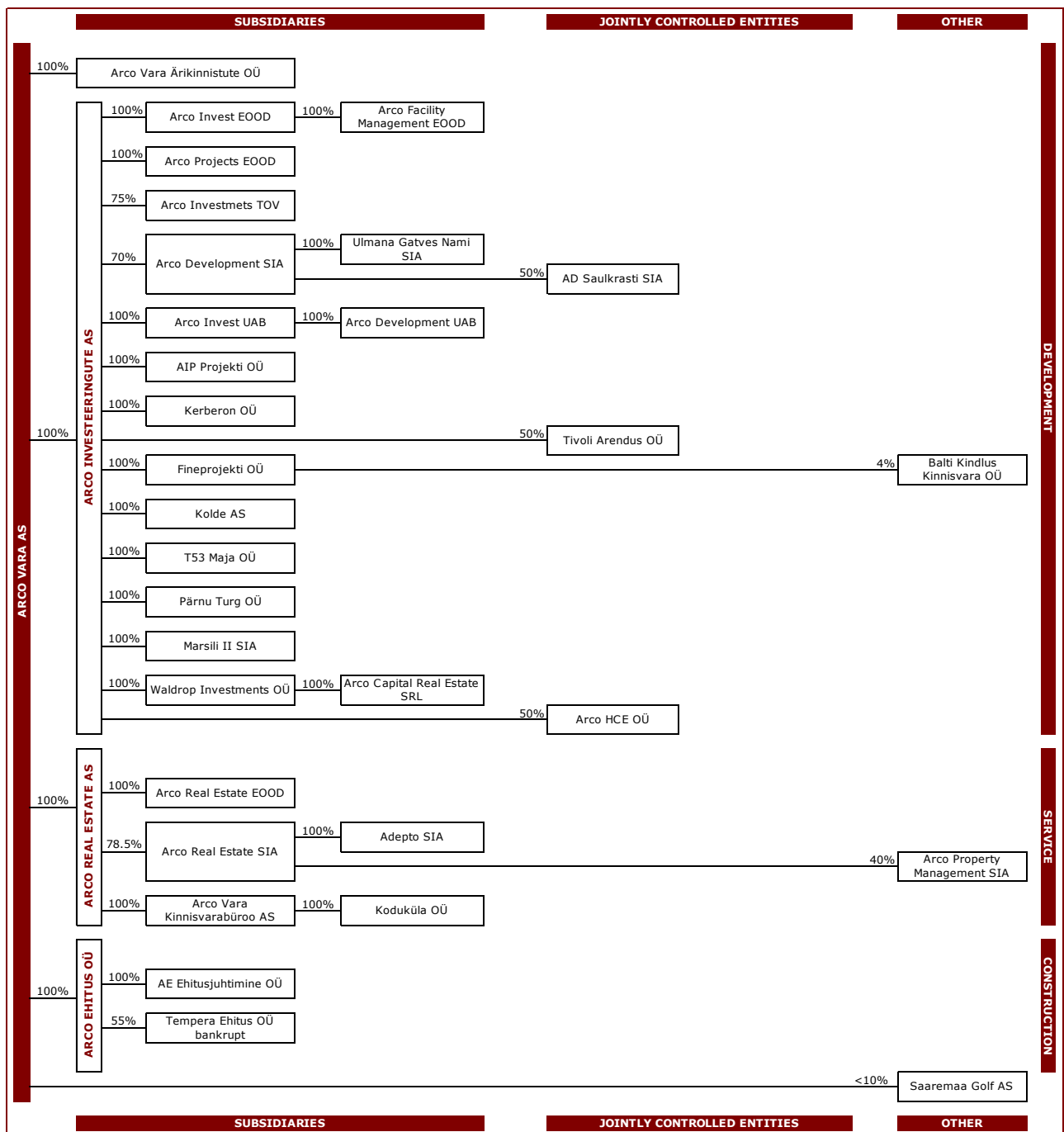
Professionalism – we deliver quality

Consideration – we value our clients as individuals

Responsibility – we keep our promises

GROUP STRUCTURE

As at 30 June 2012



CHANGES IN GROUP STRUCTURE

On 27 April 2012, Arco Vara AS's wholly-held subsidiary Arco Investeeringute AS sold its 49.4% stake in the joint venture Bišumuižas Nami SIA for 2 euros to the co-venturer SIA Linstow Baltic. Through the transaction, the Group disposed of its interest in Bišumuižas Nami SIA and SIA Linstow Baltic became the sole shareholder of the entity. The transaction had no significant effect on the Group's financial position and financial performance. However, by divesting the interest the Group also disposed of a potential obligation to support the joint venture in the development of apartment buildings and in servicing loan liabilities. As a result of the transaction, the Group's interest in Bišumuižas Nami SIA's subsidiary Sportings Riga SIA also decreased from 49.4% to nil.

On 20 June 2012, Group entities Fineprojekti OÜ, Waldrop Investments OÜ, AIP Projekti OÜ and Arco Vara Ärikinnistute OÜ signed a merger agreement. The acquirer in the transaction aimed at streamlining the Group's structure and cutting administration costs was Fineprojekti OÜ. The merger was entered in the Commercial Register on 24 July 2012. The transaction had no significant effect on the Group's financial position and financial performance.

On 28 June 2012, Group entities Arco Real Estate AS, AS Arco Vara Kinnisvarabüroo and OÜ Koduküla signed a merger agreement. The acquirer in the transaction aimed at streamlining the Group's structure and cutting administration costs is Arco Real Estate AS. The merger is still in progress. The transaction will have no significant effect on the Group's financial position and financial performance.

Changes in Group structure after the date of the interim report

On 8 August 2012, Group company Fineprojekti OÜ divested its 4% interest in Balti Kindlus Kinnisvara OÜ. The transaction was conducted at the nominal value of the stake. The transaction had no significant effect on the Group's financial position and financial performance.

KEY PERFORMANCE INDICATORS

- The Group ended the first six months of 2012 with revenue of 11.1 million euros. Revenue for the first half of 2011 was 23.5 million euros (including 8.3 million euros earned on the sale of the Tivoli properties). Excluding the effect of the Tivoli transaction, revenue for the first six months of 2012 was 27% smaller than a year ago.
- Operating loss for the period was 0.6 million euros. Compared with the first half of 2011 when the figure was 1.4 million euros, operating loss has decreased by 59%.
- Net loss for the first half-year was 1.3 million euros, a 33% decrease from the net loss of 1.9 million euros incurred in the first half of 2011.
- Equity to assets ratio at period-end was 40.3% (30 June 2011: 39.1%). Return on equity (12 months rolling) was negative.
- At the end of the second quarter, the Group's order backlog stood at 10.3 million euros compared with 13.5 million euros at the end of the second quarter of 2011.
- During the first six months, the Group sold 35 apartments and plots (HY1 2011: 56 apartments and plots) in its self-developed projects.

	HY1 2012	HY1 2011	Q2 2012	Q2 2011
In millions of euros				
Revenue	11.1	23.5	7.4	10.2
Operating loss	-0.6	-1.4	-0.1	-0.5
Net loss	-1.3	-1.9	-0.4	-0.6
EPS (in euros)	-0.27	-0.41	-0.09	-0.13
Total assets at period-end	56.3	64.9		
Invested capital at period-end	45.9	51.1		
Net loans at period-end	20.9	23.5		
Equity at period-end	22.7	25.4		
Average loan term (in years)	2.1	2.0		
Average interest rate of loans (per year)	6.9%	7.4%		
ROIC (rolling, 4 quarters)	neg	1.3%		
ROE (rolling, 4 quarters)	neg	neg		
Number of staff at period-end	126	142		

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

The most important events of the second quarter and the first half-year are related to the supervisory board. In the previous quarterly report, we informed you of three resignations and the election of three new members of the supervisory board - Toomas Tool, Stephan David Balkin and Aivar Pilv. An extraordinary general meeting that convened after the reporting date, on 30 July 2012, also elected to the supervisory board Arvo Nõges and Rain Lõhmus.

A significant transaction was conducted in April when we divested our 49.9% stake in the joint venture Bišumuižas Nami SIA to the co-venturer SIA Linstow Baltic. Arco Vara sought possibilities for exiting the project for over a year. Through the transaction, we disposed of the obligation to support the joint venture in the development of apartment buildings and in servicing loan liabilities. In 2011 we financed the joint venture to the extent of 0.3 million euros and Bišumuižas Nami SIA's loan liabilities alone totalled 14 million euros.

Out of the six-month net loss of 1.3 million euros, 0.7 million euros resulted from the sale of an investment property in Tallinn, where we disposed of the right of superficies on the property at Kadaka tee 131. The remaining loss of 0.6 million euros is mainly attributable to the fact that the conclusion of real right contracts in the Manastirski project in Sofia was postponed from the second quarter to the third one.

In the first half of 2012, a total of 35 apartments and plots were sold in the projects of Arco Vara: 29 in Estonia and 6 in Latvia. The figure does not yet include the apartments sold in the Manastirski apartment block, which was completed at the end of spring, because currently only contracts under the law of obligations (presale contracts) have been concluded there. The sales of those apartments will be included in revenue from the third quarter.

As regards major ongoing work, in Tallinn we are developing a large-scale apartment buildings project called Tivoli. A construction contract of 13 million euros was signed in May. Construction of phase VI in the Kodukolde project (48 apartments) at Helme 16 in Tallinn was completed in June 2012. In the second quarter, 28 of the apartments were sold under real right contracts. In June, we signed a contract for the construction of a residential and commercial building of energy class B called Kastanimaja (Chestnut House) at Tehnika 53 in Tallinn. Pre-sale of the apartments has been successful: by the reporting date 8 of the 14 apartments were covered with contracts under the law of obligations.

In Bulgaria, the construction of phase I of the Manastirski project (7,000 square metres) has been completed. At the reporting date, 76% of its 74 apartments were reserved. In addition, we continue to lease out commercial premises and to sell the remaining free apartments in the commercial and residential building Boulevard Residence Madrid in Sofia.

In the Bišumuiža 1 apartment buildings project in Latvia, the fourth building of phase II (14 apartments) will be completed in the second half of 2012. In addition to selling the apartments of Bišumuiža 1, we continue to sell plots in the Mazais Baltezers project. Completion of development projects has a strong impact on the Group's revenue, because sales are recognised as revenue when construction has been completed, not when it is in progress.

In the first half of 2012, our Service division performed better than a year ago, generating revenue of 1,291 thousand euros, 13% up on the first half of 2011. In the first six months of 2012, the division earned an operating profit of 59 thousand euros compared with an operating profit of 44 thousand euros for the comparative period. The number of brokerage transactions increased by 15% and the number of valuation reports issued grew by 14% year over year. At the same time, the number of brokers decreased by 3% and the number of appraisers increased by 18%.

In the first half of 2012, we secured new construction contracts of 3.2 million euros. At the reporting date, the order backlog stood at 10.3 million euros against 13.5 million euros at the end of the second quarter of 2011. The Construction division ended the first half-year with an operating profit of 0.2 million euros compared with an operating loss of 0.8 million euros incurred in the first half of 2011.

In the first half-year, the Group's loans and borrowings decreased by 0.3 million euros while equity to assets ratio remained more or less stable at around 40%. The weighted average interest rate of loans and borrowings decreased by 0.5 percentage points compared with a year ago, mainly thanks to a decline in EURIBOR. The weighted average duration of loans and borrowings extended slightly, from 2.0 years to 2.1 years.

REVENUE AND PROFIT

	HY1 2012	HY1 2011	Q2 2012	Q2 2011
In millions of euros				
Revenue				
Development	3.8	14.0	3.1	4.1
Service	1.3	1.1	0.7	0.6
Construction	6.1	8.5	3.7	5.6
Eliminations	-0.1	-0.1	-0.1	-0.1
Total revenue	11.1	23.5	7.4	10.2
Operating profit/loss				
Development	-0.4	-0.2	0.2	0.4
Service	0.1	0.0	0.1	0.1
Construction	0.2	-0.8	-0.1	-0.7
Eliminations	0.2	0.2	0.0	0.1
Unallocated income and expenses	-0.7	-0.6	-0.3	-0.4
Total operating loss	-0.6	-1.4	-0.1	-0.5
Interest income and expense	-0.6	-0.7	-0.3	-0.4
Other finance income and expenses	-0.1	0.2	0.0	0.3
Net loss	-1.3	-1.9	-0.4	-0.6

The Development division's revenue for the first half of 2011 was significantly impacted by the sale of inventory of 8.3 million euros to the joint venture Tivoli Arendus OÜ.

CASH FLOWS

	HY1 2012	HY1 2011
In millions of euros		
Cash flows from operating activities	-0.3	-1.1
Cash flows from investing activities	0.9	0.1
Cash flows from financing activities	-0.5	-1.0
Net cash flow	0.1	-2.0
Cash and cash equivalents at beginning of period	2.2	4.2
Cash and cash equivalents at end of period	2.3	2.2

At 30 June 2012, the largest current liabilities to be settled in the next 12 months comprised:

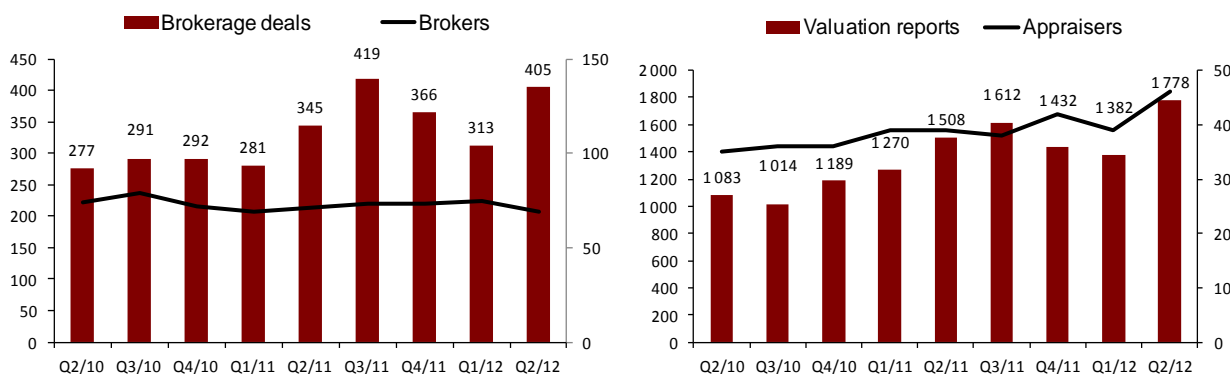
- estimated principal repayments to be made on the sale of reserved premises and payments under the settlement schedule of the loan of the Boulevard Residence Madrid project in Sofia of 2.5 million euros;
- repayments of the loan taken for the Manastirski project of 1.9 million euros;
- repayments of the construction loan taken by AS Kolde of 1.2 million euros;
- repayments of the loan taken for the Bišumuiža 1 project of 0.6 million euros.

In the first half of 2012, the Group made repayments of the loan taken for the Bišumuiža 1 project in Riga and repaid the Kerberon loan in full.

In addition, the Group made scheduled repayments of loans taken for its cash flow generating projects and followed the principal repayments schedule agreed for the bank loan taken by Kodukūla OÜ.

SERVICE DIVISION

In the first half of 2012, the Service division performed better than a year ago, ending the period with an operating profit of 59 thousand euros compared with an operating profit of 44 thousand euros for the first half of 2011. Revenue for the first half of 2012 was 1,291 thousand euros, 13% up on the first half of 2011. The number of brokerage transactions increased by 15% and the number of valuation reports issued grew by 14% year over year. At the same time, the number of brokers decreased by 3% and the number of appraisers increased by 18%.

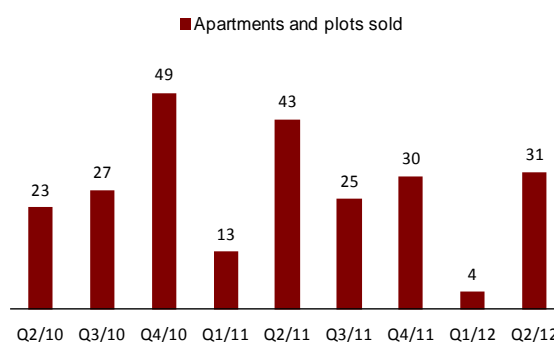


	HY1 2012	HY1 2011	Change, %
Number of completed brokerage transactions	718	626	15%
Number of projects on sale at end of period	233	173	35%
Number of valuation reports issued	3,160	2,778	14%
Number of appraisers at end of period ¹	46	39	18%
Number of brokers at end of period ¹	69	71	-3%
Number of staff at end of period	40	46	-13%

¹ Includes people working under service contracts

DEVELOPMENT DIVISION

In the first half of 2012, Arco Vara sold 33 apartments and two plots in its own projects: four apartments in the Bišumuiža project and two plots in Latvia and 29 apartments in the Kodukolde project in Estonia. It should be noted that the figures do not yet include the apartments sold in the recently completed apartment block in the Manastirski project where currently only contracts under the law of obligations have been signed (under Estonian legislation, in a real estate transaction a contract under the law of obligations is signed when the buyer makes a prepayment and the parties agree the terms and conditions of sale, thus it is essentially a presale contract; title to the property transfers under a real right contract, which is usually signed when the real estate is complete). The sales of those apartments will be included in revenue from the third quarter.



In June, the division completed phase VI of the Kodukolde development project at Helme 16 in Tallinn, which consists of two apartment buildings with a total of 48 apartments. Out of the latter 28 were sold during the second quarter under real right contracts. At the reporting date, the inventory of the project included 22 unsold apartments, 4 of which were reserved (covered with contracts under the law of obligations).

In the fourth quarter of 2011, Tivoli Arendus OÜ obtained a permit for the construction of six residential buildings. The design and build contract with Nordecon AS was signed in May 2012. Because of the time required for making changes to the design and obtaining approvals, commencement of construction operations has been scheduled for autumn 2012.

In January 2012, the division obtained a permit for the construction of a residential and commercial building of energy class B called Kastanimaja (Chestnut House), designed to be located at Tehnika 53 in Tallinn. The work was put out to tender in the first quarter and the construction contract with AS Parmeron was signed in June. According to plan, construction work will be completed in 11 months. Pre-sale of apartments, which began in May 2012, has been successful: by the end of the second quarter 8 of the 14 apartments were covered with contracts under the law of obligations.

In Bulgaria, the construction of phase I in the Manastirski project has been completed. At 30 June 2012, 76% 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.

In the Bišumuiža 1 project in Latvia further development and construction has been suspended. There are three buildings of 14 apartments each in different stages of completion. The completed phases include 4 unsold apartments.

In April 2012 we divested our stake in the joint venture Bišumuižas Nami SIA to the co-venturer SIA Linstow Baltic. Arco Vara sought possibilities for exiting the project for over a year. Through the transaction, the Group disposed of the obligation to support the joint venture in the development of apartment buildings and in servicing loan liabilities. Bišumuižas Nami SIA's loan liabilities totalled 14 million euros.

In June, the division started carrying out a restructuring plan, which foresees merging and dissolving small project companies. As the first step, by July 2012 Arco Vara Ärikinnistute OÜ, OÜ Waldrop Investments and AIP Projekti OÜ were merged with Fineprojekti OÜ.

At the end of June 2012, the Development division employed 20 people (30 June 2011: 21).

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

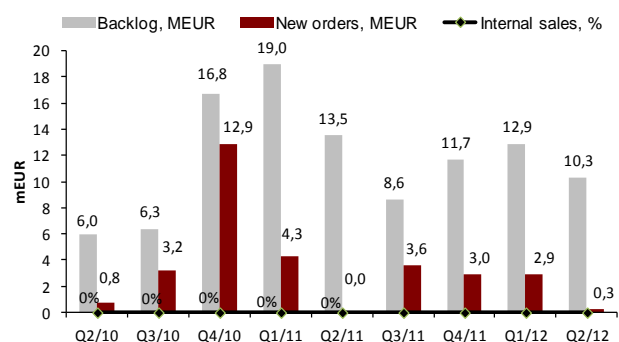
CONSTRUCTION DIVISION

The Construction division specialises in environmental and civil engineering.

At the end of the second quarter of 2012, the largest contracts in progress were the design and build of the reconstruction and extension of the public water and wastewater systems of the Suure-Jaani rural municipality (two phases with a total remaining balance of 3.1 million euros), the construction of the Paide wastewater treatment plant (remaining balance 2.6 million euros), the design and build of water and wastewater pipelines for the city of Loksa (remaining balance 1.4 million euros) and the construction of the Kuusalu public water and wastewater network (remaining balance 2 million euros).

In the second quarter of 2012, the division secured new construction contracts of 0.3 million euros. At the reporting date, the order backlog stood at 10.3 million euros compared with 13.5 million euros at the end of the second quarter of 2011.

At the end of June 2012, the Construction division employed 52 people (30 June 2011: 55).



SUMMARY TABLE OF MAJOR PROJECTS

Project type	Project 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 in joint ventures
Project type	Project name	Location	Legal interest	Leasable area	Current status	Classification in the statement of financial position
Cash flow	Madrid	Bulgaria, Sofia	100%	7,221 m ²	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	Project 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 11,697 m ²	Construction and sale are under way. The fourth building in phase II was completed in June 2012 (phase II consists of 5 buildings).	Inventories
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 1,283 m ²	Construction of phase VI was completed in June 2012. Sale of apartments is under way.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Area of unsold/ unreserved apartments 2,563 m ² .	The building is complete, sales continue.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Area of unsold/ unreserved apartments and commercial premises 2,349 m ²	Construction of phase I (Block C) is complete. On sale.	Inventories
Apartments	Paldiski mnt 70c	Estonia, Tallinn	33%	ca 34,000 m ²	The preliminary design of the final design plan is under preparation.	Investment property
Apartments	Tehnika 53	Estonia, Tallinn	100%	Area of unsold/ unreserved apartments 486 m ²	Construction began in June 2012.	Inventories
Apartments	Tivoli	Estonia, Tallinn	50%	58,470 m ²	The construction contract was signed in May 2012. Design is under way.	Investments in joint ventures
Plots	Baltezers-3	Latvia, Riga	100%	66 residential plots with a total area of 115,905 m ²	Land has been privatised. Preparations for construction of phase I infrastructure are under way.	Investment property
Plots	Baltezers-5	Latvia, Riga	100%	No of unsold plots 23; total area 44,708 m ²	Building rights have been obtained. On sale.	Inventories
Plots	Palusambla 1	Estonia, Nõmme	100%	55,466 m ²	The 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 on the adoption of plans and the issue of construction 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 situation and the competitive environment. Management estimates the value of the projects 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.

PEOPLE

At the end of the second quarter of 2012, the Group employed 126 people compared with 142 at the end of the second quarter of 2011. Employee remuneration expenses for the first half of 2012 totalled 1.8 million euros. The figure for the first half of 2011 was also 1.8 million euros.

The remuneration of the member of the management board and the members of the supervisory board of the Group's parent company for the first half of 2012 including social security charges amounted to 115 thousand euros. A year ago, the corresponding figure was 103 thousand 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 30 June 2012, the company had 1,812 shareholders and the share price closed at 2.47 euros, a 19.9% increase on the previous year-end.

The following charts reflect movements in the price and daily turnover of the Arco Vara share in the first half of 2012:

In euros (EUR)



Changes in share price compared with the benchmark index OMX Tallinn in the first half of 2012



Index/equity	1 January 2012	30 June 2012	+/-%
OMX Tallinn	531.17	623.26	+17.34
ARC1T	EUR 2.06	EUR 2.47	+19.90

Major shareholders at 30 June 2012	Number of shares	Interest, %
OÜ HM INVESTEERINGUD OÜ	950,338	20.04%
OÜ TOLETUM	949,681	20.03%
OÜ BALTPLAST	900,000	18.98%
GAMMA HOLDING OÜ	457,572	9.65%
FIREBIRD REPUBLICS FUND LTD	205,064	4.32%
LHV Pensionifond L	187,000	3.94%
Central Securities Depository of Lithuania	130,657	2.76%
FIREBIRD AVRORA FUND, LTD.	106,897	2.25%
FIREBIRD FUND L.P.	86,600	1.83%
Other	767,898	16.20%
Total	4,741,707	100.00%

Holdings of members of the management and supervisory boards at 30 June 2012	Position	Number of shares held	Interest, %
Lembit Tampere	Member of Management Board	0	0%
Richard Tomingas (Toletum OÜ)	Chairman of Supervisory Board	949,681	20.03%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, connected persons)	Member of Supervisory Board	959,845	20.24%
Toomas Tool (OÜ Baltplast)	Member of Supervisory Board	900,000	18.98%
Stephan David Balkin	Member of Supervisory Board	14,704	0.31%
Aivar Pilv	Member of Supervisory Board	0	0%
Total		2,824,230	59.56%

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 30 June 2012, the weighted average duration of interest-bearing liabilities was 2.1 years, which means that on average all loans need to be refinanced every two years. Although at the end of the second quarter of 2012 the Group's cash and cash equivalents totalled 2.3 million euros, 1.3 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 the first half of 2012, the Group's interest-bearing liabilities decreased by 1.9 million euros to 23.1 million euros at 30 June 2012. The period's interest payments on interest-bearing liabilities totalled 0.7 million euros. Compared with the first half of 2011, the weighted average interest rate has decreased from 7.4% to 6.9%.

Currency risk

Purchase and sales contracts are mostly signed in local currencies: euros (EUR), Latvian lats (LVL) and Bulgarian levs (BGN). The Group is not protected against currency devaluations. 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

17 August 2012

Condensed consolidated interim financial statements

Consolidated statement of comprehensive income

	Note	HY1 2012	HY1 2011	Q2 2012	Q2 2011
In thousands of euros					
Revenue from rendering of services		8,116	10,340	4,748	6,603
Revenue from sale of goods		2,961	13,167	2,701	3,645
Total revenue	2, 3	11,077	23,507	7,449	10,248
Cost of sales	4	-9,612	-22,434	-6,797	-9,742
Gross profit		1,465	1,073	652	506
Other income	7	209	12	17	7
Marketing and distribution expenses	5	-143	-214	-61	-112
Administrative expenses	6	-1,384	-2,240	-687	-879
Other expenses	7	-736	-59	-20	-16
Operating loss		-589	-1,428	-99	-494
Finance income	8	45	417	23	383
Finance expenses	8	-744	-908	-350	-487
Loss before income tax		-1,288	-1,919	-426	-598
Loss for the period		-1,288	-1,919	-426	-598
<i>Loss attributable to owners of the parent</i>	9	<i>-1,294</i>	<i>-1,932</i>	<i>-430</i>	<i>-598</i>
<i>Profit attributable to non-controlling interests</i>		<i>6</i>	<i>13</i>	<i>4</i>	<i>0</i>
Total comprehensive expense for the period		-1,288	-1,919	-426	-598
Earnings per share (in euros)	9				
- Basic		-0.27	-0.41	-0.09	-0.13
- Diluted		-0.27	-0.41	-0.09	-0.13

Consolidated statement of financial position

	Note	30 June 2012	31 December 2011
In thousands of euros			
Cash and cash equivalents		2,310	2,209
Trade and other receivables	10	7,271	7,012
Prepayments		377	433
Inventories	11	21,596	21,564
Non-current assets held for sale		0	469
Total current assets		31,554	31,687
Investments in equity-accounted investees		4	4
Other investments		8	8
Trade and other receivables	10	3,137	3,058
Deferred income tax asset		250	250
Investment property	12	20,444	24,046
Property, plant and equipment		907	934
Intangible assets		24	26
Total non-current assets		24,774	28,326
TOTAL ASSETS		56,328	60,013
Loans and borrowings	13	8,608	9,662
Trade and other payables	14	6,105	7,735
Deferred income		3,185	2,012
Provisions		1,135	1,205
Total current liabilities		19,033	20,614
Loans and borrowings	13	13,844	14,675
Other payables	14	756	741
Total non-current liabilities		14,600	15,416
TOTAL LIABILITIES		33,633	36,030
Share capital		3,319	3,319
Statutory capital reserve		2,011	2,011
Retained earnings		17,365	18,653
Total equity		22,695	23,983
Equity attributable to non-controlling interests		-3	155
Equity attributable to equity holders of the parent		22,698	23,828
TOTAL LIABILITIES AND EQUITY		56,328	60,013

Consolidated statement of cash flows

Note	HY1 2012	HY1 2011
In thousands of euros		
Loss for the period	-1,288	-1,919
<i>Adjustments for non-cash transactions:</i>		
Interest income and expense	8	720
Gain/loss on sale of subsidiaries and interests in joint ventures	8	-284
Losses on other long-term investments	8	52
Gain/loss on sale of investment property	7	0
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	4, 6	49
Foreign exchange gains and losses	6	3
Operating cash flow before working capital changes	164	-1,379
Change in receivables and prepayments	-1,328	3,216
Change in inventories	-287	1,955
Change in payables and deferred income	1,163	-4,913
NET CASH USED IN OPERATING ACTIVITIES	-288	-1,121
Acquisition of property, plant and equipment and intangible assets	-19	-9
Proceeds from sale of property, plant and equipment and intangible assets	6	0
Paid on development of investment property	0	-729
Proceeds from sale of investment property	1,149	177
Acquisition of investments in subsidiaries and joint ventures	0	1
Proceeds from sale of investments in subsidiaries and joint ventures	0	891
Loans granted	-236	-362
Repayment of loans granted	1	50
Other payments related to investing activities	-29	0
Interest received	6	113
NET CASH FROM INVESTING ACTIVITIES	878	132
Proceeds from loans received	745	1,301
Settlement of loans and finance lease liabilities	-484	-1,680
Interest paid	-738	-607
Other payments related to financing activities	-12	0
NET CASH USED IN FINANCING ACTIVITIES	-489	-986
NET CASH FLOW	101	-1,975
Cash and cash equivalents at beginning of period	2,209	4,209
Increase/decrease in cash and cash equivalents	101	-1,975
Effect of exchange rate fluctuations on cash held	0	0
Cash and cash equivalents at end of period	2,310	2,234

Consolidated statement of changes in equity

	Equity attributable to equity holders of the parent				Non-controlling interests	Total equity
	Share capital	Statutory capital reserve	Retained earnings	Total		
In thousands of euros						
Balance at 31 December 2010	3,030	2,011	22,857	27,898	-70	27,828
Change in non-controlling interests (through change in the Group's interests in subsidiaries)	0	0	-232	-232	232	0
Effect of acquisition of a subsidiary	0	0	-529	-529	0	0
Total comprehensive income/expense for the period	0	0	-1,932	-1,932	13	-1,919
Balance at 30 June 2011	3,030	2,011	20,164	25,205	175	25,380
Balance at 31 December 2011	3,319	2,011	18,498	23,828	155	23,983
Change in non-controlling interests in the Group's equity	0	0	164	164	-164	0
Total comprehensive income/expense for the period	0	0	-1,294	-1,294	6	-1,288
Balance at 30 June 2012	3,319	2,011	17,368	22,698	-3	22,695

Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the second quarter and first six months of 2012 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 annual financial statements for the year ended 31 December 2011. All amounts in the financial statements are presented in thousands of euros unless indicated otherwise.

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.

Revenue and operating profit by business segment

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	HY1 2012	HY1 2011	HY1 2012	HY1 2011	HY1 2012	HY1 2011	HY1 2012	HY1 2011	HY1 2012	HY1 2011	HY1 2012	HY1 2011
In thousands of euros												
External revenue	3,822	13,981	1,136	1,007	6,118	8,515	1	4	0	0	11,077	23,507
Change	-73%	200%	13%	41%	-28%	156%					-53%	170%
Inter-segment revenues	13	3	155	138	0	0		0	-168	-141	0	0
Total revenue	3,835	13,984	1,291	1,145	6,118	8,515	1	4	-168	-141	11,077	23,507
Operating profit/loss	-374	-227	59	44	239	-768	-663	-702	150	225	-589	-1,428

Segment	Development		Service		Construction		Unallocated items		Eliminations		Consolidated	
	Q2 2012	Q2 2011	Q2 2012	Q2 2011	Q2 2012	Q2 2011	Q2 2012	Q2 2011	Q2 2012	Q2 2011	Q2 2012	Q2 2011
In thousands of euros												
External revenue	3,057	4,093	635	555	3,756	5,597	1	3	0	0	7,449	10,248
Change	-25%	79%	14%	51%	-33%	206%					-27%	129%
Inter-segment revenues	7	1	83	84	0	0	0	0	-90	-85	0	0
Total revenue	3,064	4,094	718	639	3,756	5,597	1	3	-90	-85	7,449	10,248
Operating profit/loss	229	399	64	76	-142	-708	-324	-369	74	108	-99	-494

Assets and liabilities by operating segment

Segment	Development		Service		Construction		Unallocated assets and liabilities		Consolidated	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011	30 June 2012	31 December 2011	30 June 2012	31 December 2011	30 June 2012	31 December 2011
In thousands of euros										
Assets	48,629	52,588	435	405	5,188	5,460	2,076	1,560	56,328	60,013
Liabilities	27,835	29,716	312	281	5,372	5,932	114	101	33,633	36,030

3. Revenue

	HY1 2012	HY1 2011	Q2 2012	Q2 2011
In thousands of euros				
Revenue from construction services	6,215	8,492	3,752	5,594
Revenue from sale of properties ¹	2,961	13,167	2,701	3,645
Revenue from brokerage services	1,047	760	595	444
Rental income	709	805	326	431
Revenue from property management services	98	260	45	126
Other revenue	47	23	30	8
Total revenue	11,077	23,507	7,449	10,248

¹ The figure for HY1 2011 includes income of 8,309 thousand euros earned on the sale of a property to the Group's joint venture Tivoli Arendus OÜ.

4. Cost of sales

	HY1 2012	HY1 2011	Q2 2012	Q2 2011
In thousands of euros				
Cost of construction services purchased	-5,465	-8,593	-3,567	-5,944
Cost of properties sold ¹	-2,657	-12,310	-2,421	-2,989
Personnel expenses	-1,022	-913	-552	-489
Management and administration costs	-303	-468	-171	-235
Vehicle expenses	-89	-94	-44	-51
Depreciation, amortisation and impairment losses	-10	-7	-5	-4
Other costs	-66	-49	-37	-30
Total cost of sales	-9,612	-22,434	-6,797	-9,742

¹ The figure for HY1 2011 includes the acquisition cost of inventory of 8,300 thousand euros sold to the Group's joint venture Tivoli Arendus OÜ.

5. Marketing and distribution expenses

	HY1 2012	HY1 2011	Q2 2012	Q2 2011
In thousands of euros				
Advertising expenses	-76	-118	-42	-62
Brokerage fees	-19	-1	-1	-1
Personnel expenses	-19	-35	-8	-18
Market research expenses	-3	-18	-1	-2
Other marketing and distribution expenses	-26	-42	-9	-29
Total marketing and distribution expenses	-143	-214	-61	-112

6. Administrative expenses

	HY1 2012	HY1 2011	Q2 2012	Q2 2011
In thousands of euros				
Personnel expenses	-803	-862	-394	-434
Office expenses	-278	-242	-141	-113
Legal and consulting fees	-157	-853	-93	-210
Vehicle expenses	-77	-91	-37	-47
Depreciation, amortisation and impairment losses	-33	-42	-15	-20
Other expenses	-36	-147	-7	-52
Total administrative expenses	-1,384	-2,240	-687	-879

7. Other income and expenses

Other income

	HY1 2012	HY1 2011	Q2 2012	Q2 2011
In thousands of euros				
Gain on sale of investment property	2	0	2	0
Gain on sale of other assets ¹	191	0	0	0
Miscellaneous income	16	12	15	7
Total other income	209	12	17	7

¹ Comprises gain on sale of non-current assets held for sale, earned in January 2012 when the Group's subsidiary Arco Ehitus OÜ sold a property at Odra 16 in Tallinn.

Other expenses

	HY1 2012	HY1 2011	Q2 2012	Q2 2011
In thousands of euros				
Loss on sale of investment property ¹	-712	0	0	0
Late payment interest and penalty charges	-10	-38	-9	-6
Miscellaneous expenses	-14	-21	-11	-10
Total other expenses	-736	-59	-20	-16

¹ The loss on sale of investment property arose in February 2012 when the Group's subsidiary Kerberon OÜ sold a right of superficies.

8. Finance income and expenses

Finance income

	HY1 2012	HY1 2011	Q2 2012	Q2 2011
In thousands of euros				
Gain on sale of subsidiaries	0	284	0	284
Interest income	45	131	23	97
Foreign exchange gain	0	2	0	2
Total finance income	45	417	23	383

Finance expenses

	HY1 2012	HY1 2011	Q2 2012	Q2 2011
In thousands of euros				
Interest expense	-671	-851	-328	-462
Foreign exchange loss	-5	-5	-2	-1
Other finance expenses	-68	-52	-20	-24
Total finance expenses	-744	-908	-350	-487

9. 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.

	HY1 2012	HY1 2011	Q2 2012	Q2 2011
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)	-1,294	-1,932	-430	-598
Earnings per share (in euros)	-0.27	-0.41	-0.09	-0.13

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.

10. Trade and other receivables

Short-term trade and other receivables

	30 June 2012	31 December 2011
In thousands of euros		
Trade receivables		
Trade receivables	4,971	4,874
Impairment allowance	-130	-130
Total trade receivables	4,841	4,744
Other receivables		
Loans granted	832	634
Miscellaneous receivables	544	517
Total other receivables	1,376	1,151
Accrued income		
Accrued interest	216	200
Due from customers under long-term construction contracts	424	425
Prepaid and recoverable taxes	409	491
Other accrued income	5	1
Total accrued income	1,054	1,117
Total short-term trade and other receivables	7,271	7,012

Long-term trade and other receivables

	30 June 2012	31 December 2011
In thousands of euros		
Loans granted	2,986	2,981
Long-term interest receivables	105	17
Other long-term receivables	46	60
Total long-term trade and other receivables	3,137	3,058

11. Inventories

	30 June 2012	31 December 2011
In thousands of euros		
Properties purchased and developed for resale	20,581	20,604
Materials and finished goods	148	155
Prepayments to inventory suppliers	867	805
Total inventories	21,596	21,564

12. Investment property

In thousands of euros	
Balance at 31 December 2010	22,887
Capitalised development costs	810
Acquisitions	55
Sales	-1,589
Balance at 30 June 2011	22,163
Balance at 31 December 2011	24,046
Transfer from inventories	470
Sales	-4,072
Balance at 30 June 2012	20,444

13. Loans and borrowings

	30 June 2012			31 December 2011		
	Total	Of which current portion	Of which non-current portion	Total	Of which current portion	Of which non-current portion
In thousands of euros						
Bank loans	20,148	6,341	13,807	22,019	7,381	14,638
Finance lease liabilities	43	6	37	49	12	37
Other loans	2,261	2,261	0	2,269	2,269	0
Total	22,452	8,608	13,844	24,337	9,662	14,675

In the first six months of 2012, the Group settled loans and borrowings of 484 thousand euros (HY1 2011: 1,680 thousand euros) through cash transactions and raised new loans and borrowings of 745 thousand euros (HY1 2011: 1,301 thousand euros). As regards non-cash transactions, the Group's loans and borrowings were affected the most by the repayment of a bank loan of 2,200 thousand euros, effected in connection with the sale of a right of superficies by the Group's subsidiary Kerberon OÜ and payments of 1,822 thousand euros that customers who purchased apartments in the Kodukolde project made directly to the creditor. Growth in loans and borrowings resulted mainly from the financing of construction costs of 1,895 thousand euros provided by the builder of the Kodukolde project.

14. Trade and other payables

Short-term trade and other payables

	30 June 2012	31 December 2011
In thousands of euros		
Trade payables	4,757	6,040
Miscellaneous payables	90	103
Taxes payable		
Value added tax	366	143
Corporate income tax	254	210
Personal income tax	63	68
Social security tax	102	106
Other taxes	13	13
Total taxes payable	798	540
Accrued expenses		
Accrued interest payables	110	3
Payables to employees	214	256
Accrued expenses from service contracts	0	649
Other accruals	136	144
Total accrued expenses	460	1,052
Total short-term trade and other payables	6,105	7,735

Long-term trade and other payables

	30 June 2012	31 December 2011
In thousands of euros		
Retentions payable	65	65
Interest payable	52	35
Other long-term payables	639	641
Total long-term trade and other payables	756	741

15. Transactions and balances with related parties

During the period the Group conducted transactions or at period-end had balances with the following related parties:

- 1) **the Group's joint ventures;**
- 2) **companies under the control of the members of the supervisory board of Arco Vara AS that have a significant interest in the Group's parent company** – OÜ Toletum and OÜ HM Investeeringud;
- 3) **Other related parties** – companies under the control of the management board member and the supervisory board members of Arco Vara AS (excluding companies that have 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.

Transactions with related parties	HY1 2012	HY1 2011
In thousands of euros		
Joint ventures		
Revenue	2	0
Provision of loans	235	3,231
Sale of properties	0	8,309
Sale of services	2	0
Other related parties		
Sale of goods and services	95	0
Purchase of services	203	245
Settlement of other payables	309	15
Prepayments made	62	0
Repayment of loans granted	52	0
Receipt of loans	130	85
Repayment of loans received	6	0

Balances with related parties	30 June 2012	31 December 2011
In thousands of euros		
Joint ventures		
Short-term loan receivables	251	0
Trade receivables	27	36
Long-term loan receivables	2,986	2,981
Short-term interest receivables	0	85
Long-term interest receivables	105	102
Companies that have a significant interest in the Group's parent company		
Other short-term receivables	376	376
Short-term interest receivables	123	114
Other related parties		
Trade receivables	51	0
Short-term loan receivables	182	233
Short-term interest receivables	88	84
Prepayments for inventories	507	445
Payables to suppliers	14	12
Other short-term payables	0	309
Short-term loans and borrowings	547	411
Short-term interest payables	1	3

The remuneration provided to the Group's key management personnel, i.e. the member of the management board and the members of the supervisory board of the Group's parent company, for the first six months of 2012, including social security charges, amounted to 115 thousand euros (HY1 2011: 103 thousand euros) in aggregate.

16. Contingent assets and liabilities

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

In 2010, Järvamaa Education Centre, a state-owned vocational education institution administered by the Ministry of Education and Research, and Arco Ehitus OÜ (together with OÜ Kristiine Ehitus) signed general public procurement contract for the renovation of the Paide academic building of Järvamaa Education Centre (the Contract). Arco Ehitus OÜ presented to Järvamaa Education Centre a letter of guarantee of 88 thousand euros as required by the Contract. During construction, it appeared that the documents Järvamaa Education Centre had submitted to the contractor contained a number of deficiencies and Arco Ehitus OÜ and OÜ Kristiine Ehitus cancelled the contract. In response, Järvamaa Education Centre sent AS SEB Pank a letter of claim for payment of the guaranteed amount, i.e. 88 thousand euros.

In 2010, Arco Ehitus OÜ filed a statement of claim against the Republic of Estonia through the Ministry of Education and Research, seeking recognition of the cancellation of the Contract and settlement of a principal claim of 889 thousand euros and a fixed amount of late payment interest of 42 thousand euros plus further late payment interest accruing during the judicial proceedings.

In 2011, the Republic of Estonia brought a counter-action against Arco Ehitus OÜ, seeking payment of damages of 508 thousand euros, a contractual penalty of 4 thousand euros and late payment interest of 0.0266% per day from the filing of the counter-action until due satisfaction of the claims. Arco Ehitus OÜ has contested the claim.

The litigation is pending. A hearing in the matter has been scheduled for 23 August 2012.

In the Group's statement of financial position, the amount of the letter of guarantee (88 thousand euros) is recognised within other short-term receivables. The Group considers it highly probable that the litigations will have a positive outcome for Arco Ehitus OÜ.

Arco Ehitus OÜ cancelled the contract with the Estonian University of Life Sciences

In July 2010, a consortium consisting of Arco Ehitus OÜ, OÜ Wolmreks Ehitus and OÜ Kristiine Ehitus signed a general contract for construction services with the Estonian University of Life Sciences. The authorised representative of the consortium was OÜ Wolmreks Ehitus that was assigned by the consortium to perform the entire construction work. In November 2010 it appeared that OÜ Wolmreks Ehitus and OÜ Kristiine Ehitus were in financial difficulty and the work agreed with the Estonian University of Life Sciences had not been performed in line with the agreed dates and the construction schedule. Arco Ehitus OÜ became the lead partner and authorised representative of the consortium from December 2010. In February 2011, OÜ Wolmreks Ehitus was declared bankrupt and Arco Ehitus OÜ became solely responsible for the performance of the contract.

The price calculations for the contract with the Estonian University of Life Sciences were prepared by OÜ Wolmreks Ehitus. Since the preparation of the original bid, the prices of construction services had increased significantly and according to the new calculations prepared by Arco Ehitus OÜ the cost of the contract would have increased by 447 thousand euros. The Estonian University of Life Sciences refused to compensate the increase in the cost of the contract. Thus, in July 2011 Arco Ehitus OÜ sent a notice of cancellation of contract. The Estonian University of Life Sciences took the position that the notice of cancellation sent by Arco Ehitus OÜ was void and that the Estonian University of Life Sciences itself would cancel the general contract for construction services.

Arco Ehitus OÜ is of the opinion that the cancellation of the contract was completely lawful. To date the Estonian University of Life Sciences has not filed any claim against Arco Ehitus OÜ. Neither has it asked the court to determine the lawfulness of the cancellation.

Arco Ehitus OÜ's claims against AS K&H and AS Tamsalu Vesi

In June 2011, Arco Ehitus OÜ and AS K&H signed a compromise agreement by which AS K&H accepted the claims arising from two contracts between Arco Ehitus OÜ and AS K&H of 713 thousand euros in aggregate. The parties further agreed that Arco Ehitus OÜ had no additional or collateral claims against AS K&H. Under an agreement on the discharge and transfer of claim, AS K&H transferred to Arco Ehitus OÜ a claim of 201 thousand euros and associated collateral claims, which AS K&H had against AS Tamsalu Vesi.

In 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 thousand euros to Arco Ehitus OÜ.

In July 2011, Tartu County Court declared AS K&H bankrupt and 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 thousand euros.

On 14 March 2012, an agreement was signed in the bankruptcy proceedings under which Arco Ehitus OÜ waived the mortgages and the bankruptcy trustee and the bankruptcy committee confirmed that there is no basis for retracting or otherwise contesting the contracts signed in June 2011 and that the transfer of claim to Arco Ehitus OÜ is valid and AS Tamsalu Vesi has to satisfy the claim in full.

At a meeting held for defending claims on 16 March 2012, the claim of Arco Ehitus OÜ was recognised in an amount of 754 thousand euros and was registered as a claim of second rank.

Arco Ehitus OÜ has repeatedly sent AS Tamsalu Vesi AS proofs of claim for settlement of a debt of 181 thousand euros. At the date of release of this report, the bankruptcy proceedings are pending. Most of the properties that belonged to AS K&H have been auctioned off during the bankruptcy proceedings. Tamsalu Vesi AS has not settled the debt.

Merkton Ehitus OÜ's (bankrupt) claim against Arco Ehitus OÜ

In December 2011, the bankruptcy trustee of Merkton Ehitus OÜ (bankrupt) sent a claim to Arco Ehitus OÜ in which he demanded repayment of 986 thousand euros. The payments outlined in the claim were made to Arco Ehitus OÜ by Merkton Ehitus OÜ based on and for proper performance of a contract signed between Arco Ehitus OÜ and Merkton Ehitus OÜ.

On 3 February 2012, Arco Ehitus OÜ sent a response to the bankruptcy trustee in which it took the position that the claim for returning the payments was baseless. The bankruptcy trustee has not responded nor has any action been brought against Arco Ehitus OÜ in this matter.

Arco Ehitus OÜ's claims against the bankrupt Wolmreks Ehitus OÜ, OÜ Kristiine Ehitus and Plastitehase AS

In 2011 three companies, OÜ Wolmreks Ehitus, OÜ Kristiine Ehitus and Plastitehase AS against which Group company Arco Ehitus OÜ had claims, were declared bankrupt. The total amount of claims submitted to the bankruptcy trustees is 334 thousand euros. Arco Ehitus OÜ has written all those receivables down in full. At the reporting date, the bankruptcy proceedings were pending.

Surety granted to joint venture Arco HCE OÜ

The Group's subsidiary Arco Investeeringute AS has agreed to stand surety for a bank loan of 1,917 thousand euros taken by the Group's joint venture Arco HCE OÜ. The Group's management board has estimated the probability of the realisation of the obligation and has made a provision extending to 50% of the surety obligation, i.e. 959 thousand euros.

Bank guarantees for construction activities

Group entities' obligations under construction contracts are secured with various guarantees and surety bonds. Banks have issued the letters of guarantee required by customers against commercial pledges. The guarantees expire within up to three years. The Group considers the probability of the realisation of the guarantees and surety bonds remote. Therefore, respective provisions have not been recognised in the statement of financial position.

At the end of the second quarter of 2012, bank guarantees provided to customers to secure Group entities' commitments under construction contracts totalled 1,787 thousand euros and the unused portion was 144 thousand euros (at 31 December 2011 the respective figures were 620 thousand euros and 362 thousand euros). The amount of secured commitments has increased in connection with growth in construction operations.

17. Events after the reporting date

On 30 July 2012, an extraordinary general meeting of Arco Vara AS elected to the supervisory board two additional members, Arvo Nõges and Rain Lõhmus.

18. Group structure

Company	Domicile	Group's ownership interest	
		30 June 2012	31 December 2011
%			
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	78.5
Arco Real Estate SIA ¹	Latvia	78.5	78.5

Company	Domicile	Group's ownership interest	
		30 June 2012	31 December 2011
%			
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
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	100
Kerberon OÜ ¹	Estonia	100	100
Koduküla OÜ ¹	Estonia	100	100
Kolde AS ¹	Estonia	100	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	100
Arco Development SIA ¹	Latvia	70	70
Ulmana Gatves Nami SIA ¹	Latvia	70	70
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	50
AD Saulkrasti SIA ¹	Latvia	35	35
Bišumuižas Nami SIA ¹	Latvia	-	49.38
Sportings Riga SIA ¹	Latvia	-	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

Statement by the member of the management board

The member of the management board of Arco Vara AS has prepared the interim report for the second quarter and first six months of 2012 as set out on pages 2-31.

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

17 August 2012