



# **Arco Vara AS**

*Interim report 9 months 2008*



ARCO VARA

**THIRD QUARTER AND NINE MONTHS 2008**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**

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Core activities: Real estate development and investment (EMTAK 701)  
Real estate related services (EMTAK 702, 703)  
Construction (EMTAK 45)

Financial year: 1 January 2008 – 31 December 2008

Reporting period: 1 January 2008 – 30 September 2008

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

Management board: Lembit Tampere, Veiko Taevere, Heigo Metsoja

Auditor: Ernst & Young Baltic AS

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## 2008. Management report for the nine months of 2008

### KEY FINANCIALS

- Revenue and other income for the nine months totalled 540.0 million kroons (34.5 million euros), 21.4% down year-over-year;
- EBIT amounted to -106.7 million kroons (-6.8 million euros), a 218.4 million kroons (13.9 million euro) decrease compared with the year before;
- Net profit was -102.5 million kroons (-6.5 million euros), 366.6 million kroons (23.4 million euros) down from the year ago.
- Equity ratio was 55.5% (9 months 2007: 55.4%). ROE was -7.3% (9 months 2007: 31.5%). ROIC was -2.7% (9 months 2007: 19.5%);
- The Group's order backlog in the construction business stood at 233.0 million kroons (14.9 million euros) against 361.0 million kroons (23.1 million euros) last year;
- During the period, 102 apartments and plots were sold or booked (9 months 2007: 98).

	9 months 2008	EEK 9 months 2007	Q3 2008	Q3 2007	9 months 2008	EUR 9 months 2007	Q3 2008	Q3 2007
In millions								
Revenue and other income	540.0	686.7	195.2	199.1	34.5	43.9	12.5	12.7
EBIT	-106.7	112.3	-57.6	24.2	-6.8	7.2	-3.7	1.5
<i>Including net gain / loss on fair value adjustments to investment property</i>	-61.2	66.1	-4.4	6.7	-3.9	4.2	-0.3	0.4
Profit / loss before tax	-91.8	279.2	-58.2	42.2	-5.9	17.8	-3.7	2.7
<i>Including net gain / loss on the divestment of financial assets</i>	-36.6	131.3	-19.5	7.7	-2.3	8.4	-1.2	0.5
Net profit / loss	-102.5	264.1	-57.9	36.9	-6.6	16.9	-3.7	2.4
EPS (in kroons and euros)	-1.15	3.27	-0.61	0.43	-0.07	0.21	-0.04	0.03
Total assets at period end	3,192.0	3,535.6			204.0	226.0		
Invested capital at period end	2,945.5	3,230.7			188.3	206.5		
Net loans at period end	855.8	372.4			54.7	23.8		
Equity at period end	1,770.2	1,957.9			113.1	125.1		
Average loan term (in years)	2.2	n/a			2.2	n/a		
Average interest rate of loans (per year)	7.4%	n/a			7.4%	n/a		
ROIC (rolling 4 quarters)	-2.7%	19.4%			-2.7%	19.4%		
ROE (rolling 4 quarters)	-7.3%	31.2%			-7.3%	31.2%		
Number of staff at period end	546	649			546	649		

## Comments by the CEO

- While the Group's clients have acquired or booked a higher number of apartments or land plots than last year, we expect another correction of margins and a longer sales period in the development business. Considering the situation a fixed cost reduction program was launched, amounting to at least 40 million kroons (2.6 million euros) per year in the first stage. In addition, considering the Group's cost structure, the sales prices in current projects can be lowered further to a level which covers the Group's debt services and overheads in terms of cash. Furthermore, the downsizing of personnel has continued and in comparison to the beginning of 2008 more than 170 persons have been laid off as at the end of November.
- To reduce the loss of the service division – 33.1 million kroons (2.1 million euros) significantly over the next year, the Group has commenced after the reporting period the liquidation of the offices in Romania and Lithuania, 95% of the people having already left, whereas representative offices will continue on commission basis. As of the end of November, 40% of the brokers in Estonia provide their services according to commission agreements. Top and middle management has also been cut by 9 persons and along with the downturn of brokerage market, the strategies in Ukraine and Bulgaria shall be reviewed as well. The latter were the only offices yielding a positive EBIT in the third quarter. Restructuring costs in the service division amount to 15.6 million kroons (1.0 million euros), the majority of which will be used during the fourth quarter.
- Development divisions' performance indicators (planning, construction, vacancies and apartment sales) for the first nine months were positive. However, throughout the development stage of the Sofia project, only booking fees and no revenues can be recorded in the Group's balance sheet. More than 43% of the spaces in the Madrid project have already been booked. The results of the Development division are therefore subject to significant quarterly fluctuations and as the projects progress, might not be the same for the coming quarters. Taking account of the development stage of several important projects (Tivoli, Ahtri3, Laeva, BM-2 etc.) and a slowdown in the growth of asset value, the results of the division were expected to be poor. The highlights of the 9 month period included adoption of the plans for Tivoli, Laeva 2 and MB-2 projects, withdrawal from the Simferopol project and the Sofia apartment sales block deal.
- As the Construction division continues turning a profit and has won several environmental engineering tenders in both Estonia and Latvia, the chosen fields of activity have proven to be just. The bids won over the 9 months in Estonia and Latvia have increased the division's contribution to the Group's overall results. The share of civil engineering and intragroup sales in the results of the Construction division has decreased to a minimum of 2%.

## REVENUE AND PROFIT

	EEK				EUR			
	9 months 2008	9 months 2007	Q3 2008	Q3 2007	9 months 2008	9 months 2007	Q3 2008	Q3 2007
In millions								
<b>Revenue and other income</b>								
Service	83.7	86.2	25.1	21.4	5.4	5.5	1.6	1.4
Development	195.7	493.5	55.8	111.0	12.5	31.5	3.6	7.1
Construction	323.3	293.7	117.2	136.3	20.7	18.8	7.5	8.7
Asset management	6.8	10.2	0.0	4.0	0.4	0.7	0.0	0.3
Eliminations	-69.5	-196.9	-2.8	-73.6	-4.4	-12.6	-0.2	-4.7
<b>Total revenue and other income</b>	<b>540.0</b>	<b>686.7</b>	<b>195.2</b>	<b>199.1</b>	<b>34.5</b>	<b>43.9</b>	<b>12.5</b>	<b>12.7</b>

<b>EBIT</b>								
Service	-33.1	-15.9	-12.7	-6.9	-2.1	-1.0	-0.8	-0.4
Development	-67.9	145.3	-45.7	31.0	-4.3	9.3	-2.9	2.0
Construction	7.7	10.0	3.7	13.3	0.5	0.6	0.2	0.8
Asset management	2.4	4.4	0.0	2.0	0.2	0.3	0.0	0.1
Eliminations	-0.2	-11.3	1.7	-12.3	0.0	-0.7	0.1	-0.8
Unallocated expenses	-15.7	-20.2	-4.7	-3.0	-1.0	-1.3	-0.3	-0.2
<b>EBIT</b>	<b>-106.7</b>	<b>112.3</b>	<b>-57.5</b>	<b>24.2</b>	<b>-6.8</b>	<b>7.2</b>	<b>-3.7</b>	<b>1.5</b>
Interest income and expense	22.6	-10.3	6.6	4.7	1.4	-0.7	0.5	0.4
Net other financial items	-7.6	177.2	-7.2	13.2	-0.5	11.3	-0.5	0.8
Income tax expense	-10.8	-15.1	0.4	-5.2	-0.7	-1.0	0.0	-0.3
<b>Net profit / loss</b>	<b>-102.5</b>	<b>264.1</b>	<b>-57.8</b>	<b>36.9</b>	<b>-6.6</b>	<b>16.9</b>	<b>-3.7</b>	<b>2.4</b>

The bulk of the Group's revenue was generated by the Construction division which increased the sales of 9 months by 10% to 323.3 million kroons (20.7 million euros). The plunge in sales may be attributed to the performance of the Development division. Although 102 apartments and land plots were sold or booked (Kolde 32, Merivälja 2, Madrid 68, Manastirski 14, BM1 -12, MB5 -2), majority of the revenue and gross profit is recorded at the end of 2009 after completion of the Madrid project, where more than 43% of the total saleable and rentable spaces and 71% of residential spaces have already been booked.

While the EBIT over the same period in 2007 was 112.3 million kroons (7.2 million euros), the first nine months of 2008 brought an operating loss of -106.7 million kroons (-6.8 million euros). EBIT includes 61.2 million kroons (3.9 million euros) of net write-downs of real estate investments and 33.1 million kroons (2.1 million euros) of operating loss in service division, of which the Estonian office accounts for 7.9 million kroons (0.5 million euros), the Latvian office for 7.7 million kroons (0.5 million euros), the Lithuanian office for 6.9 million kroons (0.4 million euros) and the Romanian office for 8.5 million kroons (0.5 million euros).

Financial income resulted mainly from: Interest income of 37.7 million kroons (2.4 million euros) and foreign exchange gains of 5.3 million kroons (0.3 million euros). Financial expenses resulted mainly from: disposal of shares in AVEC Asset management and fair value adjustments resulted in a loss of 35.7 million kroons (2.3 million euros) and interest expenses were 22.6 million kroons (1.4 million euros). In financial expenses we have also recorded the reversal of fair value write down of project "Kippsala" receivable in value of 25.2 million kroons (1.51 million euros).

## CASH FLOWS

	EEK				EUR			
	9 months 2008	9 months 2007	Q3 2008	Q3 2007	9 months 2008	9 months 2007	Q3 2008	Q3 2007
In millions								
Cash flows from operating activities	-101.4	-439.7	5.6	-462.7	-6.5	-28.1	0.4	-29.6
Cash flows from investing activities	-128.7	158.8	27.9	29.9	-8.2	10.2	1.8	1.9
Cash flows from financing activities	-323.4	1,071.0	-55.5	182.4	-20.7	68.4	-3.5	11.7
<b>Net cash flow</b>	<b>-553.6</b>	<b>790.1</b>	<b>-22.1</b>	<b>-250.4</b>	<b>-35.4</b>	<b>50.5</b>	<b>-1.4</b>	<b>-16.0</b>
Cash and cash equivalents at beginning of period	765.0	58.3	233.2	1,098.7	48.9	3.7	14.9	70.2
Effect of exchange rate fluctuations	0.1	-0.7	0.4	-0.5	0.0	0.0	0.0	0.0
<b>Cash and cash equivalents at end of period</b>	<b>211.5</b>	<b>847.8</b>	<b>211.5</b>	<b>847.8</b>	<b>13.5</b>	<b>54.2</b>	<b>13.5</b>	<b>54.2</b>

The increase in inventories where the investments in residential projects are recorded was the main component of negative operating cash flow: Kolde 10.0 million kroons (0.64 million euros), BM-1 13.8 million kroons (0.9 million euros), Madrid and Manastirski 83.3 million kroons (5.3 million euros) in total. Although VAT receivable has decreased substantially in Q3, it is still high at 46.9 million kroons (3.0 million euros) and this cash contributes to short-term liquidity.

The main components of negative investment cash flows were: major payables coming due in the amount of 44.0 million kroons (2.8 million euros), Ukraine investment of 108.4 million kroons (6.9 million euros) and excess cash investments of 202.6 million kroons (12.9 million euros) to both Kesko's commercial papers and to short and long-term deposits. The Group also granted loans to joint ventures in the amount of 17.6 million kroons (1.1 million euros).

The main components of financing cash flows were: 62.5 million kroons (4.0 million euros) of interest cost, 57.7 million kroons (3.7 million euros) of gross dividend payment, 203.2 million kroons (13.0 million euros) of debt service related to the sales of development projects; the remaining 122.6 million kroons (7.8 million euros) being the loans which were not prolonged.

After the reporting period the Group has entered negotiations with the Ukrainian partner to reclaim the initial investment. The investment is secured by a guarantee of an Estonian entity *AS Ühendatud Kapital*.

## SERVICE DIVISION

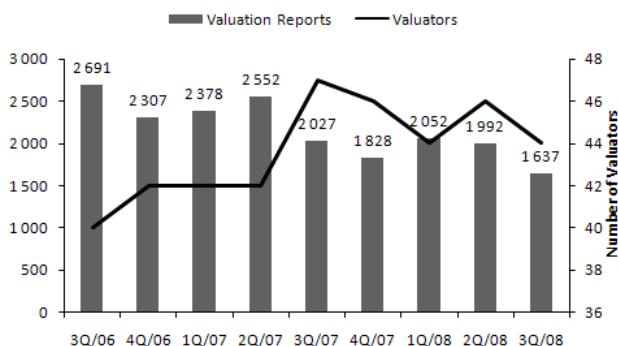
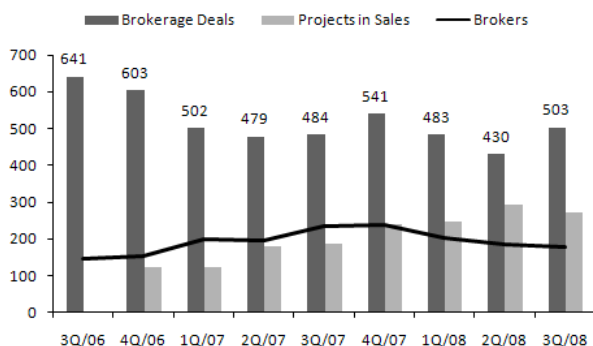
There is no considerable change in the number of brokerage transactions during the 9 month period year-over-year. The number of valuation reports has decreased by 18%. The figures from October and November, however, indicate an acceleration of decrease in the deal flow in Q4. Considering the market situation we have closed down 10 offices in 9 months and in October the liquidation proceedings in Lithuanian and Romanian offices were launched, the Group will keep representative offices there on commission basis. As at the end of September the division operates in 20 locations.

The Sofia and Kiev offices were the only ones to create positive EBIT in the third quarter. Due to the mortgage lending slowdown on these markets, alternative strategies will have to be considered there, too.

The Division's priority at the moment is rearranging the business model in Estonia, where the organisational structure is currently burdened by brokers and middle-management on fixed salaries. Such model is unique in the industry in a negative way and also unsustainable. By the end of November at least 40% of the sales personnel provide their services based on commission agreements.

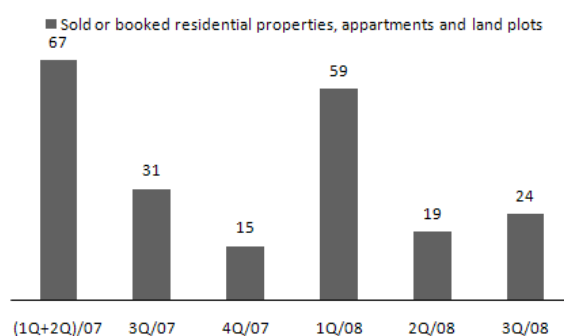
Another positive development in addition to the operating profit of Kiev and Sofia offices in the third quarter was the rapid growth of our property management services arm that has broken even for the whole year. The Group increasingly contributes to the development of property management services.

	9 months 2008	9 months 2007	Change, %	Q3 2008	Q3 2007	Change, %
Number of properties brokered	1,416	1,465	-3	503	484	4
Number of projects on sale	271	164	65	272	188	45
Number of valuation reports issued	5,681	6,957	-18	1,637	2,027	-19
Number of appraisers	44	47	-6			
Number of real estate brokers	177	233	-24			
Average number of staff	305	395	-23			



## DEVELOPMENT DIVISION

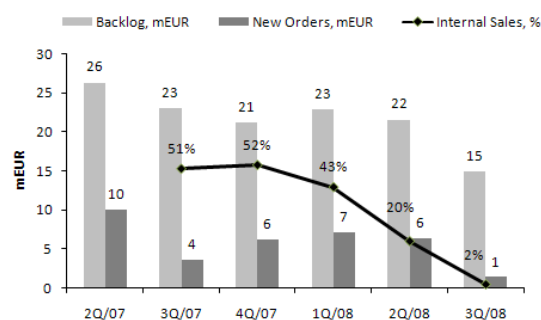
The declined number of property deals affected our Latvian business most – 14 of our clients chose to cancel their bookings and lose the down payment in BM1 and MB5 project during the 9 month period. On other markets no bookings in the Group's development projects have been cancelled. Downturn in Latvia is compensated by an increase in Tallinn and Sofia. 32 apartments were sold or booked in the Kolde project in Tallinn and 82 in Sofia, including 14 bookings in the Manastirski project. In the Madrid project in Sofia 43% of the total saleable and rentable space has already been booked and 71% of the residential spaces. In the Manastirski project construction works and sales were started.



The main concern is still the refinancing risk of our land bank in projects where development activities have not been started yet (Ahtri, Laeva, Tivoli). To hedge the risk, considerable discounts have already been made in the ongoing projects on the Baltic market and the sales of major projects are continuously pursued. The commercial facilities in Kuressaare were sold at the price of book value, 30 million kroons (1.9 million euros). As of 30.09.2008 the division employs 48 people (30.09.2007: 59 people). Please find further information in regard to our projects on: [www.arcorealestate.com/arendus](http://www.arcorealestate.com/arendus).

## CONSTRUCTION DIVISION

According to the Group's estimates, lower demand for residential construction services has decreased housing construction prices by around 20-25%. As a consequence, the division has won only environmental and infrastructure engineering tenders and no civil engineering tenders. Large companies are elbowing their way to smaller tenders where to date Arco Ehitus has had an edge. On the positive side, our Latvian subsidiary has gained a position that enables them to participate in state tenders. In the first quarter the subsidiary won a public tender for the design and construction of an iron removal plant at a water treatment facility in the village of Ogre. The size of the contract is 48.5 million kroons (3.1 million euros). After the reporting period the company won a tender of constructing and designing a pedestrian tunnel for Stockmann department store in Riga.



In the third quarter the division was awarded construction contracts in the amount of 21.0 million kroons (1.3 million euros). At the end of the reporting period, the division's order backlog was 233 million kroons (14.9 million euros) and intragroup sales accounted for 2%. During the reporting period, the division employed 171 people (9 months 2007: 172).

**SUMMARY TABLE OF MAJOR PROJECTS**

Project type	Project name	Location	Legal holding	Building rights according to business plan	Current state	Classification in the balance sheet
Commercial	Ahtri 3	Estonia, Tallinn	50%	Ca 45.300m2	The old plan and building permit are in effect. Municipality is processing new detail plan. In the new plan, above-ground building rights extend to ca 51,100 m2. Negotiations with potential tenants.	Investment property
Commercial	Ilmarine	Estonia, Tallinn	50%	Ca 80,000 m2	Adoption of the thematic plan "Location of high rise buildings in Tallinn" is under way.	Investment property
Commercial	Laeva 2	Estonia, Tallinn	100%	7.776 m2	Detail plan approved, construction permit in place. Negotiations with potential tenants.	Assets under construction
Commercial	Paldiski mnt 80	Estonia, Tallinn	100%	24.000 m2	No building rights. Municipality is processing the detail plan.	Investment property
Cash flow	Enerpoint	Estonia, Kuressaare	100%	3.352 m2	Generates cash flow. Construction to extend the premises.	Investment property
Cash flow	Kaarli 2	Estonia, Tallinn	33%	Plot is 4.791 m2	Generates cash flow. Parking service and café.	Investment property
Cash flow	Kerberon	Estonia, Tallinn	100%	15.750 m2	Generates cash flow. Leasehold right.	Investment property
Cash flow	Melon	Estonia, Tallinn	50%	5.728 m2	Generates cash flow. We acquire additional construction right. Sketches of the extra detail plan are approved by the municipality.	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	2.529 m2	Generates cash flow.	Investment property
Cash flow	Raekoja 10	Estonia, Kuressaare	50%	1.493 m2	Generates cash flow	Investment property
Cash flow	Rüütli str. 16 / 18	Estonia, Tallinn	50%	980 m2	Generates cash flow.	Investment property
Cash flow	TOP Commercial premises	Estonia, Tallinn	50%	We are working on the adoption of a new plan for at least 74.675 m2	Generates cash flow. Building rights correspond to currently built-up area. Current total area 17,000 m2. We have initiated a new plan whose adoption is in its initial phase.	Investment property

Project type	Project name	Location	Legal holding	Building rights according to business plan	Current state	Classification in the balance sheet
Apartments	Bishumuizhas 1	Latvia, Riga	80%	Unsold building rights 19.470 m2	Sales of the apartments in progress	Inventories
Apartments	Bishumuizhas 2	Latvia, Riga	40%	87.770 m2	Design work is under way.	Inventories
Apartments	Hills	Lithuania, Vilnius	100%	6.500 m2	Building rights. The project is on sale.	Inventories
Apartments	Kolde	Estonia, Tallinn	100%	Unsold building rights 19.712m2	Leasehold right. Sales of apartments in progress.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Unsold building rights 12.437 m2	Construction and sale of apartments are under way.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Unsold building rights 26.456 m2	Construction and sale of apartments are under way.	Inventories
Apartments	Plavnieku centrs	Latvia, Riga	40%	13.243 m2	Negotiations to exit the project	Inventories
Apartments	Tivoli	Estonia, Tallinn	100%	58.470 m2	Construction right in place. The zoning is challenged in a court.	Inventories
Apartments	TOP Residential premises	Estonia, Tallinn	50%	33.770 m2	No building rights. Planning is in the initial stage	Investment property
Plots	Baltezers-2	Latvia, Riga	80%	1.940 m2	7 plots in sales.	Investment property
Plots	Baltezers-3	Latvia, Riga	80%	172.380 m2, land size 86 Ha	Leasehold right. Preparations for first stage (30 plots) infrastructure construction.	Inventories
Plots	Baltezers-5	Latvia, Riga	80%	48 unsold plots	Building rights in place. Construction has been completed. Sale is under way.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold 55 plots	Sales of land plots and construction of infrastructure under way.	Inventories
Plots	Pärtli	Estonia, Saue	50%	84 plots, average plot 1,500 m2	No building rights. Adoption of a detailed plan initiated. Suspended until improvement in market situation.	Investment property
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1,802 m2	No building rights. Adoption of a detailed plan initiated. Suspended until improvement in market situation.	Inventories
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3.363 m2	We have building rights and building design documentation. Suspended until improvement in 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 issuance of building permits by the local government and the planning authorities. The information presented in the tables, such as building rights according to business plan, current state, project type and classification of the project in the balance sheet, has been recorded based on management's intentions and best judgment and may change in line with changes in the

planning process. Expectations of the projects' realisation may also change over time in connection with changes in the market and the competition environment. Management estimates the value of the project portfolio on an ongoing basis and is prepared to sell any project or part of a project at any time, depending on the results of the cost-benefit analysis.

**The projects presented in the summary table account for the following portions of the Group's assets:**

Balance Sheet Item	EEK		EUR	
	Balance sheet item at 30.09.08	Book values of projects presented in the summary table at 30.09.08	Balance sheet item at 30.09.08	Book values of projects presented in the summary table at 30.09.08
In millions				
Total assets	3,192.0	1,995.5	204.0	127.5
Inventories	1,284.2	1,186.5	82.1	75.8
Investment property	928.4	726.6	59.3	46.4
Assets under construction	119.5	82.3	7.6	5.3

## SIGNIFICANT CHANGES IN DETAILED PLANS IN NINE MONTHS 2008

Tivoli: Tallinn City Council adopted a detailed plan for the property. The gross enclosed area of up to five-floor apartment blocks is 51,400 m<sup>2</sup> and the area for commercial premises is 7000 m<sup>2</sup>. In addition, the plan foresees underground parking spaces on up to 21,150 m<sup>2</sup>. An apartment owner in the neighbouring community has filed a challenge on the detail plan and initial court protection is applied on his behalf. The case continues.

Ahtri: The property has a detailed plan with building rights. We have submitted to the city government a draft of a new detailed plan. Until the new plan is adopted, the building rights provided in the previous plan will apply. In the new detail plan we apply for 51.110 m<sup>2</sup> of above ground construction right.

Laeva 2: Detail plan approved. According to the plan we are allowed to construct 6-storey building in size of 7.776 m<sup>2</sup> of gross space. There will be underground parking facilities for 72 cars.

PM 80: Detail plan is processed for approval purposes in the City Council and for public review.

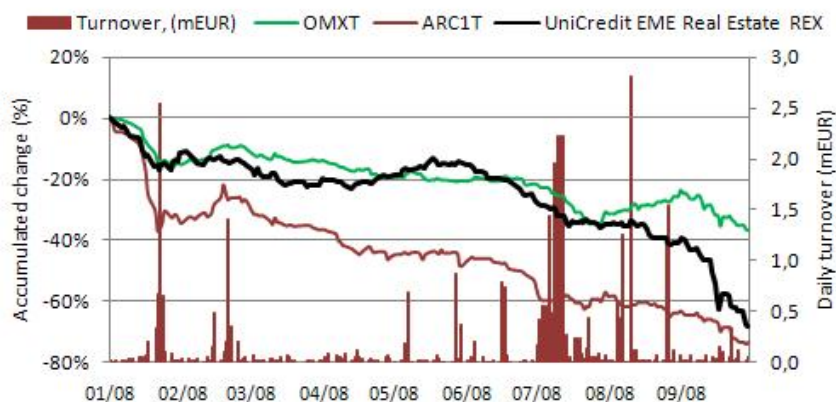
Baltezeres-3: Garkalne local government has adopted a detailed plan for the property. The size of the plot is 86 ha; 60 ha of this can be built up with an intensity of 30% so that maximum building rights extend to 172.380 m<sup>2</sup> of gross enclosed area.

## CHANGES IN THE GROUP'S STRUCTURE

The most significant change in the Group's structure was the divestment of shares in AVEC Asset Management AS. The largest transaction involved exchange of interests in subsidiaries – the Group exchanged its entire holding in Tallinna Linnaehituse AS for full ownership in Kolde AS and Kerberon OÜ. The Construction division acquired a 55.0% stake in Tempera Ehitus. The impact of the transaction on the Group's consolidated finances is presented in note 3 and 4.

## SHARE AND SHAREHOLDERS

At the end of the third quarter Arco Vara AS had 1.692 shareholders, 70% of them holding less than 1,000 shares. Company has 95.284.150 shares. Closing price of share at the end of third quarter was 5.95 kroons (0.38 euros). Company owns 450.000 own shares with average acquisition price of 8.87 kroons (0.57 euros).



10 major shareholders at 30 September 2008	Number of shares	Ownership interest
TOLETUM OÜ	20 586 758	21,6%
HM INVESTEERINGUD OÜ	20 513 133	21,5%
FREIER PROJEKT OÜ	14 672 437	15,4%
SEB Ab Clients	10 786 756	11,3%
JPMORGAN CHASE BANK, UK RESIDENTS	9 749 723	10,2%
Central Securities Depository of Lithuania	3 402 102	3,6%
OÜ HÄUSER-OBERSCHNEIDER	1 525 000	1,6%
OÜ TARTEKS TRADING	986 413	1,0%
PICTET & CIE CLIENT ACCOUNT	879 465	0,9%
GAMMA HOLDING OÜ	762 000	0,8%
Other	11 420 363	12,0%

Interest of members of the management board at 30.09.2008	Position	Number of shares	Ownership interest %
Lembit Tampere	CEO	0	0,00%
Veiko Taevere	Head of development division	31 000	0,03%
Heigo Metsoja	CFO	0	0,00%
Avo Rõdmussaar	Head of service division	23 840	0,02%
Total		54 840	0,05%

#### FORMULAS USED IN THE CALCULATION OF RATIOS

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

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

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

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

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

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

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

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

## Condensed consolidated interim financial statements

### Condensed consolidated interim income statement (EEK)

	Note	9 months 2008	9 months 2007	Q3 2008	Q3 2007
In EEK , thousands					
Rendering of services		368,828	232,434	145,938	96,813
Sale of goods		138,819	361,309	48,230	84,172
<b>Total revenue</b>	5	<b>507,647</b>	<b>593,743</b>	<b>194,168</b>	<b>180,985</b>
Cost of sales		-430,713	-434,941	-167,980	-133,704
<b>Gross profit</b>		<b>76,934</b>	<b>158,802</b>	<b>26,188</b>	<b>47,281</b>
Other income	6	32,364	92,925	1,022	18,106
Selling and distribution costs		-11,776	-18,763	-2,538	-5,888
Administrative expenses	7	-109,945	-93,886	-37,032	-29,754
Other expenses	8	-94,310	-26,760	-45,205	-5,565
<b>EBIT</b>		<b>-106,733</b>	<b>112,318</b>	<b>-57,565</b>	<b>24,180</b>
Finance income	9	56,141	198,131	24,572	25,087
Finance expenses	10	-41,168	-31,229	-25,239	-7,114
<b>Profit / loss before tax</b>		<b>-91,760</b>	<b>279,220</b>	<b>-58,232</b>	<b>42,153</b>
Income tax expense		-10,787	-15,112	368	-5,208
<b>Net profit / loss</b>		<b>-102,547</b>	<b>264,108</b>	<b>-57,864</b>	<b>36,945</b>
<i>Attributable to minority interests</i>		7,196	8,167	-50	2,985
<i>Attributable to equity holders of the parent</i>		-109,743	255,941	-57,814	33,960
<b>Earnings per share (in kroons)</b>	11				
- Basic		-1.15	3.27	-0.61	0.43
- Diluted		-1.15	3.27	-0.61	0.43

**Condensed consolidated interim income statement (EUR)**

	Note	9 months 2008	9 months 2007	Q3 2008	Q3 2007
In EUR, thousands					
Rendering of services		23,572	14,855	9,327	6,187
Sale of goods		8,872	23,092	3,082	5,380
<b>Total revenue</b>	5	<b>32,444</b>	<b>37,948</b>	<b>12,409</b>	<b>11,567</b>
Cost of sales		-27,528	-27,798	-10,736	-8,545
<b>Gross profit</b>		<b>4,916</b>	<b>10,149</b>	<b>1,674</b>	<b>3,022</b>
Other income	6	2,068	5,939	65	1,157
Selling and distribution costs		-753	-1,199	-162	-376
Administrative expenses	7	-7,027	-6,000	-2,367	-1,902
Other expenses	8	-6,028	-1,710	-2,889	-356
<b>EBIT</b>		<b>-6,823</b>	<b>7,180</b>	<b>-3,679</b>	<b>1,545</b>
Finance income	9	3,588	12,663	1,570	1,603
Finance expenses	10	-2,631	-1,996	-1,613	-455
<b>Profit / loss before tax</b>		<b>-5,867</b>	<b>17,847</b>	<b>-3,722</b>	<b>2,693</b>
Income tax expense		-689	-966	24	-333
<b>Profit / loss for the period</b>		<b>-6,555</b>	<b>16,881</b>	<b>-3,698</b>	<b>2,360</b>
<i>Attributable to minority interests</i>		<i>460</i>	<i>522</i>	<i>-3</i>	<i>191</i>
<i>Attributable to equity holders of the parent</i>		<i>-7,014</i>	<i>16,358</i>	<i>-3,695</i>	<i>2,170</i>
<b>Earnings per share (in euros)</b>	11				
- Basic		<b>-0.07</b>	0.21	<b>-0.04</b>	0.03
- Diluted		<b>-0.07</b>	0.21	<b>-0.04</b>	0.03

## Condensed consolidated interim balance sheet

		EEK		EUR	
	Note	30.09.2008	31.12.2007	30.09.2008	31.12.2007
In thousands					
Cash and cash equivalents		211,467	765,008	13,515	48,893
Other financial assets		107,983	78,595	6,901	5,023
Receivables	12	412,414	297,189	26,358	18,994
Prepayments		15,143	10,450	968	668
Inventories	13	1,284,175	1,148,433	82,074	73,398
Biological assets		7,222	8,360	462	534
Total current assets		2,038,404	2,308,035	130,278	147,510
Other financial assets		235	48,515	15	3,101
Receivables	12	51,175	40,124	3,271	2,564
Investment property	14	928,413	999,999	59,336	63,912
Property, plant and equipment	15	156,932	141,863	10,030	9,067
Intangible assets	16	16,805	25,505	1,074	1,630
Total non-current assets		1,153,560	1,256,006	73,726	80,274
TOTAL ASSETS		3,191,964	3,564,041	204,004	227,784
Loans and borrowings	17	521,221	753,077	33,312	48,130
Other liabilities	18	171,075	223,591	10,934	14,290
Deferred income	19	69,983	47,216	4,473	3,018
Provisions		5,405	3,468	345	222
Total current liabilities		767,684	1,027,352	49,064	65,660
Loans and borrowings	17	647,240	600,938	41,366	38,407
Other liabilities	18	6,766	4,607	432	294
Deferred income tax liability		91	1,321	6	84
Provisions		18	251	1	16
Total non-current liabilities		654,115	607,117	41,805	38,801
TOTAL LIABILITIES		1,421,799	1,634,469	90,869	104,461
Share capital		952,842	952,842	60,898	60,898
Share premium		712,514	712,514	45,538	45,538
Statutory capital reserve		31,463	20,084	2,011	1,284
Other reserves		-591	37	-38	2
Retained earnings		60,548	218,830	3,870	13,986
Own shares (minus)	20	-3,992	0	-255	0
Total equity attributable to equity holders of the parent		1,752,784	1,904,307	112,024	121,708
Minority interests		17,381	25,265	1,111	1,615
Total equity		1,770,165	1,929,572	113,135	123,323
TOTAL LIABILITIES AND EQUITY		3,191,964	3,564,041	204,004	227,784

## Condensed consolidated interim cash flow statement

	EEK		EUR	
	9 months 2008	9 months 2007	9 months 2008	9 months 2007
In thousands				
Net profit / loss	-102,547	264,108	-6,555	16,881
Interest income and expense	-22,592	10,275	-1,444	657
Gains and losses on disposal of subsidiaries and interests in jointly controlled entities	36,643	-131,281	2,342	-8,390
Gains and losses on other long-term financial assets	1,477	-47,461	94	-3,033
Impairment losses on financial assets	-25,258	0	-1,614	0
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	5,352	3,378	342	215
Goodwill adjustments and recognition of negative goodwill as revenues	5,171	0	330	0
Gain / loss on the sale of property, plant and equipment and intangible assets	38	-36	2	-2
Gain / loss on the sale of investment property	-617	-213	-38	-14
Change in the fair value of investment property and biological assets	61,223	-66,078	3,913	-4,223
Exchange rate gains and losses	-5,243	1,565	-335	100
Corporate income tax expense	10,787	15,112	689	966
<b>Operating cash flow before working capital changes</b>	<b>-35,566</b>	<b>49,369</b>	<b>-2,274</b>	<b>3,157</b>
Change in receivables and prepayments	-3,052	-127,035	-195	-8,118
Change in inventory and biological assets	-83,918	-335,779	-5,363	-21,460
Change in payables and deferred income	21,120	-26,228	1,350	-1,676
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>-101,416</b>	<b>-439,673</b>	<b>-6,482</b>	<b>-28,097</b>
Acquisition of property, plant and equipment and intangible assets	-21,775	-32,798	-1,392	-2,096
Proceeds from sale of property, plant and equipment and intangible assets	443	8,330	28	532
Acquisition of investment property	-1,173	-9,607	-75	-614
Proceeds from sale of investment property	29,000	44,492	1,853	2,844
Acquisition of subsidiaries and interests in jointly controlled entities	-126,312	-19,654	-8,073	-1,256
Proceeds from disposal of subsidiaries and interests in jointly controlled entities	1,002	221,528	64	14,158
Acquisition of other financial assets	-202,665	-59,731	-12,953	-3,818
Proceeds from sale of other financial assets	214,161	0	13,687	0
Loans granted	-50,546	-48,470	-3,230	-3,098
Repayment of loans granted	3,784	40,916	242	2,615
Interest received	25,339	10,672	1,619	682
Dividends received	0	3,147	0	201
<b>NET CASH USED IN / FROM INVESTING ACTIVITIES</b>	<b>-128,742</b>	<b>158,825</b>	<b>-8,230</b>	<b>10,150</b>
Proceeds from loans received	235,961	695,381	15,081	44,443
Repayment of loans and payment of finance lease liabilities	-435,147	-543,922	-27,811	-34,763
Change in overdraft	-14	-18,309	-1	-1,170
Change in group account liability	0	406	0	26
Interest paid	-62,525	-34,119	-3,996	-2,181
Issue of share capital	0	987,514	0	63,114
Repurchase of own shares	-3,992	0	-255	0
Dividends paid	-42,274	-10,893	-2,702	-696
Income tax paid on dividends	-15,444	-5,106	-987	-326
<b>NET CASH USED IN / FROM FINANCING ACTIVITIES</b>	<b>-323,435</b>	<b>1,070,952</b>	<b>-20,671</b>	<b>68,447</b>
<b>NET CASH FLOW</b>	<b>-553,593</b>	<b>790,104</b>	<b>-35,383</b>	<b>50,500</b>
Cash and cash equivalents at beginning of period	765,008	58,345	48,893	3,729
Decrease / increase in cash and cash equivalents	-553,593	790,104	-35,381	50,500
Effect of exchange rate fluctuations	52	-695	2	-44
<b>Cash and cash equivalents at end of period</b>	<b>211,467</b>	<b>847,754</b>	<b>13,515</b>	<b>54,184</b>

## Condensed consolidated interim statement of changes in equity

	Equity attributable to equity holders of the parent							Total	Minority interests	Total equity
	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Own shares (minus)	Retained earnings			
In EEK, thousands										
<b>At 31.12.06</b>	<b>304,530</b>	<b>0</b>	<b>123,083</b>	<b>5,486</b>	<b>-184</b>	<b>0</b>	<b>292,002</b>	<b>724,917</b>	<b>16,964</b>	<b>741,881</b>
Foreign currency translation differences	0	0	0	0	-9		0	-9	0	-9
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0		0	0	577	577
Bonus issue	373,312	0	-123,083	0	0		250,229	0	0	0
Issue of share capital	0	275,000	712,857	0	0		0	987,857	0	987,857
Dividends declared	0	0	0	0			-25,430	-25,430	-200	-25,630
Initial recognition of the put options of minority shareholders	0	0	0	0	0		-10,502	-10,502	0	-10,502
Transfer to capital reserve	0	0	0	14,598	0		-14,598	0	0	0
Profit for the period	0	0	0	0	0		255,941	255,941	8,167	264,108
<b>At 30.09.07</b>	<b>677,842</b>	<b>275,000</b>	<b>712,857</b>	<b>20,084</b>	<b>-193</b>	<b>0</b>	<b>247,184</b>	<b>1,932,774</b>	<b>25,508</b>	<b>1,958,282</b>
								<b>1,904,307</b>		
<b>At 31.12.07</b>	<b>952,842</b>	<b>0</b>	<b>712,514</b>	<b>20,084</b>	<b>37</b>	<b>0</b>	<b>218,830</b>	<b>1,904,307</b>	<b>25,265</b>	<b>1,929,572</b>
Foreign currency translation differences	0	0	0	0	-628	0	0	-628	0	-628
Dividends declared	0	0	0	0	0	0	-37,160	-37,160	-1,252	-38,412
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	0	-13,828	-13,828
Transfer to capital reserve	0	0	0	11,379		0	-11,379	0	0	0
Purchase of own shares	0	0	0	0	0	-3,992	0	-3,992	0	-3,992
Profit / loss for the period	0	0	0	0	0		109,743	-109,743	7,196	-102,547
<b>At 30.09.08</b>	<b>952,842</b>	<b>0</b>	<b>712,514</b>	<b>31,463</b>	<b>-591</b>	<b>-3,992</b>	<b>60,548</b>	<b>1,752,784</b>	<b>17,381</b>	<b>1,770,165</b>

	Equity attributable to equity holders of the parent								Minority interest s	Total equity
	Share capital	Unregistere d share capital	Share premium	Statutory capital reserve	Other reserv es	Own shares (minus )	Retaine d earnings	Total		
In EUR, thousands										
<b>At 31.12.06</b>	<b>19,463</b>	<b>0</b>	<b>7,866</b>	<b>351</b>	<b>-12</b>	<b>0</b>	<b>18,662</b>	<b>46,330</b>	<b>1,084</b>	<b>47,414</b>
Foreign currency translation differences	0	0	0	0	-1	0	0	-1	0	-1
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	0	37	37
Bonus issue	23,859	0	-7,866	0	0	0	-15,993	0	0	0
Issue of share capital	0	17,576	45,560	0	0	0	0	63,136	0	63,136
Dividends declared	0	0	0	0	0	0	-1,625	-1,625	-13	-1,638
Initial recognition of the put options of minority shareholders	0	0	0	0	0	0	-671	-671	0	-671
Transfer to capital reserve	0	0	0	933	0	0	-933	0	0	0
Profit for the period	0	0	0	0	0	0	16,358	16,358	522	16,880
<b>At 30.09.07</b>	<b>43,322</b>	<b>17,576</b>	<b>45,560</b>	<b>1,284</b>	<b>-13</b>	<b>0</b>	<b>15,798</b>	<b>123,527</b>	<b>1,630</b>	<b>125,157</b>
<b>At 31.12.07</b>	<b>60,898</b>	<b>0</b>	<b>45,538</b>	<b>1,284</b>	<b>3</b>	<b>0</b>	<b>13,986</b>	<b>121,708</b>	<b>1,615</b>	<b>123,323</b>
Foreign currency translation differences	0	0	0	0	-41	0	0	-41	0	-41
Dividends declared	0	0	0	0	0	0	-2,375	-2,375	-80	-2,455
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	0	-884	-884
Transfer to capital reserve	0	0	0	727	0	0	-727	0	0	0
Purchase of own shares (note 20)	0	0	0	0	0	-255	0	-255	0	-255
Profit / loss for the period	0	0	0	0	0	0	-7,014	-7,014	460	-6,553
<b>At 30.09.08</b>	<b>60,898</b>	<b>0</b>	<b>45,538</b>	<b>2,011</b>	<b>-38</b>	<b>-255</b>	<b>3,870</b>	<b>112,024</b>	<b>1,111</b>	<b>113,135</b>

## 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 third quarter and nine months ended 30 September 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, using the same accounting policies and measurement bases which were applied in preparing the consolidated financial statements as at and for the year ended 31 December 2007.

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

IAS 1	<i>Presentation of Financial Statements</i> (revised)
IAS 23	<i>Borrowing Costs</i> (revised)
IFRS 8	Operating Segments
IFRIC 13	<i>Customer Loyalty Programmes</i> <sup>1</sup>

<sup>1</sup> The interpretation has no direct impact on the Group's operations.

### Changes in the presentation of segment reporting

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

At the end of June 2008 the Group sold its shareholding in AVEC Asset Management (see Note 4).

## 2. Scope of consolidation

	Estonia	Latvia	Lithuania	Ukraine	Bulgaria	Romania	Total
<b>Subsidiaries</b>							
At 31.12.07	16	8	3	2	3	2	<b>34</b>
Acquisitions	1	-	-	-	-	-	<b>1</b>
Disposals	-2	-	-	-	-	-	<b>-2</b>
<b>At 30.09.08</b>	<b>15</b>	<b>8</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>33</b>
<b>Interests in joint ventures</b>							
At 31.12.07	17	3	0	0	0	0	<b>20</b>
Acquisitions	-	-	-	-	-	-	<b>-</b>
Disposals	-2	-	-	-	-	-	<b>-2</b>
<b>At 30.09.08</b>	<b>15</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18</b>
<b>Associates (not consolidated)</b>							
At 31.12.07	1	-	-	-	-	-	<b>1</b>
Acquisitions	-	-	-	-	-	-	<b>-</b>
Disposals	-	-	-	-	-	-	<b>-</b>
<b>At 30.09.08</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>

During nine months Group acquired one construction company (note 3). One construction company was sold (Note 4) and two service division entities were merged. Two joint-ventures were sold (Note 4).

## 3. Business combinations

### Acquisition of an interest in the construction company Tempera Ehitus OÜ

On 2 April 2008, the Group acquired a 55% stake in the construction company Tempera Ehitus OÜ for 6,300 thousand kroons (403 thousand euros). Initial acquisition cost of the shares was 6.300 thousand kroons (403 thousand euros), of which 2.100 thousand kroons (134 thousand euros) was paid at the signing of the purchase agreement. According to the agreement, if Tempera Ehitus OÜ makes losses for three consecutive years after the acquisition, the Group is not entitled to pay the rest of the acquisition price as long as accumulated profit brakes even. At the end of third quarter Group's management estimates that Tempera Ehitus OÜ will not break even in 2008 and 2009. So, it's unlikely that Group must pay the rest of the acquisition cost and the final acquisition cost will remain at the level of first payment of 2.100 thousand kroons (134 thousand euros).

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

	EEK	EUR
In thousands		
<b>Cost</b>	<b>2,100</b>	<b>134</b>
Fair value of net assets acquired <sup>1</sup>	1,468	94
Goodwill (note 16)	632	40

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

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

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

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

The Group's consolidated financial statements for the first nine months of 2008 include Tempera Ehitus OÜ's revenue and expenses for the period March to September and assets and liabilities as at 30.09.08. In the three months to 30 September 2008 Tempera Ehitus OÜ contributed sales revenue of 16.622 thousand kroons (1.062 thousand euros) and its loss reduced net profit attributable to equity holders of the parent by -3.779 thousand kroons (-242 thousand euros).

## 4. Disposals and acquisitions from minority shareholders

### Exchange of interests in subsidiaries

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

		EEK		EUR	
	Interest divested / acquired	Cost of transaction	Gain / loss on the transaction (note 4)	Cost of transaction	Gain / loss on the transaction (note 4)
In thousands					
Divestment of shares in Tallinna Linnaehituse AS	-80%	12,943	-1,094	827	-70
Acquisition of shares in Kerberon OÜ	16.63%	10,199	-657	652	-42
Acquisition of shares in Kolde AS	10.71%	3,101	218	198	14
<b>Total</b>			<b>-1,533</b>		<b>-98</b>

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

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

### Disposal of an interest in a joint venture

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

On 20 June 2008 the Group sold its interest in the joint venture AVEC Asset Management AS. The sale price of the interest was 15,647 thousand kroons (1,000 thousand euros) which was immediately satisfied in cash and a deferred payment consisting of 25% of the amount that will be distributed by Explorer Property Fund AB on the dissolution of the fund. According to management's estimates, at 30.09.08 the value of the receivable was 2.917 thousand kroons (186 thousand euros) (note 12). Under the sales contract, the Group retains control of the assets, liabilities and equity of the fund until the fund is disbursed.

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

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

## 5. Segment reporting by business segments

Segment	Development		Service		Construction		Asset management		Eliminations		Consolidated	
	9m 2008	9m 2007	9m 2008	9m 2007	9m 2008	9m 2007	9m 2008	9m 2007	9m 2008	9m 2007	9m 2008	9m 2007
In EEK, thousands												
External revenue	164,194	387,819	76,213	76,357	260,457	119,393	6,783	10,174	0	0	507,647	593,743
Change	-58%		0%		118%		-33%				-15%	
Other external income	31,094	91,844	1,177	1,064	93	17	0	0	0	0	32,364	92,925
Revenue and other income from other segments	406	13,864	6,333	8,823	62,747	174,252	0	0	-69,486	196,939	0	0
<b>Total revenue and other income</b>	<b>195,694</b>	<b>493,527</b>	<b>83,723</b>	<b>86,244</b>	<b>323,297</b>	<b>293,662</b>	<b>6,783</b>	<b>10,174</b>	<b>-69,486</b>	<b>196,939</b>	<b>540,011</b>	<b>686,668</b>
<b>Segment result</b>	<b>-67,880</b>	<b>145,316</b>	<b>-33,066</b>	<b>-15,898</b>	<b>7,664</b>	<b>9,957</b>	<b>2,412</b>	<b>4,415</b>	<b>-206</b>	<b>-11,269</b>	<b>-91,076</b>	<b>132,521</b>
Unallocated expenses	0	0	0	0	0	0	0	0	0	0	-15,657	-20,203
EBIT	0	0	0	0	0	0	0	0	0	0	106,733	112,318
Revaluation of investment property	-61,223	66,078	0	0	0	0	0	0	0	0	-61,223	66,078
Depreciation, amortisation and impairment losses (notes 15, 16)	-1,058	-629	-1,346	-1,077	-1,760	-1,284	-40	-9	326	0	-5,259	-3,661
Goodwill adjustments and recognition of negative goodwill as revenues	0	286	-4,539	0	-632	0	0	0	0	0	-5,171	286
Finance income	0	0	0	0	0	0	0	0	0	0	56,141	198,131
Finance expenses	0	0	0	0	0	0	0	0	0	0	-41,168	-31,229
Income tax expense	0	0	0	0	0	0	0	0	0	0	-10,787	-15,112
<b>Net profit / loss</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>102,547</b>	<b>264,108</b>

Segment	Development		Service		Construction		Asset management		Eliminations		Consolidated	
	9m 2008	9m 2007	9m 2008	9m 2007	9m 2008	9m 2007	9m 2008	9m 2007	9m 2008	9m 2007	9m 2008	9m 2007
In EUR, thousands												
External revenue	10,494	24,786	4,871	4,880	16,646	7,631	434	650	0	0	32,445	37,947
Change	-58%		0%		118%		-33%				-14%	
Other external income	1,987	5,870	75	68	6	1	0	0	0	0	2,068	5,939
Revenue and other income from other segments	26	886	405	564	4,010	11,137	0	0	-4,441	-12,587	0	0
<b>Total revenue and other income</b>	<b>12,507</b>	<b>31,542</b>	<b>5,351</b>	<b>5,512</b>	<b>20,662</b>	<b>18,769</b>	<b>434</b>	<b>650</b>	<b>-4,441</b>	<b>-12,587</b>	<b>34,513</b>	<b>43,886</b>
<b>Segment result</b>	<b>-4,338</b>	<b>9,287</b>	<b>-2,113</b>	<b>-1,016</b>	<b>490</b>	<b>636</b>	<b>154</b>	<b>282</b>	<b>-13</b>	<b>-720</b>	<b>-5,821</b>	<b>8,470</b>
Unallocated expenses	0	0	0	0	0	0	0	0	0	0	-1,001	-1,291
EBIT	0	0	0	0	0	0	0	0	0	0	-6,821	7,178
Revaluation of investment property	-3,913	4,223	0	0	0	0	0	0	0	0	-3,913	4,223
Depreciation, amortisation and impairment losses (notes 15, 16)	-68	-40	-86	-69	-112	-82	-3	-1	21	0	-336	-234
Finance income	0	0	0	0	0	0	0	0	0	0	3,588	12,663
Finance expenses	0	0	0	0	0	0	0	0	0	0	-2,631	-1,996
Income tax expense	0	0	0	0	0	0	0	0	0	0	-689	-966
<b>Net profit / loss</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-6,554</b>	<b>16,880</b>

## 6. Other income

	EEK		EUR	
	9 months 2008	9 months 2007	9 months 2008	9 months 2007
In thousands				
Gains on fair value adjustments to investment property (note 14)	29,903	88,970	1,911	5,686
Gains on sale of investment property	617	2,620	39	167
Gains on sale of property, plant and equipment	42	36	3	2
Miscellaneous income	1,802	1,299	115	84
<b>Total other income</b>	<b>32,364</b>	<b>92,925</b>	<b>2,068</b>	<b>5,939</b>

## 7. Administrative expenses

	EEK		EUR	
	9 months 2008	9 months 2007	9 months 2008	9 months 2007
In thousands				
Personnel expenses	-51,862	-50,280	-3,315	-3,213
Office expenses	-22,740	-21,271	-1,453	-1,359
Legal and consulting fees	-15,425	-8,941	-986	-571
Depreciation, amortisation and impairment losses	-3,512	-2,216	-224	-142
Goodwill adjustments and goodwill recording as revenues	-5,171	323	-330	21
Allowance for doubtful receivables	-1,716	21	-110	1
Vehicle expenses	-7,102	-6,993	-454	-447
Miscellaneous expenses	-2,417	-4,529	-154	-290
<b>Total administrative expenses</b>	<b>-109,945</b>	<b>-93,886</b>	<b>-7,027</b>	<b>-6,000</b>

## 8. Other expenses

	EEK		EUR	
	9 months 2008	9 months 2007	9 months 2008	9 months 2007
In thousands				
Losses on fair value adjustments to investment property (note 14)	-91,126	-22,892	-5,824	-1,463
Losses on sale of investment property	0	-2,407	0	-153
Losses on disposal and impairment of property, plant and equipment	-80	-5	-6	0
Interest on arrears and penalty charges	-2,414	-427	-154	-27
Miscellaneous expenses	-690	-1,029	-44	-66
<b>Total other expenses</b>	<b>-94,310</b>	<b>-26,760</b>	<b>-6,028</b>	<b>-1,710</b>

Includes also fees paid as a result of compromise with Faalanaks OÜ in value of 1.250 thousand kroons (80 thousand euros) (note 22).

## 9. Finance income

	EEK		EUR	
	9 months 2008	9 months 2007	9 months 2008	9 months 2007
In thousands				
Gains on sale of investments in subsidiaries	0	123,269	0	7,878
Gains on sale of interests in jointly controlled entities	0	10,650	0	681
Interest income	45,104	13,880	2,884	887
Foreign exchange gains	9,987	5	638	0
Income on other non-current financial assets	1,050	50,327	67	3,217
<b>Total finance income</b>	<b>56,141</b>	<b>198,131</b>	<b>3,588</b>	<b>12,663</b>

## 10. Finance expenses

	EEK		EUR	
	9 months 2008	9 months 2007	9 months 2008	9 months 2007
In thousands				
Losses on sale of investments in subsidiaries (note 4)	-1,533	-2,638	-98	-169
Losses on sale of investments in joint ventures	-35,086	0	-2,242	0
Interest expenses	-22,512	-24,155	-1,439	-1,544
Expenses on other non-current financial assets <sup>1</sup>	-2,551	-2,866	-163	-183
Foreign exchange losses	-4,744	-1,570	-303	-100
Impairment losses on financial assets <sup>2</sup>	25,258	0	1,614	0
<b>Total finance expenses</b>	<b>-41,168</b>	<b>-31,229</b>	<b>-2,631</b>	<b>-1,996</b>

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

<sup>2</sup> Impairment losses on financial assets in nine months of 2008 comprises the reversal of an impairment loss of 25,248 thousand kroons (1,614 thousand) recognised for a receivable related to the Kippsala project.

## 11. Earnings per share

	EEK		EUR	
	9 months 2008	9 months 2007	9 months 2008	9 months 2007
Weighted average number of ordinary shares outstanding	95,166,077	78,197,753	95,166,077	78,197,753
Profit / loss attributable to equity holders of the parent (in thousands)	-109,743	255,941	-7,014	16,358
<b>Earnings per share (in kroons)</b>	<b>-1.15</b>	<b>3.27</b>	<b>-0.07</b>	<b>0.21</b>

## 12. Receivables

Current receivables	EEK		EUR	
	30.09.2008	31.12.2007	30.09.2008	31.12.2007
In thousands				
<b>Trade receivables</b>				
Receivables from customers	108,037	48,236	6,904	3,083
Allowance for doubtful receivables	-2,552	-70	-163	-4
<b>Total trade receivables</b>	<b>105,485</b>	<b>48,166</b>	<b>6,741</b>	<b>3,079</b>
<b>Other short-term receivables</b>				
Receivables from jointly controlled entities (note 21)	73,899	53,719	4,723	3,433
Loans granted <sup>1</sup>	127,498	12,391	8,149	792
Other short-term receivables	34,200	47,449	2,186	3,033
<b>Total other receivables</b>	<b>235,597</b>	<b>113,559</b>	<b>15,058</b>	<b>7,258</b>
<b>Accrued income</b>				
Interest receivable	10,255	5,807	655	371
Due from customers under long-term construction contracts	12,039	21,635	769	1,383
Prepaid and recoverable VAT	46,902	107,406	2,998	6,864
Other accrued income	2,136	616	137	39
<b>Total accrued income</b>	<b>71,332</b>	<b>135,464</b>	<b>4,559</b>	<b>8,657</b>
<b>Total current receivables</b>	<b>412,414</b>	<b>297,189</b>	<b>26,358</b>	<b>18,994</b>

<sup>1</sup> Loans granted includes at the end of third quarter:

- Claim against Sigma Real Estate Ltd. in value of 108.838 thousand kroons without interest (6.956 thousand euros). Group made prepayment in spring 2008 for the shares in Simferopol shopping centre project in Ukraine. The down payment was in value of 79.096 thousand kroons (5.055 thousand euros) and in addition Group granted to project related entity subordinated loan in value of 20.598 thousand kroons (1.316 thousand euros). As of 30.09.2008 Group's management has decided to exit the project and get back the down payment with extra debt granted and accrued interest. In Group's half year report the claim was recorded as long-term financial asset.
- receivables from related parties of 17.461 thousand kroons (1.116 thousand euros); and at 31 December 2007, the corresponding figure was 12,391 thousand kroons (792 thousand euros).

Non-current receivables	EEK		EUR	
	30.09.2008	31.12.2007	30.09.2008	31.12.2007
In thousands				
Receivables from jointly controlled entities (note 21)	45,612	38,538	2,915	2,463
Long-term loan receivables	203	907	13	58
Other non-current receivables <sup>1</sup>	5,360	679	343	43
<b>Total non-current receivables</b>	<b>51,175</b>	<b>40,124</b>	<b>3,271</b>	<b>2,564</b>

<sup>1</sup> Other non-current receivables include a receivable of 2.917 thousand kroons (186 thousand euros) from the sale of the investment in AVEC Asset Management AS, which represents a claim for the disbursements of Explorer Property Fund AB. (note 4)

### 13. Inventories

	EEK		EUR	
	30.09.08	31.12.2007	30.09.08	31.12.2007
In thousands				
Properties purchased and developed for resale <sup>1</sup>	1,223,169	1,111,527	78,175	71,040
Other goods purchased for resale	4,744	4,498	303	287
Materials and finished goods	3,815	529	244	34
Prepayments to suppliers	52,447	31,879	3,352	2,037
<b>Total inventories</b>	<b>1,284,175</b>	<b>1,148,433</b>	<b>82,074</b>	<b>73,398</b>

<sup>1</sup> The increase in properties purchased and developed for resale results mainly from investments in the Bulgarian residential development projects of 71,133 thousand kroons (4.546 thousand euros), in Tivoli project of 17.401 thousand kroons (1.112 thousand euros) and in Merivälja2 project of 27.801 thousand kroons (1.777 thousand euros). Investments and sales (net) related to the Kolde project increased the inventory balance by -9.812 thousand kroons (-627 thousand euros) net and the net impact of the Bishumuizhas1, Baltezers and Dumpij projects in Latvia was 6.936 thousand kroons (444 thousand euros).

### 14. Investment property

	EEK		EUR	
In thousands				
<b>At 31.12.06</b>	<b>1,479,281</b>		<b>94,543</b>	
Acquisitions	1,914		122	
Disposals	-49,969		-3,194	
Disposals through divestment of interests in subsidiaries and transformation of subsidiaries into jointly controlled entities	-192,500		-12,303	
Transfer to inventories	-300,000		-19,173	
Transfer from property, plant and equipment (note 15)	5,528		353	
Gain or loss on change in fair value (notes 6, 8)	66,078		4,223	
<b>At 30.09.07</b>	<b>1,010,332</b>		<b>64,571</b>	
<b>At 31.12.07</b>	<b>999,999</b>		<b>63,912</b>	
Acquisitions	1,277		82	
Disposals	-31,682		-2,026	
Transfer from property, plant and equipment (note 15)	20,042		1,281	
Gain or loss on change in fair value (notes 6, 8)	-61,223		-3,913	
<b>At 30.09.08</b>	<b>928,413</b>		<b>59,336</b>	

**15. Property, plant and equipment**

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total
In EEK , thousands					
<b>Carrying amount at 31.12.06</b>	<b>21,329</b>	<b>2,261</b>	<b>4,324</b>	<b>53,799</b>	<b>81,713</b>
Additions	7,212	1,656	4,706	22,936	36,510
Capitalised borrowings costs	0	0	0	9,654	9,654
Additions through business combinations	0	0	695	0	695
Disposals	0	-436	-32	-7,839	-8,307
Disposals through divestment of subsidiaries	-96	0	0	-6,802	-6,898
Transfers	0	118	-118	0	0
Transfer to investment property	0	0	0	-5,528	-5,528
Depreciation charge for the period (note 5)	-1,099	-639	-1,604	0	-3,342
<b>Carrying amount at 30.09.07</b>	<b>27,346</b>	<b>2,960</b>	<b>7,971</b>	<b>66,220</b>	<b>104,497</b>
<i>Incl. acquisition cost</i>	<i>37,156</i>	<i>6,144</i>	<i>12,007</i>	<i>66,220</i>	<i>121,527</i>
<i>Incl. accumulated amortisation</i>	<i>-9,810</i>	<i>-3,184</i>	<i>-4,036</i>	<i>0</i>	<i>-17,030</i>
<b>Carrying amount at 31.12.07</b>	<b>26,940</b>	<b>5,134</b>	<b>7,983</b>	<b>101,806</b>	<b>141,863</b>
Additions	313	793	1,595	23,908	26,609
Capitalised borrowings costs	0	0	0	14,855	14,855
Disposals	0	-300	-784	0	-1,084
Additions through business combinations (note 3)	0	2,559	59	0	2,618
Disposals through divestment of subsidiaries and interests in jointly controlled entities (note 4)	0	-58	-281	0	-339
Transfer to non-current assets held for sale	-1,701	0	0	0	-1,701
State aid	0	0	0	-1,020	-1,020
Transfer to investment property (note 14)	0	0	0	-20,042	-20,042
Depreciation charge for the period (note 5)	-1,679	-1,384	-1,764	0	-4,827
<b>Carrying amount at 30.09.08</b>	<b>23,873</b>	<b>6,744</b>	<b>6,808</b>	<b>119,507</b>	<b>156,932</b>
<i>Incl. acquisition cost</i>	<i>35,636</i>	<i>12,588</i>	<i>13,868</i>	<i>119,507</i>	<i>181,599</i>
<i>Incl. accumulated amortisation</i>	<i>-11,763</i>	<i>-5,844</i>	<i>-7,060</i>	<i>0</i>	<i>-24,667</i>

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total
In EUR, thousands					
<b>Carrying amount at 31.12.06</b>	<b>1,363</b>	<b>145</b>	<b>276</b>	<b>3,438</b>	<b>5,222</b>
Additions	461	106	301	1,466	2,334
Capitalised borrowings costs	0	0	0	617	617
Additions through business combinations	0	0	44	0	44
Disposals	0	-28	-2	-501	-531
Disposals through divestment of subsidiaries and interests in jointly controlled entities (note 4)	-6	0	0	-435	-441
Transfers	0	8	-8	0	0
Transfer to investment property	0	0	0	-353	-353
Depreciation charge for the period (note 5)	-70	-41	-103	0	-214
<b>Carrying amount at 30.09.07</b>	<b>1,748</b>	<b>189</b>	<b>509</b>	<b>4,232</b>	<b>6,678</b>
<i>Incl. acquisition cost</i>	<i>2,375</i>	<i>393</i>	<i>767</i>	<i>4,232</i>	<i>7,767</i>
<i>Incl. accumulated amortisation</i>	<i>-627</i>	<i>-203</i>	<i>-258</i>	<i>0</i>	<i>-1,088</i>
<b>Carrying amount at 31.12.07</b>	<b>1,722</b>	<b>328</b>	<b>510</b>	<b>6,507</b>	<b>9,067</b>
Additions	20	51	102	1,527	1,700
Capitalised borrowings costs	0	0	0	948	948
Disposals	0	-19	-50	0	-69
Additions through business combinations (note 3)	0	164	4	0	168
Disposals through divestment of subsidiaries and interests in jointly controlled entities (note 4)	0	-4	-18	0	-22
Transfer to non-current assets held for sale	-109	0	0	0	-109
State aid	0	0	0	-65	-65
Transfer to investment property (note 14)	0	0	0	-1,281	-1,281
Depreciation charge for the period (note 5)	-107	-88	-113	0	-308
<b>Carrying amount at 30.09.08</b>	<b>1,526</b>	<b>431</b>	<b>435</b>	<b>7,638</b>	<b>10,030</b>
<i>Incl. acquisition cost</i>	<i>2,278</i>	<i>805</i>	<i>887</i>	<i>7,638</i>	<i>11,608</i>
<i>Incl. accumulated amortisation</i>	<i>-752</i>	<i>-374</i>	<i>-452</i>	<i>0</i>	<i>-1,578</i>

**16. Intangible assets**

	Goodwill	Software	Total
In EEK , thousands			
<b>Carrying amount at 31.12.06</b>	<b>15,558</b>	<b>1,147</b>	<b>16,705</b>
Additions	0	872	872
Additions through business combinations	5,941	11	5,952
Depreciation charge for the period (note 5)	0	-319	-319
<b>Carrying amount at 30.09.07</b>	<b>21,499</b>	<b>1,711</b>	<b>23,210</b>
<b>Carrying amount at 31.12.07</b>	<b>23,957</b>	<b>1,548</b>	<b>25,505</b>
Additions	0	482	482
Disposals	0	-1	-1
Additions through business combinations (note 3)	4,310	0	4,310
Adjustment of acquisition cost (note 3)	-3,678	0	-3,678
Disposals through divestment of subsidiaries and interests in jointly controlled entities (note 4)	-4,014	-195	-4,209
Fair value adjustment	-5,171	0	-5,171
Depreciation charge for the period (note 5)	0	-432	-432
<b>Carrying amount at 30.09.08</b>	<b>15,404</b>	<b>1,402</b>	<b>16,805</b>
<i>Incl. acquisition cost</i>	<i>15,404</i>	<i>2,933</i>	<i>18,336</i>
<i>Incl. accumulated amortisation</i>	<i>0</i>	<i>-1,531</i>	<i>-1,531</i>

	Goodwill	Software	Total
In EUR, thousands			
<b>Carrying amount at 31.12.06</b>	<b>994</b>	<b>73</b>	<b>1,068</b>
Additions	0	56	56
Additions through business combinations	380	1	381
Depreciation charge for the period (note 5)	0	-20	380
<b>Carrying amount at 30.09.07</b>	<b>1,374</b>	<b>109</b>	<b>1,483</b>
<b>Carrying amount at 31.12.07</b>	<b>1,531</b>	<b>99</b>	<b>1,630</b>
Additions	0	31	31
Disposals	0	0	0
Additions through business combinations (note 3)	275	0	275
Adjustment of acquisition cost (note 3)	-235	0	-235
Disposals through divestment of subsidiaries and interests in jointly controlled entities (note 4)	-257	-12	-269
Fair value adjustment	-330	0	-330
Depreciation charge for the period (note 5)	0	-28	-28
<b>Carrying amount at 30.09.08</b>	<b>984</b>	<b>90</b>	<b>1,074</b>
<i>Incl. acquisition cost</i>	<i>984</i>	<i>187</i>	<i>1,172</i>
<i>Incl. accumulated amortisation</i>	<i>0</i>	<i>-98</i>	<i>-98</i>

**17. Loans and borrowings**

	30.09.2008		31.12.2007	
	Total	Including current portion	Total	Including current portion
In EEK, thousands				
Debt securities	155,347	155,347	139,284	124,545
Bank loans	875,515	279,900	1,094,580	563,689
Finance lease liabilities	10,184	2,168	6,712	2,475
Other loans <sup>1</sup>	127,415	83,806	113,439	62,368
<b>Total</b>	<b>1,168,461</b>	<b>521,221</b>	<b>1,354,015</b>	<b>753,077</b>

	30.09.2008		31.12.2007	
	Total	Including current portion	Total	Including current portion
In EUR, thousands				
Debt securities	9,928	9,928	8,902	7,960
Bank loans	55,956	17,889	69,956	36,026
Finance lease liabilities	651	139	429	158
Other loans <sup>1</sup>	8,143	5,356	7,250	3,986
<b>Total</b>	<b>74,678</b>	<b>33,312</b>	<b>86,537</b>	<b>48,130</b>

<sup>1</sup> Other loans include loan liabilities to related parties of 115.265 thousand kroons (7.367 thousand euros). At 31 December 2007 loan liabilities to related parties totalled 100,484 thousand kroons (6,422 thousand euros). For further information on transactions with related parties, please refer to note 21.

**18. Payables and other liabilities**

Payables	EEK		EUR	
	30.09.08	31.12.2007	30.09.08	31.12.2007
In thousands				
<b>Trade payables</b>	83,373	60,612	5,329	3,874
<b>Miscellaneous payables</b>				
Payables to jointly controlled entities (note 21)	5,566	6,386	356	408
Liabilities from securities transactions	6,303	48,616	403	3,107
Miscellaneous payables	34,900	29,496	2,230	1,885
<b>Total other payables</b>	<b>46,769</b>	<b>84,498</b>	<b>2,989</b>	<b>5,400</b>
<b>Taxes payable</b>				
Value added tax	4,524	1,761	288	113
Income tax on dividends	0	3,449	0	220
Personal income tax	2,326	2,535	149	162
Social tax	4,520	4,841	289	309
Other taxes	2,235	4,037	142	258
<b>Total taxes payable</b>	<b>13,605</b>	<b>16,623</b>	<b>868</b>	<b>1,062</b>

... continues	EEK		EUR	
	30.09.08	31.12.2007	30.09.08	31.12.2007
<b>Accrued expenses</b>				
Interest payable	7,617	7,164	487	458
Payables to employees	11,356	27,671	726	1,768
Dividends payable	1,252	8,743	80	559
Other accrued expenses	7,103	18,280	454	1,169
<b>Total accrued expenses</b>	<b>27,328</b>	<b>61,858</b>	<b>1,747</b>	<b>3,954</b>
<b>Total payables</b>	<b>171,075</b>	<b>223,591</b>	<b>10,934</b>	<b>14,290</b>

Other liabilities, non-current items	EEK		EUR	
	30.09.08	31.12.2007	30.09.08	31.12.2007
In thousands				
Liabilities from securities transactions	493	1,211	32	77
Deposits received	1,402	1,461	90	93
Miscellaneous long-term liabilities	4,871	1,935	310	124
<b>Total other liabilities</b>	<b>6,766</b>	<b>4,607</b>	<b>432</b>	<b>294</b>

## 19. Deferred income

	EEK		EUR	
	30.09.08	31.12.2007	30.09.08	31.12.2007
In thousands				
Liabilities from securities transactions	493	1,211	32	77
Deposits received	1,402	1,461	90	93
Miscellaneous long-term liabilities	4,871	1,935	310	124
<b>Total other liabilities</b>	<b>6,766</b>	<b>4,607</b>	<b>432</b>	<b>294</b>

## 20. Equity

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

Own shares are utilised for motivation program or for decrease of share capital. During the program Arco Vara AS repurchased 450,000 shares for a total of 3.992 thousand kroons (255 thousand euros).

**21. Transactions with related parties**

	EEK		EUR	
	9m 2008 or 30.09.2008	9m 2007 or 31.12.07	9m 2008 or 30.09.2008	9m 2007 or 31.12.07
In thousands				
<b>Transactions with jointly controlled entities</b>				
Sales revenue	1,567	5,657	100	362
Services purchased	-48	-48	-3	-3
Short-term loan receivables (note 12)	71,567	52,530	4,574	3,357
Long-term loan receivables (note 12)	43,594	37,688	2,786	2,409
Trade receivables (note 12)	491	963	31	62
Short-term interest receivables (note 12)	1,841	226	118	14
Long-term interest receivables (note 12)	2,018	850	129	54
Payables (note 18)	5,566	6,386	356	408
<b>Transactions with companies having joint control over Group companies</b>				
Sales revenue	0	135	0	9
Services purchased	-334	-375	-21	-24
Short-term loan receivables (note 12)	14,286	3,490	913	223
Short-term debt (note 17)	74,686	51,852	4,773	3,314
Dividends payable	0	8,743	0	559
Trade payables	276	24	18	2
Short-term interest payable	3,259	2,101	208	134
Long-term loan liabilities	31,341	38,898	2,003	2,486
Long-term interest liabilities	1,341	815	86	52
<b>Transactions with key staff of the Group and the Group's management</b>				
Sales revenue	11,747	3,357	751	215
Trade receivables	262	1,377	17	88
Short-term debt (note 17)	1,699	1,945	109	124
Interest payable	604	373	39	24
<b>Transactions with other related parties</b>				
Sales revenue	1,869	4,689	119	300
Services purchased	-33	-2,086	-2	-133
Short-term loan receivables (note 12)	3,175	12,391	203	792
Interest receivable	1,346	1,242	86	79
Other short-term receivables	1,279	2,825	82	181
Long-term loan receivables	0	907	0	58
Short-term debt (note 17)	298	298	19	19
Trade payables	0	17	0	1
Other payables	34,310	28,406	2,193	1,815
Long-term interest liabilities	1,437	997	92	64
Long-term loan liabilities	7,241	7,491	463	479

The remuneration of the parent company's management board and division managers for the first nine months of 2008, including associated taxes, totalled 7.921 thousand kroons (506 thousand euros). The corresponding figure for the first nine months of 2007 was 7.897 thousand kroons (505 thousand euros).

## **22. Contingent liabilities**

### **Litigation against the jointly controlled entity AS Tallinna Olümpiapurjespordikeskus (AS TOP)**

On 31 March 2008, AS TOP filed an appeal in cassation against the ruling of Tallinn Circuit Court of 29 February 2008 by which the Circuit Court annulled the ruling of Harju County Court of 19 October 2006 regarding the action of Regati Valduste OÜ and Urmas Uustal against AS TOP and issued a new ruling on the annulled part.

On 21.05.2008 State court decided not to proceed with AS TOP cassation. So, the decision of Tallinn Circuit Court came to effect. According to the decisions of AS TOP Supervisory Board meeting on 15.11.2005 had no legal grounds.

During a meeting of the supervisory board of AS TOP which convened on 16 June 2008 Regati Valduste OÜ (the other shareholder of AS TOP) declared that no steps would be taken to have the transaction declared void. Thus, at the date these financial statements are authorised for issue, the transaction may be regarded as a valid one.

The Group's management has no reason to doubt the statements made by the representatives of Regati Valduste OÜ.

So far Regati Valduste OÜ hasn't presented any claim against AS TOP or Arco Group.

To date the litigation has ended.

### **Litigation against the subsidiary Arco Investeeringute AS**

#### Action brought by Profitor Group OÜ

The representative of Profitor didn't participate in the court session on 06.10.2008. Due to this the judge decided on 06.10.2008 not to proceed with the claim. Group made a counter claim against Profitor and the court decided that Profitor Group OÜ must pay to Arco Investeeringute 4.368 thousand kroons (279 thousand euros). Because the decision came to effect immediately, Arco Investeeringute AS gave the claim to bailiff.

#### Adoption of a detailed plan for Narva mnt 67

On 19 May 2008 a resident of the Liivaoja residential area brought an action for annulment of Resolution 72 *Adoption of a Detailed Plan for Narva mnt 67 in the City Centre* passed by Tallinn City Council on 17 April 2008, filing also a request for the application of provisional legal protection. According to the complainant, the detailed plan adopted for the property known as the Tivoli plot is unlawful and damages the complainant's rights.

Since the property belongs to Arco Investeeringute AS, the Group is involved in the proceedings as a third party.

On 8 July 2008 Tallinn Administrative Court ruled that the request for provisional legal protection would be satisfied and execution of Tallinn City Council Resolution 72 of 17 April 2008 would be suspended until the completion of litigation and entry into force of a judicial decision.

On 18 July 2008 both the Tallinn City Council and Arco Investeeringute AS filed an appeal with Tallinn Circuit Court in which they requested annulment of the ruling on provisional legal protection.

On 11 August 2008 Tallinn Circuit Court issued a ruling which left the Administrative Court's ruling on provisional legal protection unchanged and dismissed the appeals filed by Tallinn City Council and Arco Investeeringute AS.

Despite the execution of provisional legal protection, the Group's management believes that in the long term the dispute will have an outcome which will allow implementing the detailed plan, particularly as the Group intends to develop the plot in the long term. Currently the litigation does not affect the development schedule of the Tivoli plot.

At the date these consolidated financial statements are authorised for issue, the litigation is pending.

### **Actions brought by the subsidiary Arco Ehitus OÜ**

#### Bankruptcy action against OÜ AquaMyk

On 26 June 2008 Arco Ehitus OÜ filed a motion with Pärnu County Court in which it requested that bankruptcy proceedings be initiated against OÜ AquaMyk and that OÜ AquaMyk be declared bankrupt. On 1 July 2008 Pärnu County Court accepted the motion and initiated preliminary proceedings. A preliminary hearing concerning the matter was held in Pärnu County Court's Kuressaare Courthouse on 15 August 2008. On 25 July 2008 the court ruled that the motion would be dismissed and no bankruptcy proceedings initiated. The court found that the dispute should be resolved out of court because the debtor has reasoned counterarguments.

The Group's management is of the opinion that there are grounds for bringing bankruptcy action against OÜ AquaMyk because on 20 June 2006 OÜ AquaMyk and Arco Ehitus OÜ entered into a construction services contract under which Arco Ehitus OÜ undertook to perform construction work at Urmeti Fishery. Arco Ehitus OÜ sent OÜ AquaMyk delivery documents and invoices for services rendered. OÜ AquaMyk hasn't overruled any invoice, but hasn't paid to Arco Ehitus OÜ invoices in value of 1.200 thousand kroons (77 thousand euros). Despite several reminders OÜ AquaMyk hasn't paid anything.

In the consolidated financial statements for the period ended 30.09.08, the receivable from OÜ AquaMyk is classified as fully impaired (irrecoverable).

#### Bankruptcy action against OÜ Kaanon Kinnistud

On 26 June 2008 Arco Ehitus OÜ filed a motion with Harju County Court in which it requested that bankruptcy proceedings be initiated against OÜ Kaanon Kinnistud and that OÜ Kaanon Kinnistud be declared bankrupt. Group management finds that the request for bankruptcy against OÜ Kaanon Kinnistud is fully justified. Arco Ehitus OÜ and OÜ Kaanon Kinnistud agreed on 01.04.2006 on the construction and designing of sewage system for OÜ Kaanon Kinnistud OÜ. On 31 July 2007 Arco Ehitus OÜ submitted delivery documents concerning all works performed and OÜ Kaanon Kinnistud signed the documents. Arco Ehitus OÜ has invoiced OÜ Kaanon Kinnistud for services rendered and the customer has not disputed the amounts charged. On 30 May 2008 Group's receivables from OÜ Kaanon Kinnistud totalled 1,887 thousand kroons (120 thousand euros) including the principal liability of 516 thousand kroons (33 thousand euros) and interest on arrears of 1,371 thousand kroons (88 thousand euros). Although Arco Ehitus OÜ has cautioned OÜ Kaanon Kinnistud about the bankruptcy action, OÜ Kaanon Kinnistud has not responded to the caution or settled the debt.

On 25 August 2008 Harju Circuit Court decided that in order to proceed with the case Arco Ehitus OÜ must pay in 15 thousand kroons (1 thousand euros) of court fees. Because Group had already started separate negotiations with OÜ Kaanon Kinnistud OÜ, Arco Ehitus OÜ decided not to proceed with the court case but allows Kaanon Kinnistud once more to settle the Claim. In the consolidated financial statements for the period ended 30.09.08, the receivable from Kaanon Kinnistud OÜ is classified as fully impaired (irrecoverable).

### **Action brought against the subsidiary Arco Vara Kinnistute AS**

On 9 June 2008, OÜ Faalanks (bankrupt) and Arco Vara Kinnistute AS signed a compromise agreement and applied to the court for termination of proceedings and sanctioning the compromise on condition that Arco

Vara Kinnistute AS will pay OÜ Faalanks 1,250 thousand kroons (80 thousand euros) within 10 days after the ruling of Tartu County Court which sanctions the compromise has entered into force. According to the compromise, legal costs will be borne by both parties.

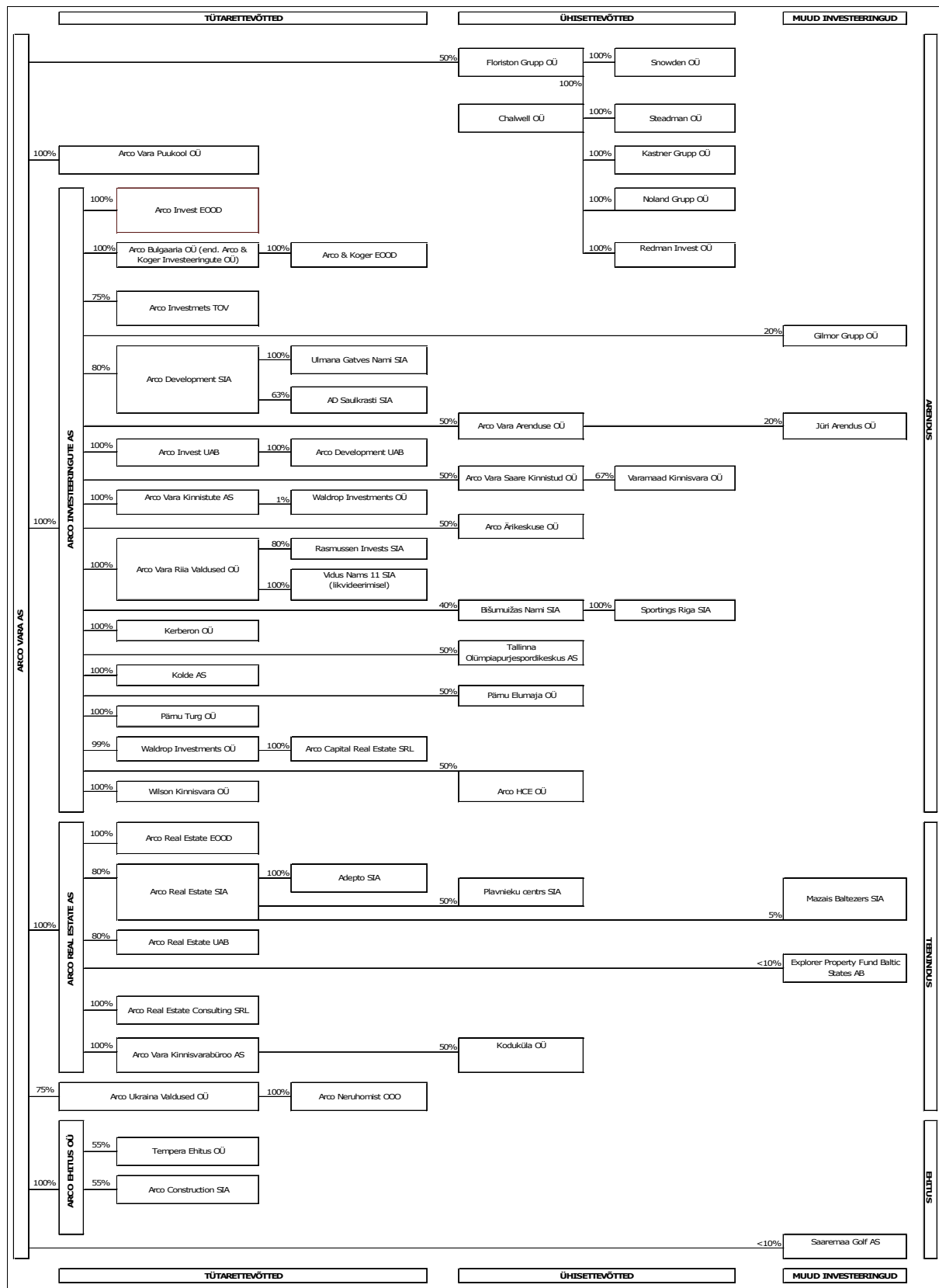
Arco Vara Kinnistute AS decided to enter into a compromise agreement because although Arco Vara Kinnistute AS had claims against OÜ Faalanks and according to former member of the management board Hannes Kuhlback the claims had been offset against OÜ Faalanks' principal claim against Arco Vara Kinnistute AS, neither the offsetting proposal nor the offsetting transaction had been documented. During the hearing held on 24 April 2008, Arco Vara Kinnistute AS was unable to prove that any offsetting had occurred.

Accordingly, it became probable that the court would order settlement of OÜ Faalanks' principal claim of 1,087 thousand kroons (69 thousand euros) and payment of approximately 50% of the 1,000 thousand kroons (64 thousand euros) interest on arrears. In addition, the defendant would have had to indemnify the plaintiff's legal costs.

Because the case was substantial size, time and cost wise, parties agreed on compromise. The expenses of the case are recorded in Group's profit and loss statement in value of 1.250 thousand kroons (80 thousand euros) (note 8). The case is closed.

## 24. The Group's structure

At 30.09.08



## Statement by the management board

The management board of Arco Vara AS has prepared the condensed consolidated interim financial statements for the first nine months and third quarter ended 30 September 2008 presented on pages 2 to 36.

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

Lembit Tampere  
Chairman of the Management Board

Veiko Taevere  
Member of the Management Board

Heigo Metsoja  
Member of the Management Board