

Consolidated interim report I half year 2006

ARCO VARA AS

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Main activities: Real estate development and investments
Real estate related services
Construction

Supervisory board: Arti Arakas, Hillar-Peeter Luitsalu, Richard Tomingas

Management board: Viljar Arakas, Sulev Luiga, Ivar Siimar

Auditor: Ernst & Young Baltic AS

EXPLANATORY LETTER

Arco Vara's consolidated revenue amounted 12 810 thousand euros in I half year 2006 (2005 I half year: 14 429 thousand euros). The net profit for first three months amounted to 2 542 thousand euros (2005 I half year: 2 773 thousand euros).

The net profit attributable to the owners of the Parent, amounted to 2 535 thousand euros (I half year 2005: 2 415 thousand euros).

Main indicators	I HY 2006	I HY 2005
Current ratio (current assets / current liabilities)	0,9	0,8
Equity ratio (equity / total assets)	0,4	0,4
Equity / debt ratio (equity/(short-term borrowings + long-term borrowings))	0,8	0,8
Equity ratio for equity attributable to the owners of the Parent (equity attributable to the owners of the Parent / total assets)	0,4	0,4
Equity / debt ratio for equity attributable to the owners of the Parent (equity attributable to the owners of the Parent / (short-term borrowings + long-term borrowings))	0,7	0,7

Performance indicators		
Net profit margin (net profit attributable to the owners of the Parent / revenue)	0,3	0,2
Operating profit margin (operating profit / revenue)	0,3	0,2
Gross profit margin (gross profit / revenue)	0,3	0,3
ROA (net profit attributable to the owners of the Parent / average total assets)	0,02	0,02
Profitability of assets ((revenue + other operating income)/ average total assets)	0,04	0,04
ROE 1 (profit before minority interests / average equity with minority interests)	0,05	0,05
ROE 2 (profit attributable to the owners of the Parent / average equity attributable to the owners of the Parent)	0,05	0,05

Contribution of the business divisions to consolidated financial indicators:

As of 30.06.06 or for the I half year 2006, respectively	Service	Development	Construction	Eliminations	Unallocated expenses and assets	Total
Total revenue	3 480	6 275	8 911	-3 805	0	14 862
Total operating profit	367	4 524	-959	-19	-629	3 283
Total assets	2 949	102 907	6 459	-4 905	8 447	115 855

In March 2006, the Group purchased the following minority interests:

Companies	Ownership before transaction	Ownership acquired	Ownership after transaction
Arco Investeeringute AS	84,0%	16,0%	100,0%
Kolde AS	73,4%	15,5%	88,9%
Kerberon OÜ	67,35%	16%	83,4%
Arcofond OÜ	84%	16%	100,0%
Pärnu Turg OÜ	84%	16%	100,0%
Deena Ehituse OÜ	84%	16%	100,0%
Fimaier OÜ	80%	20%	100,0%

The total purchase price of the specified ownership was 2 682 thousand euros to be paid within the next two years. No interest on the payable amount has been agreed in the contract.

Major ongoing real estate development and investment projects of Arco Vara as of the end of March 2006 (in thousands of euros):

ESTONIA	Residential projects (in book value)	Commercial projects (in book value)	Total investment	Development period
TALLINN				
Betooni 8	0	2 045	13 421	2005-2007
Holiday Club Estonia properties	0	14 299	70 303	2005-2008
Kolde	1 116	0	23 647	2004-2008
Narva mnt 67 (Tivoli)	18 536	0	73 498	2005-2011
Paldiski mnt 80	0	1 650	13 741	2005-2008
Regati pst 1 (TOP)	0	0	27 099	2008-2010
Suur-Sõjamäe 40	0	556	959	2005-2007
Total Tallinn	19 652	18 550	222 668	
PÄRNU				
Aida 8	0	313	4 154	2005-2009
Lai 5	105	0	4 793	2005-2009
Total Pärnu	105	313	8 947	
NARVA				
Kerese	0	729	5 305	2005-2006
Total Narva	0	729	5 305	
TOTAL ESTONIA	19 757	19 592	236 920	
LATVIA				
RIIA				
Zalu 8	538	0	100 000	2006-2011
Jaunpils	0	553		
Dumji	1 074	0	1 600	2005-2007
Bisumuiza 1	524	0	17 256	2004-2008
Riia kokku	2 136	553	118 856	
UKRAINE				
KIYEV				
Tatarka	471	0	4 218	2005-2007
Total Kiyev	471	0	4 218	
TOTAL	22 364	20 145	359 994	

Consolidated interim financial statements for I half year 2006 has prepared on the basis of International Financial Reporting Standards (IFRS). The accounting principles of the interim financial statements are comparable with principles used in Annual Report 2005.

CONSOLIDATED INCOME STATEMENT

unaudited
in thousand of euros, for I half year

	Notes	2006	2005
Revenue from rendering services		9 017	7 672
Revenue from sale of goods		3 793	6 757
Total revenue	1	12 810	14 429
Cost of sales		-9 375	-10 061
Gross profit		3 434	4 367
Marketing costs		-789	-366
General and administrative expenses		-1 396	-1 584
Other operating income		2 052	923
Other operating expenses		-19	-25
Operating profit		3 283	3 315
Financial items and investment activity income (expenses)		-523	-303
Profit before income tax		2 760	3 012
Income tax expense		-218	-238
Net profit		2 542	2 773
attributable to:			
- owners of the parent		2 535	2 415
- minority interests		8	358
Profit attributable to owners of the Parent per share (in euros)¹			
- basic		0,08	0,10
- diluted		0,08	0,10

¹In 2005, share split and bonus issue were carried out. Therefore the weighted average number of ordinary shares for comparative year has been adjusted – the number of shares after share split and bonus issue (i.e., 27 255 468 shares) has been used for calculation of weighted average number of shares.

CONSOLIDATED BALANCE SHEET

unaudited
in thousands of euros

	Notes	30.06.06	31.12.2005
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents		4 012	9 202
Receivables		7 177	6 159
Prepaid expenses		456	166
Inventories	2	18 170	9 834
Biological assets		369	385
Total current assets		30 183	25 746
<i>Non-current assets</i>			
Long-term receivables		916	1 085
Long-term investments into securities		193	192
Investment property	3	58 467	54 395
Property, plant and equipment	4	21 479	11 146
Intangible assets	5	4 618	868
Total non-current assets		85 672	67 686
TOTAL ASSETS		115 855	93 432
LIABILITIES AND EQUITY			
<i>Current liabilities</i>			
Borrowings		29 832	20 251
Payables		9 157	7 525
Prepayments		4 186	2 643
Provisions		13	41
Total current liabilities		43 189	30 460
<i>Non-current liabilities</i>			
Long-term borrowings		33 621	25 076
Other long-term payables		2 863	710
Long-term provisions		75	70
Total non-current liabilities		36 558	25 856
Total liabilities		79 747	56 316
Equity			
<i>Equity attributable to the owners of the Parent</i>			
Share capital		19 463	19 463
Share premium		7 866	7 866
Legal mandatory reserv		351	27
Other reserves		30	30
Retained earnings		7 907	6 443
Total equity attributable to the owners of the parent		35 617	33 829
Minority interests		490	3 288
Total equity		36 107	37 116
TOTAL LIABILITIES AND EQUITY		115 855	93 432

CONSOLODATED STATEMENT OF CHANGES IN EQUITY

unaudited
in thousands of euros

	Equity attributable to the owners of the Parent						Minority interests	Total equity
	Share capital	Share premium	Legal mandatory reserve	Other reserves	Retained earnings	Total		
Balance at 31.12.2004	268	565	27	364	16 753	17 977	4 591	22 568
Foreign currency translation	0	0	0	-29	0	-29	0	-29
Dividends to owners of the parent	0	0	0	0	-498	-498	1	-497
Changes in minority interests caused by changes in the Parent's ownership in subsidiaries	0	0	0	0	0	0	1 067	1 067
Net profit	0	0	0	0	2 415	2 415	0	2 415
Balance at 30.06.05	268	565	27	336	18 670	19 866	5 659	25 525
Balance at 31.12.2005	19 463	7 866	27	30	6 443	33 829	3 288	37 116
Foreign currency translation	0	0	0	0	0	0	0	0
Dividends to owners of the parent	0	0	0	0	-747	-747	-13	-760
Increase in legal mandatory reserve	0	0	324	0	-324	0	0	0
Changes in minority interests caused by changes in the Parent's ownership in subsidiaries	0	0	0	0	0	0	-2 791	-2 791
Net profit	0	0	0	0	2 535	2 535	8	2 542
Balance at 30.06.2006	19 463	7 866	351	30	7 907	35 617	490	36 107

CONSOLIDATED CASH FLOW STATEMENT

unaudited
in thousands of euros, for the I half year

	2006	2005
Cash flows from operating activities		
Operating profit	3 283	3 315
Adjustments of operating profit	-2 714	-670
Increase in receivables related to operating activities and inventories	-7 506	-363
Increase in payables and prepayments related to operating activities	2 892	14 009
Total cash flows from operating activities	-4 046	16 291
Cash flows used in investing activities		
Purchase of property, plant and equipment and intangible assets	-14 470	-483
Proceeds from sale of property, plant and equipment and intangible assets	19	2
Purchase of investment property	-1 994	-10 742
Proceeds from sale of investment property and biological assets	855	278
Acquisition of subsidiaries and joint ventures	-246	-815
Proceeds from sale of subsidiaries and joint ventures	18	-215
Purchase of other investments	-1	-33
Proceeds from sale of other investments	0	298
Loans granted	-685	-690
Repayments of loans granted	208	463
Interests received	72	49
Total cash flows used in investing activities	-16 225	-11 889
Cash flows from financing activities		
Proceeds from borrowings	25 764	20 704
Repayments of borrowings and finance lease liabilities	-8 340	-10 092
Change in overdraft	-130	-462
Changes in group account	0	-20
Interests paid	-1 406	-687
Proceeds from issue of shares	-90	39
Dividends paid	-474	-276
Income tax on dividends paid	-239	-87
Total cash flows from financing activities	15 086	9 118
NET CASH FLOWS	-5 185	13 519
Cash and cash equivalents at the beginning of the period	0	1 492
Change in cash and cash equivalents	-5 185	13 519
Net foreign exchange difference	-5	-68
Cash and cash equivalents at the end of the period	-5 191	14 943

NOTES**Note 1 Segment information**

in thousands of euros

As of 30.06.06 or for the I half year 2006, respectively	Service	Development	Construction	Eliminations	Total
Revenue to external customer	3 190	4 165	5 455	0	12 810
Other operating income to external customers	2	1 939	23	88	2 052
Revenue and other operating income to other segments	288	171	3 433	-3 893	0
Total revenue	3 480	6 275	8 911	-3 805	14 862
Segment results	367	4 524	-959	-19	3 913
Unallocated operating expenses					-630
Operating profit					3 283
Financial items and investment activity income (expenses)					-523
Income tax expense					-218
Net profit					2 542
Depreciation and amortization included in segment results	-25	-16	-33	0	-74
Impairment loss included in segment results	0	856	6	0	862
Unallocated depreciation and amortization					-16
Total depreciation, amortization and impairment loss					773
Segment investments into non-current assets	1 420	15 374	270	0	17 064
Unallocated investments					192
Total investments into non-current assets					17 256
	Service	Development	Construction	Eliminations	Total
Segment assets	2 949	102 907	6 459	-4 905	107 409
Unallocated assets					8 447
Total assets					115 856
Segment liabilities	1 705	31 325	5 783	-26 707	12 107
Unallocated liabilities					67 642
Total liabilities					79 749
Non-monetary income	Service	Development	Construction	Eliminations	Total
Gains from change in fair value of investment property	0	1 342	0	0	1 342

SEGMENT INFORMATION - GEOGRAPHICAL SEGMENTS

(As of 30.06.06 or for the I half year 2006, respectively)

Revenue by geographical location of customers	2006
Estonia	11 688
Latvia	996
Lithuania	161
Ukraine	109
Revenue to other segments	-145
Total revenue by location of customers	12 810

Segment assets by geographical location of assets	30.06.06
Estonia	100 469
Latvia	11 091
Lithuania	30
Ukraine	504
Bulgaria	20
Inter-segment eliminations	-3 538
Unallocated assets	7 280
Total segment assets by geographical location of assets	115 855

Assets acquired in I HY by type of assets	Estonia	Latvia	Lithuania	Ukraine	Bulgaria	Total
Investments property	1 215	0	0	0	0	1 215
Property, plant and equipment	10 867	56	15	467	6	11 412
Intangible assets	1 128	3 500	0	0	1	4 629
Total acquired assets	13 210	3 556	15	467	7	17 256

Note 2 Inventories

in thousands of euros

	30.06.2006	31.12.2005
Real estate purchased or developed for sale	16 882	9 266
Other goods purchased for resale	375	264
Raw materials and finished goods	0	33
Prepayments to suppliers	913	271
Total inventories	18 170	9 834

Note 3 Investment properties

in thousands of euros

Balance at 31.12.2005	54 395
Purchases	1 215
Capitalized borrowing costs	38
Gains and losses from changes in fair value	1 342
Reclassifications from inventories	254
Reclassifications from property, plant and equipment	1 494
Sales	-272
Balance at 30.06.2006	58 467

Note 4 Property, plant and equipment

in thousands of euros

	Land and buildings	Machinery and equipment	Other equipment	Construction	Total
Balance at 31.12.2005	1 084	94	188	9 781	11 146
Purchases	191	50	90	11 080	11 412
Disposals related to sales of joint ventures	0	0	0	0	0
Capitalized borrowing costs	0	0	0	497	497
Disposals	-2	-1	0	0	-2
Reclassifications into investment property	0	0	0	-1 494	-1 494
Depreciation charge	-24	-17	-38	0	-80
Balance at 30.06.06	1 249	126	239	19 865	21 479

Note 5 Intangible assets

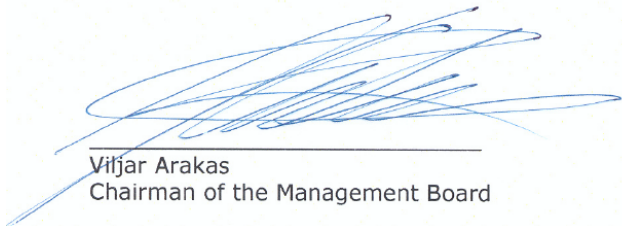
in thousands of euros

	Goodwill	Negative goodwill	Software	Prepayments	Total
Balance at 31.12.2005	835	0	33	0	868
Purchases	0	0	3	3 500	3 503
Additions from business combinations	256	870	0	0	1 126
Negative goodwill recorded as income	0	-870	0	0	-870
Amortization charge	0	0	-10	0	-10
Balance at 30.06.06	1 092	0	26	3 500	4 618

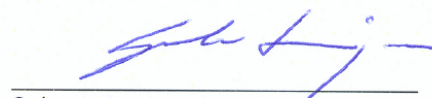
MANAGEMENT REPRESENTATION

Arco Vara AS management has prepared consolidated interim financial statements for I half year 2006 set out on pages 2-10.


Accounting principles used in preparing the consolidated interim financial statements of Arco Vara AS and its subsidiaries and joint ventures are based on International Financial Reporting Standards (IFRS). The consolidated financial statements give a true and fair view of the financial position of the Group and the results of its operations and cash flows. The Group and Arco Vara AS are able to continue as a going concerns.



Viljar Arakas
Chairman of the Management Board



Sulev Luiga
Member of the Management Board



Ivar Siimar
Member of the Management Board