

Consolidated interim report 9 months 2006

ARCO VARA AS

Registry code:	10261718
Address:	Jõe 2b 10151, Tallinn The Republic of Estonia
Phone:	+372 6 144 630
Fax:	+372 6 144 631
E-mail:	info@arcovara.ee
Corporate web page:	www.arcorealestate.com
Regional web pages:	www.arcovara.ee www.arcoreal.lv www.arcoreal.lt www.arcoreal.com.ua www.arcoreal.bg
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 22 453 thousand euros in 9 months 2006 (2005 9 months: 21 515 thousand euros). The net profit for first three months amounted to 3 506 thousand euros (2005 9 months: 5 158 thousand euros). The net profit attributable to the owners of the Parent, amounted to 3 484 thousand euros (9 months 2005: 4 613 thousand euros).

Main indicators	30.09.2006	31.12.2006
Current ratio (current assets / current liabilities)	0,7	0,7
Equity ratio (equity / total assets)	0,3	0,3
Equity / dept ratio (equity/(short-term borrowings + long-term borrowings))	0,6	0,5
Equity ratio for equity attributable to the owners of the Parent (equity attributable to the owners of the Parent / total assets)	0,3	0,2
Equity / dept ratio for equity attributable to the owners of the Parent (equity attributable to the owners of the Parent / (short-term borrowings + long-term borrowings))	0,5	0,5
Performance indicators	9 months 2006	9 months 2006
Net profit margin (net profit attributable to the owners of the Parent / revenue)	0,2	0,2
Operating profit margin (operating profit / revenue)	0,2	0,3
Gross profit margin (gross profit / revenue)	0,3	0,3
ROA (net profit attributable to the owners of the Parent / average total assets)	0,03	0,07
Profitability of assets ((revenue + other operating income)/ average total assets)	0,1	0,1
ROE 1 (profit before minority interests / average equity with minority interests)	0,1	0,1
ROE 2 (profit attributable to the owners of the Parent / average equity attributable to the owners of the Parent)	0,1	0,3

Contribution of the business divisions to consolidated financial indicators:

As of 30.09.06 or for the 9 months 2006, respectively	Service	Development	Construction	Eliminations	Unallocated expenses and assets	Total
Total revenue	5 430	12 103	15 430	-8 146	0	24 817
Total operating profit	614	6 154	-830	-410	-896	4 631
Total assets	2 709	108 018	6 146	-4 075	7 540	120 336

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.

Consolidated interim financial statements for 9 months 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 9 months

	Notes	2006	2005
Revenue from rendering services		15 013	13 344
Revenue from sale of goods		7 441	8 171
Total revenue	1	22 453	21 515
Cost of sales		-16 233	-14 755
Gross profit		6 220	6 761
Marketing costs		-908	-511
General and administrative expenses		-2 925	-2 615
Other operating income		2 364	2 861
Other operating expenses		-119	-40
Operating profit		4 631	6 455
Financial items and investment activity income (expenses)		-888	-1 034
Profit before income tax		3 743	5 422
Income tax expense		-237	-262
Net profit		3 506	5 158
attributable to:			
- owners of the parent		3 484	4 613
- minority interests		22	547
Profit attributable to owners of the Parent per share (in euros)¹			
- basic		0,11	0,19
- diluted		0,11	0,19

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 INCOME STATEMENT

unaudited
in thousand of euros, for III quarter

	Notes	2006	2005
Revenue from rendering services		5 996	5 672
Revenue from sale of goods		3 648	1 414
Total revenue	1	9 644	7 086
Cost of sales		-6 858	-4 693
Gross profit		2 786	2 393
Marketing costs		-119	-145
General and administrative expenses		-1 529	-1 031
Other operating income		311	1 938
Other operating expenses		-100	-15
Operating profit		1 348	3 140
Financial items and investment activity income (expenses)		-365	-730
Profit before income tax		983	2 410
Income tax expense		-19	-24
Net profit		964	2 385
attributable to:			
- owners of the parent		950	2 198
- minority interests		14	188
Profit attributable to owners of the Parent per share (in euros)¹			
- basic		0,03	0,09
- diluted		0,03	0,09

CONSOLIDATED BALANCE SHEET

unaudited
in thousands of euros

	Notes	30.09.06	31.12.2005
ASSETS			
Current assets			
Cash and cash equivalents		2 556	9 202
Receivables		6 120	6 159
Prepaid expenses		1 575	166
Inventories	2	18 506	9 834
Biological assets		332	385
Total current assets		29 089	25 746
Non-current assets			
Long-term receivables		949	1 085
Long-term investments into securities		207	192
Investment property	3	60 008	54 395
Property, plant and equipment	4	25 320	11 146
Intangible assets	5	4 765	868
Total non-current assets		91 248	67 686
TOTAL ASSETS		120 336	93 432
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings		25 730	20 251
Payables		9 165	7 525
Prepayments		4 278	2 643
Provisions		11	41
Total current liabilities		39 186	30 460
Non-current liabilities			
Long-term borrowings		41 035	25 076
Other long-term payables		2 953	710
Long-term provisions		88	70
Total non-current liabilities		44 076	25 856
Total liabilities		83 262	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		351	27
Other reserves		32	30
Retained earnings		8 857	6 443
Total equity attributable to the owners of the parent		36 569	33 829
Minority interests		505	3 288
Total equity		37 073	37 116
TOTAL LIABILITIES AND EQUITY		120 336	93 432

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited
in thousands of euros

	Equity attributable to the owners of the Parent						Minority interests	Total equity
	Share capital	Share premium	Legal mandatory reserve	Other reserves	Retained earnings	Total		
Balance at 31.12.2004	268	565	27	364	16 753	17 977	4 591	22 568
							0	
Foreign currency translation	0	0	0	0	0	0	0	0
Dividends to owners of the parent	0	0	0	0	-498	-498	0	-498
Changes in minority interests caused by changes in the Parent's ownership in subsidiaries	0	0	0	0	0	0	-1 239	-1 239
Bonus issue	17 151	-565	0	-332	-16 254	0	0	0
Net profit	0	0	0	0	4 613	4 613	547	5 159
Balance at 30.09.2005	17 419	0	27	33	4 613	22 092	3 899	25 991
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	2	0	2	0	2
Dividends to owners of the parent	0	0	0	0	-747	-747	-13	-760
Increase in legal mandatory reserve	0	0	324	0	-324	0	0	0
Changes in legal mandatory reserve caused by changes in the Parent's ownership in subsidiaries	0	0	0	0	0	0	0	0
Changes in minority interests caused by changes in the Parent's ownership in subsidiaries	0	0	0	0	0	0	-2 791	-2 791
Net profit	0	0	0	0	3 484	3 484	22	3 506
Balance at 30.09.2006	19 463	7 866	351	32	8 857	36 569	505	37 073

CONSOLIDATED CASH FLOW STATEMENT

unaudited
in thousands of euros, for the 9 months

	2006	2005
Cash flows from operating activities		
Operating profit	4 631	6 455
Adjustments of operating profit	-3 062	-2 648
- Depreciation of property, plant and equipment and amortization of intangible assets	-728	62
- Gains from changes in fair value of investment property	-1 342	-2 414
- Gains from disposals of property, plant and equipment	-420	-150
- Gains from disposals of investment property	-572	-146
Increase in receivables related to operating activities and inventories	-8 009	-18 453
Increase in payables and prepayments related to operating activities	2 949	2 013
Total cash flows from operating activities	-6 552	-15 280
Cash flows used in investing activities		
Purchase of property, plant and equipment and intangible assets	-18 123	-947
Proceeds from sale of property, plant and equipment and intangible assets	755	372
Purchase of investment property	-2 171	-12 127
Proceeds from sale of investment property and biological assets	885	440
Acquisition of subsidiaries and joint ventures	-1 861	-814
Proceeds from sale of subsidiaries and joint ventures	86	0
Purchase of other investments	0	-33
Proceeds from sale of other investments	-3	87
Loans granted	-1 190	-555
Repayments of loans granted	523	161
Interests received	81	103
Total cash flows used in investing activities	-21 018	-13 314
Cash flows from financing activities		
Proceeds from borrowings	32 802	37 502
Repayments of borrowings and finance lease liabilities	-12 482	-10 817
Change in overdraft	212	469
Changes in group account	14	-105
Interests paid	-1 765	-1 086
Proceeds from issue of shares	-90	36
Dividends paid	-599	-583
Income tax on dividends paid	-225	-128
Total cash flows from financing activities	17 867	25 289
NET CASH FLOWS	-9 703	-3 305
Cash and cash equivalents at the beginning of the period	9 202	1 492
Change in cash and cash equivalents	-6 641	-657
Net foreign exchange difference	-5	-4
Cash and cash equivalents at the end of the period	2 556	831

NOTES

Note 1 Segment information

in thousands of euros

As of 30.09.06 or for the 9 months 2006, respectively	Service	Development	Construction	Eliminations	Total
Revenue to external customer	4 951	9 579	7 924	0	22 453
Other operating income to external customers	16	2 325	23	0	2 364
Revenue and other operating income to other segments	463	199	7 483	-8 146	0
Total revenue	5 430	12 103	15 430	-8 146	24 817
Segment results	614	6 154	-830	-410	5 528
Unallocated operating expenses					-897
Operating profit					4 631
Financial items and investment activity income (expenses)					-888
Income tax expense					-237
Net profit					3 506
Depreciation and amortisation included in segment results	-47	-22	-51	0	-120
Impairment loss included in segment results	0	854	18	0	872
Unallocated depreciation and amortisation					-24
Total depreciation, amortisation and impairment loss					728
Segment investments into non-current assets	639	21 184	322	0	22 146
Unallocated investments					100
Total investments into non-current assets					22 245
	Service	Development	Construction	Eliminations	Total
Segment assets	2 709	108 018	6 146	-4 075	112 797
Unallocated assets					7 540
Total assets					120 337
Segment liabilities	1 311	8 897	4 569	-2 570	12 205
Unallocated liabilities					71 059
Total liabilities					83 264
Non-monetary income	Service	Development	Construction	Eliminations	Total
Gains from change in fair value of investment property	0	1 342	0	0	1 342

SEGMENT INFORMATION - GEOGRAPHICAL SEGMENTS

Revenue by geographical location of customers	9 months 2006
Estonia	20 210
Latvia	1 839
Lithuania	255
Ukraine	199
Bulgaria	11
Revenue to other segments	-61
Total revenue by location of customers	22 453

Segment assets by geographical location of assets	30.09.06
Estonia	99 657
Latvia	12 525
Lithuania	51
Ukraine	535
Bulgaria	29
Unallocated assets	7 540
Total segment assets by geographical location of assets	120 336

Assets acquired in 9 months 2006 by type of assets	Estonia	Latvia	Lithuania	Ukraine	Bugaria	Unallocated	Total
Investments property	3 062	0	0	0	0	0	3 062
Property, plant and equipment	15 416	62	36	517	13	100	16 144
Intangible assets	-639	3 671	0	4	3	0	3 039
Total acquired assets	17 839	3 733	36	521	16	100	22 245

Note 2 Inventories

in thousands of euros

	30.09.2006	31.12.2005
Real estate purchased or developed for sale	17 887	9 266
Other goods purchased for resale	266	264
Raw materials and finished goods	42	33
Prepayments to suppliers	310	271
Total inventories	18 506	9 834

Note 3 Investment properties

in thousands of euros

Balance at 31.12.2005	54 395
Purchases	3 029
Capitalised borrowing costs	33
Gains and losses from changes in fair value	1 342
Reclassifications from property, plant and equipment	1 494
Sales	-286
Balance at 30.09.2006	60 008

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	169	98	168	14 919	15 354
Capitalised borrowing costs	0	0	0	790	790
Disposals	-2	-1	-1	-344	-347
Reclassifications into investment property	0	0	0	-1 493	-1 493
Depreciation charge	-36	-26	-68	0	-129
Balance at 30.09.06	1 215	165	286	23 653	25 320

Note 5 Intangible assets

in thousands of euros

	Goodwill	Negative goodwill	Software	Prepayments	Total
Balance at 31.12.2005	835	0	33	0	868
Purchases	0	0	10	3 670	3 680
Additions from business combinations	243	-885	0	0	-641
Impairment loss	-13	0	0	0	-13
Negative goodwill recorded as income	0	885	0	0	885
Amortisation charge	0	0	-14	0	-14
Balance at 30.09.06	1 066	0	29	3 670	4 765

MANAGEMENT REPRESENTATION

Arco Vara AS management has prepared consolidated interim financial statements for 9 months 2006 set out on pages 2-11.

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