

# **Arco Vara AS**

## **Interim Condensed Consolidated Financial Statements 1st Quarter 2007**



**Arco Vara AS**

Registry code: 10261718

Address: Jõe 2b, 10151 Tallinn, Eesti Vabariik

Telephone: +372 6 144 630

Fax: +372 6 144 631

E-mail: [info@arcovara.ee](mailto:info@arcovara.ee)

Corporate web page: [www.arcorealestate.com](http://www.arcorealestate.com)

Main activities: Real estate development and investments (EMTAK 701)

Real estate related services (EMTAK 702, 703)

Construction (EMTAK 45)

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

Management Board: Viljar Arakas, Sulev Luiga, Ivar Siimar

Veiko Pedosk, Ahto Altjõe

Auditor: Ernst & Young Baltic AS

## TABLE OF CONTENTS

EXTRACT FROM MAIN FINANCIAL INDICATORS .....	4
MANAGEMENT REPORT TO 1ST QUARTER 2007 .....	5
ARCO VARA AS UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 1ST QUARTER 2007 .....	11
ARCO VARA AS CONSOLIDATED INCOME STATEMENT .....	11
ARCO VARA AS CONSOLIDATED BALANCE SHEET .....	12
ARCO VARA AS CONSOLIDATED CASH FLOW STATEMENT .....	13
ARCO VARA AS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	14
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 1ST QUARTER 2007 .....	15
1. ACCOUNTING POLICIES .....	15
2. SCOPE OF CONSOLIDATION .....	16
3. TRANSFERS OF GROUP HOLDINGS IN SUBSIDIARIES AND JOINT VENTURES .....	16
4. BUSINESS COMBINATIONS AND ACQUISITIONS OF MINORITY .....	17
5. SEGMENT INFORMATION – BUSINESS SEGMENTS .....	18
6. EARNING PER SHARE .....	20
7. RECEIVABLES .....	20
8. INVENTORIES .....	20
9. INVESTMENT PROPERTY .....	21
10. PROPERTY, PLANT AND EQUIPMENT .....	21
11. INTANGIBLE ASSETS .....	22
12. TRANSACTIONS WITH RELATED PARTIES .....	23
13. EVENTS AFTER THE BALANCE SHEET DATE .....	24
MANAGEMENT REPRESENTATION TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS .....	26

## Extract from main financial indicators

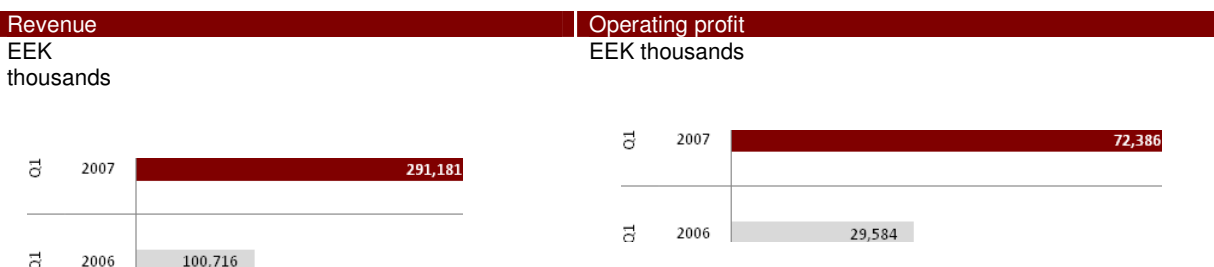
	1st Quarter 2007	1st Quarter 2006	Change
EEK thousands			
<b>Revenue</b>	<b>291,181</b>	<b>100,716</b>	<b>189%</b>
<b>Other operating income</b>	<b>49,256</b>	<b>2,551</b>	<b>1831%</b>
<b>Operating profit</b>	<b>72,386</b>	<b>29,584</b>	<b>145%</b>
Amortisation, depreciation and impairments	-1,098	-699	57%
Gain from negative goodwill recognised in income	0	13,314	-100%
<b>Net profit</b>	<b>69,100</b>	<b>27,096</b>	<b>155%</b>
<b>Net profit attributable to owners of the Arco Vara AS</b>	<b>63,499</b>	<b>27,162</b>	<b>134%</b>
Cash flow from operating activities	31,499	-8,379	-235%
Cash flow from investing activities	89,131	-38,509	-331%
Cash flow from financing activities	-63,483	27,352	-332%
<b>Total cash flow</b>	<b>57,147</b>	<b>-19,536</b>	<b>-266%</b>
Net profit margin	22%	27%	-19%
Operating profit margin	25%	29%	-15%
ROA	3.1%	1.8%	72%
Profitability of assets	15.4%	7.0%	122%
ROE	9.0%	4.7%	89%
EPS (in kroons)	0,94	0,40	111%

## Management report to 1st Quarter 2007

- Sales revenue increased 2,9 times to MEEK 291;
- Operating profit increased 2,4 times to MEEK 72;
- A joint venture for development of real estate objects in the port area of Tallinn was founded;
- A construction company in Latvia was acquired;
- The structure of the group was changed.

### Overview of Group's revenue and operating profit

The positive business trend of Arco Vara Group continued in the **first quarter of 2007**. Compared to the first quarter of 2006, the sales revenue increased 2.9 times to 291,181 thousand kroons (first quarter of 2006: 100,716 thousand kroons). The operating profit increased 2.4 times to 72,386 thousand kroons (first quarter of 2006: 29,584 thousand kroons).



### Areas of activity

Contributions of the Divisions to the financial indicators:

For 1st Quarter or at March, 31	Service	Development	Construction	Eliminations	Unallocated expenses and assets	Total
EEK thousands						
2007						
Total revenue and other operating income	33,253	294,777	57,219	-44,812	0	340,437
Total operating profit	-1,650	86,138	-6,334	5,648	-11,416	72,386
Total assets	36,941	1,819,842	90,506	-42,510	248,252	2,153,031
2006						
Total revenue and other operating income	24,276	43,110	52,476	-16,595	0	103,267
Total operating profit	4,141	38,906	-8,410	862	-5,915	29,584
Total assets	43,580	1,299,801	81,577	-53,957	137,609	1,508,610

**Service division**

The service division continued its aggressive expansion in the first quarter of 2007. The sales revenue and other operating income of the service division increased, compared to the same period in 2006, 1.4 times to 33,253 thousand kroons (2006: 24,276 thousand kroons).

In the first quarter of 2007, we opened a new office in Riga, increasing the number of offices in the Republic of Latvia to eight. Altogether the brokerage agencies of Arco Vara's service division have 25 offices in six countries.

Based on the investments resulting from the development needs of new countries in opening new offices and recruiting personnel, the share of general administration costs was higher in the figures of the service division. The investments were based on the good financial results of 2006 and are completely justified in a long-term perspective. The large share of investments led to an operating loss for the service division, which in the first quarter of 2007 was 1,650 thousand kroons. The operating loss in the first quarter was planned and perceptible on all markets. In the second quarter, the number of transactions on the real estate market is expected to grow, which in turn will positively influence the sales revenue of the service sector.

In the first quarter of 2007, the service division of Arco Vara brokered the purchase and sale of 503 objects. Of them, 55% or 277 are the sales transactions of objects brokered by the Arco Vara Real Estate Office in Estonia. The share on the new markets (Ukraine, Bulgaria and Romania) in the first quarter of 2007 was 8.5% (sales transactions for 43 objects).

A total of 2378 expert assessments for real estate have been issued by the offices of Arco Vara's service division in six countries, of which the share in Estonia and Latvia accounted for 53% and 40%, respectively. The Lithuanian office issued 7% of the total volume of expert assessments. The assessment activities on new markets are still being launched and first individual expert assessments have been prepared.

As of 31 March 2007, the websites for the service divisions in six countries contained 8,470 objects being brokered.

In the first quarter, the number of brokered objects increased by 3,304 or almost 40%. The main growth in the brokerage portfolio was achieved thanks to the activities of the Bulgarian brokerage agency. Websites of Arco Vara were visited about 900 thousand times during the first quarter.

In the first quarter of 2007, we opened a new office in Riga, increasing the number of offices in the Republic of Latvia to eight. Altogether the brokerage agencies of Arco Vara's service division have 25 offices.

As of 31 March 2007, Arco Vara's service division had 346 employees.

**Development division**

The development division had a record growth in sales revenue in the first quarter of 2007. Compared to the first quarter of 2006, the sales revenue increased 5.2 times to 245,659 thousand kroons (2006: 39,625 thousand kroons), mostly thanks to the sale of the following real estate projects:

- Keres Shopping Centre in Narva;
- Real estate Ulmana Gatves in Riga;
- Sale of Kolde project in Tallinn;
- Real estate of Suur-Sõjamäe in Tallinn;
- Sale of Kase project in Tallinn.

More important activities in the development division in the first quarter of 2007:Estonia:

- Launch of a detailed plan for Narva mnt 67 in Tallinn, its completion and partial approval;
- Preparation of a draft detailed plan and a draft for the building, and obtaining approval for them from the Tallinn City Planning Department;
- Commencement of designing the commercial building at Ahtri 3 in Tallinn;
- Preparation of a draft detailed plan for the office building at Paldiski mnt 80 in Tallinn;;
- Commencement of construction of the infrastructure for the real estate at Puiestiku 1, Vääna village;
- Commencement of third stage building activities of the Kolde residential district.

Latvia:

- Continuation of the construction of the first stage of the Bishumuizhas residential district in Riga;
- Commencement of designing the second stage of the Bishumuizhas residential district.

In 2007, the division continues the development activities and investments in new development projects of residential buildings. The largest project comprises the development of the residential area at Narva mnt 67 and the Kolde residential district, designing and construction of projects in the Admiralty district will actively continue. The activities in Riga are focused on the development of the Bishumuizhas residential district. Suitable investment projects are acquired and development teams set up in the target countries. In the capital cities of new target countries - Ukraine, Romania and Bulgaria - the focus is on the purchase and development of plots necessary for developing residential areas intended for dense settlement.

As of 31 March 2007, the development division had 41 employees.

**Construction division**

In the first quarter of 2007, the sales revenue of the construction division increased 1.1 times, reaching 57,192 thousand kroons (2006: 52,301 thousand kroons).

In January 2007, Arco Ehitus OÜ, a company of the construction division, acquired Latvian building company Arco Construction SIA whose sales revenue in the first quarter was 5,805 thousand kroons.

Arco Construction SIA was also acquired with a view towards expanding the activities beyond the boundaries of Estonia. In the first quarter, Arco Construction signed a construction contract for a 4-storey apartment building in the Bisumuiza residential area. The construction volume on the given object was MEEK 95.3 and the deadline for construction was 13 months.

Concerning environmental construction, Arco Ehitus OÜ was awarded a public procurement contract for Matsalu water supply, commencing the work on the object in March. The contract volume is MEEK 110 and the completion date is February 2009.

Concerning general construction, Arco Ehitus OÜ completed the construction of the Keres Centre in Narva.

As of 31 March 2007, the construction division had 134 employees, of whom 51 belonged to the staff of Arco Construction SIA.

## Geographic overview of activities

As of the end of the first quarter of 2007, the Group conducts activities in six countries, having representation offices in 25 towns in Estonia, Latvia, Lithuania, Ukraine, Bulgaria and Romania.

	Service			Development			Construction			Eliminations			Total		
	Q1 2007	Q1 2006	Change (%)	Q1 2007	Q1 2006	Change (%)	Q1 2007	Q1 2006	Change (%)	Q1 2007	Q1 2006	Change (%)	Q1 2007	Q1 2006	Change (%)
EEK thousands															
<b>1st Quarter</b>															
Estonia	19,644	15,401	28	192,516	39,577	386	51,387	52,301	-2	-43,919	-15,015	193	219,628	92,264	138
Latvia	9,395	7,655	23	53,143	48	110,615	5,805	.	.	-837	-469	78	67,506	7,234	833
Lithuania	1,583	409	287	0	.	.	0	.	.	-40	.	.	1,543	409	277
Ukraine	1,901	809	135	0	.	.	0	.	.	0	.	.	1,901	809	135
Bulgaria	465	.	.	0	.	.	0	.	.	0	.	.	465	.	.
Romania	289	.	.	0	.	.	0	.	.	0	.	.	289	.	.
Eliminations	-151	.	.	0	.	.	0	.	.	0	.	.	-151	.	.
<b>Total revenue</b>	<b>33,126</b>	<b>24,274</b>	<b>136</b>	<b>245,659</b>	<b>39,625</b>	<b>520</b>	<b>57,192</b>	<b>52,301</b>	<b>9</b>	<b>-44,796</b>	<b>-15,484</b>	<b>189</b>	<b>291,181</b>	<b>100,716</b>	<b>189</b>

## Changes in the Group structure

### Transfer of the Group's holding in subsidiary Arco HCE OÜ

Arco Vara decided to involve a partner - Rotermann Eesti OÜ – in the development of the real estate at Ahtri 3, Tallinn. Rotermann Eesti has considerable development experience in the area surrounding Ahtri Street, having developed the Rotermanni residential and business quarter. A contemporary multifunctional business centre will be developed on the plot of Ahtri 3, which has excellent opportunities for development owing to a very good location in the city centre of Tallinn and a large construction volume.

### Acquisition of a construction company in the Republic of Latvia

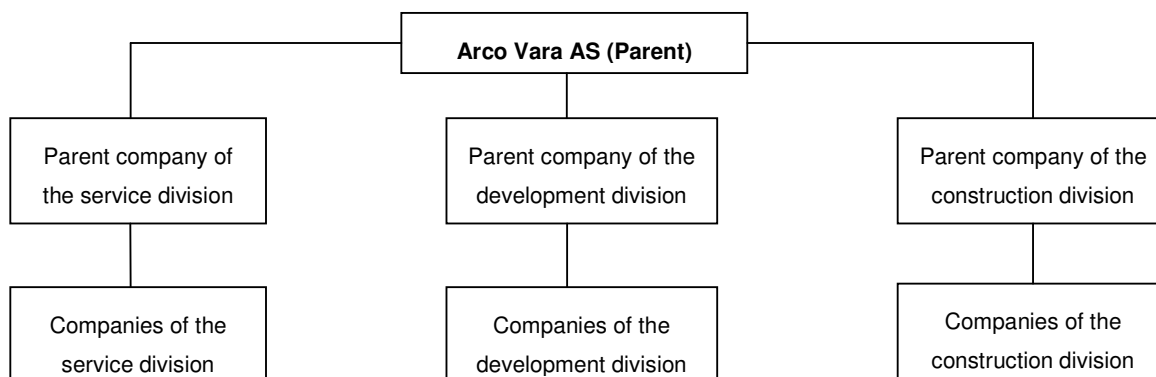
In January 2007, Arco Ehitus OÜ acquired a majority shareholding in Latvian building company Dinamo Buve SIA, which today bears a new business name - Arco Construction SIA. It constitutes a very important step where the construction division is expanding its activities beyond the boundaries of Estonia. The acquisition of the building company allows the Group to also offer a whole value chain in Latvia in addition to Estonia, beginning with service office activities and real estate development all the way up to construction activities. Considering the rapid growth in building prices on the Latvian building market, having its own building company places the Group in a better position for hedging risks resulting from an increase in the price of construction.



### Changes in the Group structure

In the first quarter of 2007, the Group continued with the reorganisation of the Group's structure and sold the shares in companies owned earlier by the parent company to the parent companies of the divisions, which are Arco Real Estate AS in the service division, Arco Investeeringute AS in the development division and Arco Ehitus OÜ in the construction division. Some of the companies will be sold in the second and third quarters of 2007. Those activities ensure the uniformity of the Group's legal structure and segment reports used in financial reporting.

The following drawing illustrates the Group's structure after the restructuring:



During restructuring, the following companies were sold internally in the Group, in the first quarter of 2007, to the parent companies of the division:

Segment	Company	Share of Company	Seller	Purchaser
Service				
	Arco Vara Kinnisvarabüroo	100,0	Arco Vara AS	Arco Real Estate AS
	Arco Real Estate SIA	80,0	Arco Vara AS	Arco Real Estate AS
	Arco Rumeenia Valduste OÜ	50,0	Arco Vara AS	Arco Real Estate AS
	Arco Real Estate UAB	80,0	Arco Vara AS	Arco Real Estate AS
Development				
	Arco HCE OÜ	50,0	Arco Vara AS	Arco Investeeringute AS
	Arco Vara Kinnistute AS	100,0	Arco Vara AS	Arco Investeeringute AS
	Arco Vara Arenduse OÜ	50,0	Arco Vara AS	Arco Investeeringute AS
	Arco Ärikeskuse OÜ	30,2	Arco Vara Kinnistute AS	Arco Investeeringute AS
	Arco Ärikeskuse OÜ	19,8	Arco Vara AS	Arco Investeeringute AS
	Kolde AS	89,3	Arco Vara AS	Arco Investeeringute AS
	Kerberon OÜ	83,4	Arco Vara AS	Arco Investeeringute AS
	Arco Vara Riia Valdused OÜ	75,0	Arco Vara AS	Arco Investeeringute AS
	Pärnu Turg OÜ	100	Arco Vara AS	Arco Investeeringute AS
	Arco Vara Saare Kinnistud OÜ	50	Arco Vara AS	Arco Investeeringute AS
	Wilson Kinnisvara OÜ	100	Arco Vara AS	Arco Investeeringute AS
	Arco Development SIA	80	Arco Vara AS	Arco Investeeringute AS

As a part of restructuring, the following subsidiaries were merged on 1 January 2007:

Merging (surviving) company	Companies merged
Arco Vara AS	Fimaier OÜ, Arcofond OÜ
Arco Ehitus OÜ (formerly Deena Ehitus OÜ)	Veemaailm Inc OÜ
Arco Investeeringute AS	Metro Kinnisvara OÜ, Zeus Haldus OÜ

The restructuring of Arco Vara Group will have no effect of the Group's financial position or results.

### ***Issue of Arco Vara bonds***

At the beginning 2007 Arco Vara AS issued short-term and long-term bonds as follows:

Name of security	Type of bonds	Issue volume (in thousands of kroons)	Currency	Interest rate
Arco Vara Kommertspaber 21.09.2007	Discount bonds	60,450	EEK	6,46%
Arco Vara Kommertspaber 21.01.2011	Coupon bonds	27 ,929	EUR	6 month Euribor + 4%

### ***Objectives of 2007***

The main objective of the Group in 2007 is to continuously grow the volume of activities in all business lines, for which the financial results of the first quarter have given a good starting point. Arco Vara sees great development potential on the Ukrainian, Bulgarian and Romanian real estate market, where we will substantially increase investments and human resources.

## Arco Vara AS unaudited Condensed Consolidated Financial Statements 1st Quarter 2007

### Arco Vara AS consolidated income statement

	Note	1st Quarter 2007	1st Quarter 2006
EEK thousands			
Revenue from rendering services		53,838	75,872
Revenue from sale of goods		237,343	24,844
<b>Total revenue</b>	5	<b>291,181</b>	<b>100,716</b>
Cost of sales		-226,397	-67,021
<b>Gross profit</b>		<b>64,784</b>	<b>33,695</b>
Other operating income	5	49,256	2,551
Marketing expenses		-7,565	-3,671
General and administrative expenses		-31,390	-2,877
Other operating expenses		-2,699	-114
<b>Operating profit</b>		<b>72,386</b>	<b>29,584</b>
Financial and investment activity income		10,170	1,860
Financial and investment activity expenses		-13,168	-4,428
<b>Profit before income tax</b>		<b>69,388</b>	<b>27,016</b>
Income tax expense		-288	80
<b>Net profit</b>		<b>69,100</b>	<b>27,096</b>
<i>attributable to minority interests</i>		<i>5,601</i>	<i>-66</i>
<i>attributable to owners of Arco Vara AS</i>		<i>63,499</i>	<i>27,162</i>
<b>Profit attributable to owners of the Parent per share (in kroons)</b>			
- basic		<b>2.09</b>	0.99
- diluted		<b>2.09</b>	0.99

## Arco Vara AS consolidated balance sheet

	Note	31.03.2007	31.12.2006
EEK thousands			
<b>Current assets</b>			
Cash and cash equivalents		115,436	58,345
Receivables	7	252,092	102,498
Prepaid expenses		9,108	4,429
Inventories	8	600,803	431,817
Biological assets		6,142	6,141
<b>Total current assets</b>		<b>983,581</b>	<b>603,230</b>
<b>Non-current assets</b>			
Long-term receivables		9,063	10,673
Long-term investments into financial assets		67,489	65,769
Investment property	9	994,037	1,479,281
Property, plant and equipment	10	78,554	81,713
Intangible assets	11	20,307	16,705
<b>Total non-current assets</b>		<b>1,169,450</b>	<b>1,654,141</b>
<b>TOTAL ASSETS</b>		<b>2,153,031</b>	<b>2,257,371</b>
<b>Current liabilities</b>			
Borrowings		681,313	699,568
Payables		217,538	249,275
Prepayments		36,481	63,427
Provisions		1,926	1,953
<b>Total current liabilities</b>		<b>937,258</b>	<b>1,014,223</b>
<b>Non-current liabilities</b>			
Long-term borrowings		408,140	457,258
Other long-term payables		4,111	41,561
Deferred income taxes		1,647	1,353
Long-term provisions		1,100	1,095
<b>Total non-current liabilities</b>		<b>414,998</b>	<b>501,267</b>
<b>TOTAL LIABILITIES</b>		<b>1,352,256</b>	<b>1,515,490</b>
<b>Equity attributable to the owners of the Parent</b>			
Share capital		304,530	304,530
Share premium		123,083	123,083
Legal mandatory reserve		5,486	5,486
Other reserves		-188	-184
Retained earnings		344,999	292,002
<b>Total equity attributable to the owners of the Parent</b>		<b>777,910</b>	<b>724,917</b>
Minority interest		22,865	16,964
<b>Total equity</b>		<b>800,775</b>	<b>741,881</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,153,031</b>	<b>2,257,371</b>

## Arco Vara AS consolidated cash flow statement

	1st Quarter 2007	1st Quarter 2006
EEK thousands		
<b>Operating profit</b>	<b>72,386</b>	<b>29,584</b>
Adjustments of operating profit, incl.	-45,331	-14,987
<i>Depreciation of property, plant and equipment and amortisation of intangible assets</i>	<i>1,103</i>	<i>-12,594</i>
<i>Gains or losses from disposals of property, plant and equipment and intangible assets</i>	<i>-36</i>	<i>-8</i>
<i>Gains or losses from disposals of investment property</i>	<i>2,272</i>	<i>-2,385</i>
<i>Gains or losses from changes in fair value of investment property</i>	<i>-48,670</i>	<i>0</i>
Change in receivables related to operating activities	-59,867	-1,444
Change in inventories	114,622	-29,267
Change in biological assets	-1	108
Change in liabilities and prepayments related to operating activities	-50,310	7,627
<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>31,499</b>	<b>-8,379</b>
Purchase of property, plant, equipment and intangible assets	-3,589	-35,027
Proceeds from disposals of property, plant and equipment	19	12
Acquisition of investment property	-6,128	-7,639
Proceeds from disposals of investment property	9,418	5,051
Acquisitions of subsidiaries and joint ventures	-6,203	-4,036
Proceeds from disposals of subsidiaries and joint ventures	93,215	0
Loans granted	-9,426	-165
Repayments of loans granted	10,620	2,235
Interest received	1,205	1,060
<b>TOTAL CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>89,131</b>	<b>-38,509</b>
Loans received	160,928	59,831
Loan and finance lease repayments	-196,491	-19,216
Change in overdraft	-15,598	-80
Change in group account	-376	0
Interest paid	-9,288	-6,590
Issue of shares	0	-1,408
Dividends paid	-1,990	-4,079
Paid income tax on dividends	-668	-1,106
<b>TOTAL CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-63,483</b>	<b>27,352</b>
<b>TOTAL CASH FLOW</b>	<b>57,147</b>	<b>-19,536</b>
Cash and cash equivalents at the beginning of the period	58,345	143,985
Change in cash and cash equivalents	57,147	-19,536
Effects on change in currency exchange rates on cash and cash equivalents	-56	-42
<b>Cash and cash equivalents at the end of the period</b>	<b>115,436</b>	<b>124,407</b>

## Arco Vara AS consolidated statement of changes in equity

	Attributable to equity holders of the Parent						Minority interests	Total equity
	Share capital	Share premium	Legal mandatory reserve	Other reserves	Retained earnings	Total		
EEK thousands								
<b>Balance as of 31.12.2005</b>	<b>304,530</b>	<b>123,083</b>	<b>420</b>	<b>474</b>	<b>100,811</b>	<b>529,318</b>	<b>51,427</b>	<b>580,745</b>
Unrealised currency exchange difference	0	0	0	12	0	12	0	12
Change in minority interest caused by changes in the Parent's ownership in subsidiaries	0	0	0	0	0	0	-43,585	-43,585
Net profit for the period	0	0	0	0	27,162	27,162	-66	27,096
<b>Balance as of 31.03.2006</b>	<b>304,530</b>	<b>123,083</b>	<b>420</b>	<b>486</b>	<b>127,973</b>	<b>556,492</b>	<b>7,776</b>	<b>564,268</b>
<b>Balance as of 31.12.2006</b>	<b>304,530</b>	<b>123,083</b>	<b>5,486</b>	<b>-184</b>	<b>292,002</b>	<b>724,917</b>	<b>16,964</b>	<b>741,881</b>
Unrealised currency exchange difference	0	0	0	-4	0	-4	0	-4
Change in minority interest caused by changes in the Parent's ownership in subsidiaries	0	0	0	0	0	0	300	300
Initially recorded put options on minority	0	0	0	0	-10,502	-10,502	0	-10,502
Net profit for the period	0	0	0	0	63,499	63,499	5,601	69,100
<b>Balance as of 31.03.2007</b>	<b>304,530</b>	<b>123,083</b>	<b>5,486</b>	<b>-188</b>	<b>344,999</b>	<b>777,910</b>	<b>22,865</b>	<b>800,775</b>

## Notes to the condensed consolidated financial statements 1st Quarter 2007

### 1. Accounting policies

The non-audited condensed consolidated interim financial statements of Arco Vara AS for the first quarter of 2007 are prepared in accordance with the requirements provided by International Accounting Standard (IAS) 34 Interim Financial Reporting, making use of the same accounting methods and principles which were applied in preparing the consolidated financial statement for 2006.

The interim condensed consolidated financial statements for the three months ended 31 March 2007 do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2006.

In addition, the following new or revised standards and interpretations have been applied which did not have any influence on the financial results of the first quarter of 2007:

IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements (revised)
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

New or revised standards and interpretations adopted by the balance sheet date of this financial statement, but not yet entered into force, do not have a significant effect on the material accounting principles applied by the Group. The requirements of these standards and requirements will be followed as of the date of their entry into force which will be either 1 January 2008 (IFRIC 11) or 1 January 2009 (IFRS 8) in the case of standards and interpretations applicable to the Group:

IFRS 8	Operating Segments
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions

#### Financial instruments – supplemented accounting principles

Based on two shareholder agreements, four minority shareholders of the Group have put options which give the minority shareholders the right to sell and give the Group the obligation to purchase the shares held by the minority shareholders. In the case of one shareholders' agreement, the exercise price of the put option is the established amount which corresponds to the market value of those shares. In case of the other shareholders' agreement, the exercise price of the put option is the minority's proportional part of the book value of the company's equity, calculated according to IFRS.

Based on IAS 32 paragraph 23, the Group has recognised, in connection with the given put options held by the minority, a financial liability in the present value of the amount payable upon exercising the options. The amount of the given liability is calculated either on the basis of the market value of the minority interest or the book value of the equity of the company on each reporting date. Upon initial recognition the minority put options are recognised as a short-term liability and as an adjustment to retained earnings. Any subsequent changes in the carrying value of financial liability will be recognised in financial income or financial expenses in the income statement.

## 2. Scope of consolidation

	Estonia	Latvia	Lithuania	Ukraine	Bulgaria	Romania	Total
<b>Parent and subsidiaries</b>							
As of 31.12.2006	20	7	2	2	1	-	<b>32</b>
Additions	1	1	1	0	-	-	<b>3</b>
Disposals	-6	-	-	-1	-	-	<b>-7</b>
As of 31.03.2007	15	8	3	1	1	-	<b>28</b>
<b>Joint ventures</b>							
As of 31.12.2006	22	2	-	-	-	1	<b>25</b>
Additions	1	-	-	-	-	-	<b>1</b>
Disposals	-2	-	-	-	-	-	<b>-2</b>
As of 31.03.2007	21	2	-	-	-	1	<b>24</b>
<b>Associated companies (not consolidated)</b>							
As of 31.12.2006	1	0	0	0	0	0	<b>1</b>
Additions	-	-	-	-	-	-	<b>-</b>
Disposals	-	-	-	-	-	-	<b>-</b>
As of 31.03.2007	1	0	0	0	0	0	<b>1</b>

In the first quarter of 2007, the number of consolidated companies of the Group decreased by five, including five companies that were merged with other companies of the Group, two subsidiaries were founded, one was acquired by way of business combination (Note 4), one subsidiary and two joint companies (Note 3) were sold, and one company was reclassified to a joint venture as a result of selling a shareholding in a subsidiary (Note 3).

## 3. Transfers of Group holdings in subsidiaries and joint ventures

At the beginning of 2007, Arco Vara AS transferred a 50% shareholding in subsidiary Arco HCE OÜ. The sales price in transferring the shareholding was 22,711 thousand kroons, in addition to which the purchaser paid 50% of the claim of Arco Vara AS against the subsidiary in the amount of 106,188 thousand kroons.

The impact of the sale the shareholding in the subsidiary and subsequent changes to a joint venture had the following influence on the Group:

	1st Quarter 2007
EEK thousands	
Cash and cash equivalents	121,356
Other current assets	-2,423
Long-term receivables	49,322
Investment property (note 9)	-192,500
Short-term borrowings	-62,509
Other short-term payables	-46,351
Long-term borrowings	49,322

<sup>1</sup> The sales price of the share received from transferring the ownership of the share of Arco HCE OÜ and the receivable of the Group from Arco HCE OÜ as of 31.12.2006 paid by the purchaser to the Group have been shown as a change in cash and cash equivalents in the above table.

After the transfer of the shareholding, the share capital of Arco HCE OÜ was increased by 20 thousand kroons, while the nominal value of the share of both owners of Arco HCE OÜ was increased in proportion to their shareholding. A total of 73,829 thousand kroons was paid in as a share premium, of which the premium paid by the Group comprised 72,839 thousand kroons.



The costs directly related to the transfer of the 50% shareholding in Arco HCE OÜ reached 2,000 thousand kroons.

In March 2007, the Group transferred a shareholding in the Ukrainian company Arco Capital TOV, receiving 2,649 thousand kroons from the sale of the subsidiary. The influence of transfer of the shareholding in Arco Capital TOV on the assets and liabilities of the Group was as follows:

	1st quarter 2007
EEK thousands	
Cash and cash equivalents	-403
Other current assets	-66
Property, plant and equipment (note 10)	-6,802
Liabilities	-44

In March 2007, the Group transferred its shareholding in joint venture Kramer Kinnisvara OÜ. As of 31 March 2007, the Group has a claim in the amount of 2,311 thousand kroons from selling the joint venture. The influence of transferring Kramer Kinnisvara OÜ on the financial results of the Group in the first quarter was as follows:

	1st quarter 2007
EEK thousands	
Cash and cash equivalents	-53
Short-term receivables	-481
Inventories (note 8)	-14,624
Short-term borrowings	-2,385
Other short-term payables	-303
Long-term borrowings	-11,213

In January 2007, the Group transferred its holding in joint venture Cromer Trade OÜ, receiving 2,400 thousand kroons from the sale. Cromer Trade OÜ was a project company, holding the real estate recognised as inventories and therefore the sale of the joint venture is recognised as sales revenue in the income statement and as a change in operating cash flows in the cash flows statement.

#### 4. Business combinations and acquisitions of minority

On 11 January 2007, the Group acquired a 55% shareholding in Latvian building company Construction SIA. The acquisition cost was 4 303 thousand kroons, of which 1 291 thousand kroons was paid in cash in the first quarter of 2007 and the remaining amount will be paid within three years. The acquisition cost does not bear any interest and therefore it has been discounted as a result of which the acquisition cost comprises 4 070 thousand kroons. The acquired net assets and created goodwill are presented in the following table.

The acquisition cost is divided to the assets and liabilities of Arco Construction SIA at fair value as follows:

	11.01.2007
EEK thousands	
<b>Acquisition cost</b>	<b>4,070</b>
Fair value of acquired net assets	710
Goodwill	3,360

The income and expenditure of Arco Construction SIA within three months as well as the liabilities as of 31 March 2007 are consolidated to the Group's financial statement for the first quarter of 2007. The sales revenue of Arco Construction SIA outside the Group in the first quarter of 2007 was 4,286 thousand kroons.

In early 2007 the Group acquired an additional 25% shareholding in the subsidiary Arco Vara Riia Valduste OÜ. After the acquisition of the minority Riia Valduste OÜ became a wholly owned subsidiary of the Group. The Group paid 10 thousand kroons for the minority interest acquired. The transaction had no material effect on the financial position and financial performance of the Group.

## 5. Segment information – business segments

Revenue and other operating income by business segments	1st Quarter 2007	1st Quarter 2006	Part from consolidated income (%)
EEK thousands			
<b>Service</b>	<b>33,253</b>	<b>24,276</b>	<b>10</b>
Revenue from external customers	28,498	22,406	8
Other operating income from external customers	131	4	0
Revenue and other operating income to other segments	4,624	1,866	1
<b>Development</b>	<b>294,777</b>	<b>43,110</b>	<b>87</b>
Revenue from external customers	244,429	38,128	72
Other operating income from external customers	49,118	2,446	14
Revenue and other operating income to other segments	1,230	2,536	0
<b>Construction</b>	<b>57,219</b>	<b>52,476</b>	<b>17</b>
Revenue from external customers	18,254	40,182	5
Other operating income from external customers	7	101	0
Revenue and other operating income to other segments	38,958	12,193	11
<b>Eliminations</b>	<b>-44,812</b>	<b>-16,595</b>	<b>-13</b>
<b>Total revenue and operating income</b>	<b>340,437</b>	<b>103,267</b>	<b>100</b>

Operating profit by business segments	1st Quarter 2007	1st Quarter 2006
EEK thousands		
<b>Service</b>	<b>-1,650</b>	<b>4,141</b>
incl. amortisation and depreciation	-297	-181
incl. goodwill recorded as income and impairment loss on goodwill	0	0
<b>Development</b>	<b>86,138</b>	<b>38,906</b>
incl. amortisation and depreciation	-208	-137
incl. goodwill recorded as income and impairment loss on goodwill	0	13,404
<b>Construction</b>	<b>-6,334</b>	<b>-8,410</b>
incl. amortisation and depreciation	-369	-281
incl. goodwill recorded as income and impairment loss on goodwill	0	-90
<b>Eliminations</b>	<b>5,648</b>	<b>862</b>

<b>Unallocated operating expenses</b>	<b>-11,416</b>	<b>-5,915</b>
incl. amortisation and depreciation	-224	-100
incl. goodwill recorded as income and impairment loss on goodwill	0	0
<b>Total operating profit</b>	<b>72,386</b>	<b>29,584</b>
incl. amortisation and depreciation	-1,098	-699
incl. negative goodwill recorded as income and impairment loss on goodwill	0	13,314

<b>Investments into non-current assets by business segments</b>	<b>1st Quarter 2007</b>	<b>1st Quarter 2006</b>
EEK thousands		
<b>Service</b>	<b>1,488</b>	<b>604</b>
<b>Development</b>	<b>3,093</b>	<b>43,000</b>
<b>Construction</b>	<b>3,783</b>	<b>3,968</b>
Unallocated investments	160	53
<b>Total investments into non-current assets</b>	<b>8,524</b>	<b>47,625</b>

<b>Assets by business segments</b>	<b>31.03.2007</b>	<b>31.12.2006</b>
EEK thousands		
<b>Service</b>	<b>36,941</b>	<b>31,900</b>
<b>Development</b>	<b>1,819,842</b>	<b>2,054,015</b>
<b>Construction</b>	<b>90,506</b>	<b>92,240</b>
Eliminations	-42,510	-20,665
Unallocated assets	248,252	99,881
<b>Total assets</b>	<b>2,153,031</b>	<b>2,257,371</b>

The decrease in the volume of the assets of the development segment as compared to 31 December 2006 is caused in part by the sale of a 50% shareholding in Arco HCE OÜ, the subsequent change of a subsidiary to a joint venture (Note 3) and selling the real estate properties recognised as inventories (Note 8).

## 6. Earning per share

	1st Quarter 2007	1st Quarter 2006
EEK thousands		
Weighted average number of common shares	67,784,150	67,784,150
Net profit attributable to the owners of the Parent	63,499	27,162
<b>EPS (in kroons per share)</b>	<b>0.94</b>	<b>0.40</b>

In May 2007 the Group conducted a bonus issue, increasing the share capital in the amount of 373,311 thousand kroons at the expense of the company's equity without any additional inflow of resources to the Group. With the bonus issue, 37,331,113 new shares were issued at a nominal value of 10 kroons per share. For this reason, the weighted average number of shares during the first quarter of 2007 and first quarter of 2006 was retroactively changed to 67,784,150 shares.

## 7. Receivables

	31.03.2007	31.12.2006
EEK thousands		
Accounts receivable	131,222	45,147
Other receivables	98,465	34,057
Accrued income	22,405	23,294
<b>Total receivables</b>	<b>252,092</b>	<b>102,498</b>

The significant increase in the caption of accounts receivable is related to the sale of real estate properties Kereses Keskus in Narva and Suur-Sõjamäe 40 in Tallinn. The total unpaid amount as of 31.03.2007 from these transactions was 96,648 thousand kroons.

The increase in the caption other receivables is related to receivables from Arco HCE OÜ in the total amount of 54,141 thousand kroons. Arco HCE OÜ was reclassified from subsidiary to joint venture as the result of the 50% sale of Arco HCE OÜ at the beginning of 2007 (Note 3).

## 8. Inventories

	31.03.2007	31.12.2006
EEK thousands		
Real estate purchased for resale or development	581,555	415,567
Other goods purchased for resale	5,464	6,580
Materials and finished goods	1,204	0
Prepayments to suppliers	12,580	9,670
<b>Total inventories</b>	<b>600,803</b>	<b>431,817</b>

A significant increase in the caption of real estate purchased for resale or development is related to the reclassification of the Tivoli project from investment properties to inventories (Note 9). The reclassification at the beginning of 2007 in the amount of 300,000 thousand kroons was caused by the assessment of the development segment management on the future intended purpose of the real estate and positive developments in the process of establishing a detailed plan for the project.

In addition to the foregoing, real estate Ulmana Gatves in Riga, Keres Centre in Narva, apartments in Kolde residential district and the most important part of Kase project in Tallinn were sold, as a result of which the inventories decreased by a total amount 173,828 thousand kroons.

Through the sale of the joint venture Kramer Kinnisvara OÜ in March 2007, the real estate objects recognised as inventories decreased in value by 14,624 thousand kroons (Note 3).

Other changes in the stocks are related to investments in development objects in progress in Estonia and Latvia.

## 9. Investment property

EEK thousands

<b>Balance as of 31.12.2005</b>	<b>851,104</b>
Acquisitions	4,274
Capitalised borrowing costs	69
Sales	-2,574
<b>Balance as of 31.03.2006</b>	<b>852,873</b>
<b>Balance as of 31.12.2006</b>	<b>1,479,281</b>
Acquisitions	433
Sales	-41,847
Disposals related to sale of subsidiaries and reclassification into joint venture (note 3)	-192,500
Reclassification into inventories (note 8)	-300,000
Gain or loss from change in fair value	48,670
<b>Balance as of 31.03.2007</b>	<b>994,037</b>

The group did not evaluate the fair value of investment properties as at 31.03.2006. 31.12.2005 values were used instead.

## 10. Property, plant and equipment

	Land and buildings	Machinery and equipment	Other property, plant and equipment	Construction in progress and prepayments	Total property, plant and equipment
EEK thousands					
<b>Balance as of 31.12.2005</b>	<b>16,956</b>	<b>1,464</b>	<b>2,938</b>	<b>153,043</b>	<b>174,401</b>
Purchases	0	40	687	25,406	26,133
Capitalised borrowing costs	0	0	0	2,295	2,295
Disposals	0	-5	0	0	-5
Depreciation charge	-186	-138	-298	0	-622
<b>Balance as of 31.03.2006</b>	<b>16,770</b>	<b>1,361</b>	<b>3,327</b>	<b>180,744</b>	<b>202,202</b>
<i>incl. acquisition cost</i>	<i>24,860</i>	<i>4,946</i>	<i>7,812</i>	<i>180,744</i>	<i>218,362</i>
<i>incl. accumulated depreciation</i>	<i>-8,090</i>	<i>-3,585</i>	<i>-4,485</i>	<i>0</i>	<i>-16,160</i>
<i>incl. acquisition cost</i>	<i>30,052</i>	<i>5,553</i>	<i>8,256</i>	<i>53,799</i>	<i>97,660</i>
<i>incl. accumulated depreciation</i>	<i>-8,723</i>	<i>-3,292</i>	<i>-3,932</i>	<i>0</i>	<i>-15,947</i>
<b>Balance as of 31.12.2006</b>	<b>21,329</b>	<b>2,261</b>	<b>4,324</b>	<b>53,799</b>	<b>81,713</b>

Purchases	0	1,016	724	2,655	4,395
Capitalised borrowing costs	0	0	0	20	20
Additions from business combinations (note 4)	0	0	695	0	695
Disposals	0	-436	-29	0	-465
Disposals related to sale of subsidiary (note 3)	0	0	0	-6,802	-6,802
Depreciation charge	-339	-152	-511	0	-1,002
<b>Balance as of 31.03.2007</b>	<b>20,990</b>	<b>2,689</b>	<b>5,203</b>	<b>49,672</b>	<b>78,554</b>
<i>incl. acquisition cost</i>	<i>30,046</i>	<i>5,391</i>	<i>9,220</i>	<i>49,672</i>	<i>94,329</i>
<i>incl. accumulated depreciation</i>	<i>-9,056</i>	<i>-2,702</i>	<i>-4,017</i>	<i>0</i>	<i>-15,775</i>

## 11. Intangible assets

	Goodwill	Negative goodwill	Computer software	Total
EEK thousands				
<b>Balance as of 31.12.2005</b>	<b>13,071</b>	<b>0</b>	<b>513</b>	<b>13,584</b>
Purchases	0	0	36	36
Additions from business combinations	3,873	13,314	0	17,187
Disposals	0	-13,314	0	-13,314
Amortisation charge	0	0	-77	-77
<b>Balance as of 31.03.2006</b>	<b>16,944</b>	<b>0</b>	<b>472</b>	<b>17,416</b>
<i>incl. acquisition cost</i>	<i>16,944</i>	<i>0</i>	<i>1,119</i>	<i>18,063</i>
<i>incl. accumulated depreciation</i>	<i>0</i>	<i>0</i>	<i>-647</i>	<i>-647</i>
<b>Balance as of 31.12.2006</b>	<b>15,558</b>	<b>0</b>	<b>1,147</b>	<b>16,705</b>
Purchases	0	0	327	327
Additions from business combinations (note 4)	3,360	0	11	3,371
Amortisation charge	0	0	-96	-96
<b>Balance as of 31.03.2007</b>	<b>18,918</b>	<b>0</b>	<b>1,389</b>	<b>20,307</b>
<i>incl. acquisition cost</i>	<i>18,919</i>	<i>0</i>	<i>2,176</i>	<i>21,095</i>
<i>incl. accumulated depreciation</i>	<i>0</i>	<i>0</i>	<i>-788</i>	<i>-788</i>

The goodwill created through the business combination in the first quarter of 2007 is related to the client relations of Arco Construction SIA and concluded building contracts. The concluded construction contracts and client relations cannot be assessed as separate intangible assets.

## 12. Transactions with related parties

### Transactions with joint ventures

	For the 1st Quarter 2007 or as of 31.03.2007	For the 1st Quarter 2006 or as of 31.12.2006
EEK thousands		
Sales revenue	183	236
Services purchased	12	40
Short-term loan receivables	64,811	4,075
Long-term loan receivables	1,158	2,215
Accounts receivables	133	4,846
Other short-term receivables	353	121
Short-term payables	21	1

In January 2007, the Group transferred a 50% holding in subsidiary Arco HCE OÜ. Through selling half of the shareholding, Arco HCE OÜ changed to a joint venture and 50% of the Group's claims against the joint venture are hereafter recognised in the consolidated balance sheet. As of 31 March 2007, short-term loan receivables from joint ventures included claims against Arco HCE OÜ in the amount of 54,141 thousand kroons. The interest on this loan is 10% a year.

### Transactions with companies with joint control over the Group or the Group companies:

	For the 1st Quarter 2007 or as of 31.03.2007	For the 1st Quarter 2006 or as of 31.12.2006
EEK thousands		
Sales revenue	135	0
Short-term loan receivables	113	113
Short-term borrowings	63,529	3,240
Long-term borrowings	12,438	12,438

Short-term liabilities as of 31 March 2007 included liabilities towards the other joint venturer of Arco HCE OÜ in the amount of 53,094 thousand kroons. The interest rate of loan liability is 10% a year.

### Transactions with key management personnel of the Group companies

	For the 1st Quarter 2007 or as of 31.03.2007	For the 1st Quarter 2006 or as of 31.12.2006
EEK thousands		
Sales revenue	788	0
Short-term loan receivables	5,017	5,017
Other short-term receivables	104	104
Short-term borrowings	268	268

**Transactions with other related parties**

	For the 1st Quarter 2007 or as of 31.03.2007	For the 1st Quarter 2006 or as of 31.12.2006
EEK thousands		
Sales revenue	1,353	91
Services purchased	1,378	60
Short-term loan receivables	14,661	8,196
Other short-term receivables	1,279	5,089
Accounts receivables	815	0
Long-term loan receivables	1,255	5,197
Trade payables	95	0
Short-term borrowings	150	552
Other short-term payables	40,051	39,616
Long-term borrowings	2,344	2,960

Other short-term receivables as of 31 December 2006 comprised a receivable from Arco Kinnisvaraholdus AS in the amount of 3 810 thousand kroons that was converted into a loan receivable in early 2007. Short-term loans receivable as of 31 March 2007 include a total of 9 163 thousand kroons (including the above mentioned converted receivable) outstanding from Arco Kinnisvaraholduse AS. The loan bears an interest of 6% per annum.

**13. Events after the balance sheet date****Transfer of a shareholding in subsidiaries Bišumuižas Nami SIA and Sportings Riga SIA**

Arco Investeeringud and the minority shareholder of Bišumuižas Nami SIA entered into a conditional Share Purchase Agreement on 18 May 2007 with SIA Linstow Baltic regarding the sale of 50 per cent of the shares of SIA Bišumuižas Nami. The nominal consideration for the shares is LVL 1,000. The closing of the transaction is subject a number conditions such as a filing to the Latvian Competition Authorities, satisfactory due diligence review by the purchaser and certain further agreements being negotiated and entered into in a form acceptable to the purchaser. If these conditions are not met by 30 June 2007, any party may withdraw from the agreement without any liability. Further, the transaction is conditional on the payment of consideration of EUR 19,220,000 for the purchase by SIA Bišumuižas Nami of 100 per cent of the shares of SIA Sportings Riga by 30 November 2007. The sellers are entitled to buy back the shares of SIA Bišumuižas Nami for the same price (LVL 1,000) in the event that SIA Bišumuižas Nami fails to pay in full the purchase price for the shares of SIA Sportings Riga within four months after the closing.

Following the closing, Arco Investeeringud will own 40 per cent of the shares in SIA Bišumuižas Nami, with Mr. Viktors Savins owning 10 per cent and SIA Linstow Baltic owning 50 per cent.

**Transfer of the Group's holding in joint ventures Castleberry OÜ and Barrow Investments OÜ**

In May 2007, the Group transferred its holding in joint venture Castleberry OÜ and in April, 2007, its holding in joint venture Barrow Investments. Castleberry OÜ and Barrow Investments OÜ were a project companies, holding the real estate recognised as inventories and therefore the sales of the joint ventures are recognised as sales revenue in the income statement and as a change in operating cash flows in the cash flows statement.



**Bonus issue**

In May 2007, the Group increased the share capital by way of bonus issue in the amount of 373,311 thousand kroons on account of the company's equity without making any additional contributions. During the bonus issue 37,331,113 new shares with a nominal value of EEK 10 were issued.

**Acquisitions of minority interests**

In May 2007 the Group acquired additional shareholdings of 25% and 20% in the subsidiaries Arco Vara Puukool OÜ and Arco Real Estate UAB respectively. After the acquisition both companies became wholly owned subsidiaries of the Group. The transactions had no material effect on the financial position and financial performance of the Group.

## Management representation to the interim condensed consolidated financial statements

Hereby we declare our responsibility for the Interim Condensed Consolidated Financial Statements of Arco Vara AS (hereafter also the "Parent") and its subsidiaries (hereinafter also collectively the "Group") prepared for the 3 months ended 31 March 2007. These Interim Condensed Consolidated Financial Statements set out on pages 2-26 have been prepared in accordance with IAS 34 as adopted by EU and give a true and fair view of the financial position of the Group, as well as the results of its operations and cash flows.


The Group and the Parent are able to continue as a going concern.



Viljar Arakas  
Chairman of the Management Board



Sulev Luiga  
Member of the Management Board



Ivar Siimar  
Member of the Management Board



Veiko Pedosk  
Member of the Management Board



Ahto Altjõe  
Member of the Management Board