

Consolidated interim report I quarter 2006

ARCO VARA AS

| | |
|---------------------|--|
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| Corporate web page: | www.arcorealestate.com |
| Regional web pages: | www.arcovara.ee www.arcoreal.lv www.arcoreal.lt www.arcoreal.com.ua |
| Main activities: | Real estate development and investments Real estate related services Construction |
| Supervisory board: | Arti Arakas, Hillar-Peeter Luitsalu, Richard Tomingas |
| Management board: | Viljar Arakas, Sulev Luiga, Ivar Siimar |
| Auditor: | Ernst & Young Baltic AS |

EXPLANATORY LETTER

Arco Vara's consolidated revenue amounted 6 455 thousand euros in I quarter 2006 (2005 I quarter: 7 414 thousand euros). The net profit for first three months amounted to 1 726 thousand euros (2005 I quarter: 1 470 thousand euros). The net profit attributable to the owners of the Parent, amounted to 1 726 thousand euros (I quarter 2005: 1 199 thousand euros).

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

Performance indicators

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

Contribution of the business divisions to consolidated financial indicators:

| I quarter 2006 | Service | Development | Construction | Eliminations | Unallocated expenses and assets | Total |
|------------------------|----------------|--------------------|---------------------|---------------------|--|---------------|
| Total revenue | 1 552 | 2 755 | 3 354 | -1 061 | 0 | 6 600 |
| Total operating profit | 265 | 2 487 | -537 | 55 | -378 | 1 891 |
| Total assets | 2 785 | 83 072 | 5 214 | -3 448 | 8 795 | 96 417 |

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

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

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

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

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

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

CONSOLIDATED INCOME STATEMENT

unaudited

in thousand of euros, for I quarter

| | Notes | 2006 | 2005 |
|---|--------------|---------------|-------------|
| Revenue | 1 | 6 437 | 7 426 |
| Cost of sales | | -4 283 | -5 116 |
| Gross profit | | 2 154 | 2 309 |
| Marketing costs | | -235 | -190 |
| General and administrative expenses | | -184 | -723 |
| Other operating income | | 163 | 131 |
| Other operating expenses | | -7 | -14 |
| Operating profit | | 1 891 | 1 512 |
| Financial items and investment activity income (expenses) | | -164 | -15 |
| Profit before income tax | | 1 727 | 1 498 |
| Income tax expense | | 5 | 0 |
| Net profit | | 1 732 | 1 497 |
| attributable to: | | | |
| - owners of the parent | | 1 736 | 1 199 |
| - minority interests | | -4 | 299 |
| Profit attributable to owners of the Parent per share (in euros)¹ | | | |
| - basic | 2 | 0,06 | 0,05 |
| - diluted | 2 | 0,06 | 0,05 |

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

CONSOLIDATED BALANCE SHEET

unaudited
in thousands of euros, as March, 31

| | Notes | 31.03.2006 | 31.12.2005 |
|--|-------|---------------|---------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 7 951 | 9 202 |
| Receivables | | 6 090 | 6 159 |
| Prepaid expenses | | 169 | 166 |
| Inventories | 2 | 12 165 | 9 834 |
| Biological assets | | 378 | 385 |
| Total current assets | | 26 753 | 25 746 |
| Non-current assets | | | |
| Long-term receivables | | 927 | 1 085 |
| Long-term investments into securities | | 193 | 192 |
| Investment property | 3 | 54 508 | 54 395 |
| Property, plant and equipment | 4 | 12 923 | 11 146 |
| Intangible assets | 5 | 1 113 | 868 |
| Total non-current assets | | 69 664 | 67 686 |
| TOTAL ASSETS | | 96 417 | 93 432 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Borrowings | | 20 345 | 20 251 |
| Payables | | 6 571 | 7 525 |
| Prepayments | | 2 603 | 2 643 |
| Provisions | | 68 | 41 |
| Total current liabilities | | 29 587 | 30 460 |
| Non-current liabilities | | | |
| Long-term borrowings | | 27 712 | 25 076 |
| Other long-term payables | | 2 983 | 710 |
| Long-term provisions | | 70 | 70 |
| Total non-current liabilities | | 30 765 | 25 856 |
| Total liabilities | | 60 352 | 56 316 |
| Equity | | | |
| Equity attributable to the owners of the Parent | | | |
| Share capital | | 19 463 | 19 463 |
| Share premium | | 7 866 | 7 866 |
| Legal mandatory reserve | | 27 | 27 |
| Other reserves | | 31 | 30 |
| Retained earnings | | 8 179 | 6 443 |
| Total equity attributable to the owners of the parent | | 35 566 | 33 829 |
| Minority interests | | 497 | 3 288 |
| Total equity | | 36 063 | 37 116 |
| TOTAL LIABILITIES AND EQUITY | | 96 417 | 93 432 |

CONSOLODATED STATEMENT OF CHANGES IN EQUITY

unaudited
in thousands of euros

| | Equity attributable to the owners of the Parent | | | | | | Minority interests | Total equity |
|---|---|---------------|------------------------|----------------|-------------------|---------------|--------------------|---------------|
| | Share capital | Share premium | Legal mandatory reserv | Other reserves | Retained earnings | Total | | |
| Balance at 31.12.2004 | 268 | 565 | 27 | 364 | 16 753 | 17 977 | 4 591 | 22 568 |
| Foreign currency translation | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 1 |
| Changes in minority interests caused by changes in the Parent's ownership in subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 | 1 067 | 1 067 |
| Net profit | 0 | 0 | 0 | 0 | 1 199 | 1 199 | 0 | 1 199 |
| Balance at 31.03.2005 | 268 | 565 | 27 | 365 | 17 951 | 19 177 | 5 658 | 24 835 |
| Balance at 31.12.2005 | 19 463 | 7 866 | 27 | 30 | 6 443 | 33 829 | 3 288 | 37 116 |
| Foreign currency translation | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 1 |
| Changes in minority interests caused by changes in the Parent's ownership in subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 | -2 786 | -2 786 |
| Net profit | 0 | 0 | 0 | 0 | 1 736 | 1 736 | -4 | 1 732 |
| Balance at 31.03.2006 | 19 463 | 7 866 | 27 | 31 | 8 179 | 35 566 | 497 | 36 063 |

CONSOLIDATED CASH FLOW STATEMENT

unaudited
in thousands of euros

I Q 2006

| | |
|---|---------------|
| Cash flows from operating activities | |
| Operating profit | 1 891 |
| Adjustments of operating profit | -958 |
| Increase in receivables related to operating activities and inventories | -1 956 |
| Increase in payables and prepayments related to operating activities | 487 |
| Total cash flows from operating activities | -536 |
| Cash flows used in investing activities | |
| Purchase of property, plant and equipment and intangible assets | -1 841 |
| Proceeds from sale of property, plant and equipment and intangible assets | 1 |
| Purchase of investment property | -488 |
| Proceeds from sale of investment property and biological assets | 323 |
| Acquisition of subsidiaries and joint ventures | -258 |
| Proceeds from sale of subsidiaries and joint ventures | -397 |
| Purchase of other investments | 0 |
| Proceeds from sale of other investments | 0 |
| Loans granted | -11 |
| Repayments of loans granted | 143 |
| Interests received | 68 |
| Total cash flows used in investing activities | -2 461 |
| Cash flows from financing activities | |
| Proceeds from borrowings | 3 824 |
| Repayments of borrowings and finance lease liabilities | -1 228 |
| Change in overdraft | -5 |
| Interests paid | -421 |
| Proceeds from issue of shares | -90 |
| Dividends paid | -261 |
| Income tax on dividends paid | -71 |
| Total cash flows from financing activities | 1 748 |
| NET CASH FLOWS | -1 249 |
| Cash and cash equivalents at the beginning of the period | 0 |
| Change in cash and cash equivalents | -1 249 |
| Net foreign exchange difference | -3 |
| Cash and cash equivalents at the end of the period | -1 251 |

NOTES

Note 1 Segment information

in thousands of euros

BUSINESS SEGMENTS

| As of 31.03.2006 or for the I quarter 2006, respectively | Service | Development | Construction | Eliminations | Total |
|---|----------------|--------------------|---------------------|---------------------|---------------|
| Revenue to external customer | 1 432 | 2 437 | 2 568 | 0 | 6 437 |
| Other operating income to external customers | 0 | 156 | 6 | 0 | 163 |
| Revenue and other operating income to other segments | 119 | 162 | 779 | -1 061 | 0 |
| Total revenue | 1 552 | 2 755 | 3 354 | -1 061 | 6 600 |
| Segment results | 265 | 2 487 | -537 | 55 | 2 270 |
| Unallocated operating expenses | | | | | -379 |
| Operating profit | | | | | 1 891 |
| Financial items and investment activity income (expenses) | | | | | -164 |
| Income tax expense | | | | | 5 |
| Net profit | | | | | 1 732 |
| Depreciation and amortization included in segment results | -12 | -9 | -18 | 0 | -38 |
| Impairment loss included in segment results | 0 | 857 | -6 | 0 | 851 |
| Unallocated depreciation and amortization | | | | | -8 |
| Total depreciation, amortization and impairment loss | | | | | 805 |
| Segment investments into non-current assets | 39 | 1 897 | 254 | 0 | 2 189 |
| Unallocated investments | | | | | 4 |
| Total investments into non-current assets | | | | | 2 193 |
| | Service | Development | Construction | Eliminations | Total |
| Segment assets | 2 785 | 83 072 | 5 214 | -3 448 | 87 623 |
| Unallocated assets | | | | | 8 795 |
| Total assets | | | | | 96 418 |
| Segment liabilities | 3 293 | 26 118 | 4 523 | -25 262 | 8 672 |
| Unallocated liabilities | | | | | 51 683 |
| Total liabilities | | | | | 60 354 |

GEOGRAPHICAL SEGMENTS

| Revenue by geographical location of customers | I Q 2006 |
|--|-----------------|
| Estonia | 5 909 |
| Latvia | 466 |
| Lithuania | 26 |
| Ukraine | 52 |
| Revenue to other segments | -15 |
| Total revenue by location of customers | 6 437 |

| Segment assets by geographical location of assets | 31.03.2006 |
|--|-------------------|
| Estonia | 86 398 |
| Latvia | 4 626 |
| Lithuania | 21 |
| Ukraine | 514 |
| Inter-segment eliminations | -6 139 |
| Unallocated assets | 10 997 |
| Total segment assets by geographical location of assets | 96 417 |

| Assets acquired in I Q 2006 by type of assets | Estonia | Latvia | Lithuania | Ukraine | Total |
|--|----------------|---------------|------------------|----------------|--------------|
| Investments property | 273 | 0 | 0 | 0 | 273 |
| Property, plant and equipment | 1 521 | 118 | 8 | 24 | 1 670 |
| Intangible assets | 250 | 0 | 0 | 0 | 250 |
| Total acquired assets | 2 043 | 118 | 8 | 24 | 2 193 |

Note 2 Inventories

in thousands of euros

| | 31.03.2006 | 31.12.2005 |
|---|-------------------|------------|
| Real estate purchased or developed for sale | 11 441 | 9 266 |
| Other goods purchased for resale | 253 | 264 |
| Raw materials and finished goods | 9 | 33 |
| Prepayments to suppliers | 462 | 271 |
| Total inventories | 12 165 | 9 834 |

Note 3 Investment properties

in thousands of euros

| | |
|------------------------------|---------------|
| Balance at 31.12.2005 | 54 395 |
| Purchases | 273 |
| Capitalized borrowing costs | 4 |
| Sales | -165 |
| Balance at 31.03.2006 | 54 508 |

Note 4 Property, plant and equipment

in thousands of euros

| | Land and buildings | Machinery and equipment | Other equipment | Construction | Total |
|------------------------------|--------------------|-------------------------|-----------------|---------------|---------------|
| Balance at 31.12.2005 | 1 084 | 94 | 188 | 9 781 | 11 146 |
| Purchases | 0 | 3 | 44 | 1 624 | 1 670 |
| Capitalized borrowing costs | 0 | 0 | 0 | 147 | 147 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Depreciation charge | -12 | -9 | -19 | 0 | -40 |
| Balance at 31.03.2006 | 1 072 | 87 | 213 | 11 552 | 12 923 |

Note 5 Intangible assets

in thousands of euros

| | Goodwill | Negative goodwill | Software | Total |
|--------------------------------------|--------------|-------------------|-----------|--------------|
| Balance at 31.12.2005 | 835 | 0 | 33 | 868 |
| Purchases | 0 | 0 | 2 | 2 |
| Additions from business combinations | 248 | 851 | 0 | 1 098 |
| Negative goodwill recorded as income | 0 | -851 | 0 | -851 |
| Amortization charge | 0 | 0 | -5 | -5 |
| Balance at 31.12.2005 | 1 083 | 0 | 30 | 1 113 |

MANAGEMENT REPRESENTATION

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

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



Viljar Arakas
Chairman of the Management Board



Sulev Luiga
Member of the Management Board



Ivar Siimar
Member of the Management Board