

Arco Vara AS

**Interim report
I half-year 2007**



Arco Vara AS

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Core activities: Real estate development and investment (EMTAK 701)

Real estate related services (EMTAK 702, 703)

Construction (EMTAK 45)

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

Aare Tark, Kalev Tanner

Management board: Viljar Arakas, Aare Tammemäe, Ivar Siimar

Veiko Pedosk, Ahto Altjõe

Auditor: Ernst & Young Baltic AS

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Management report for the first half and second quarter of 2007

- Revenue and other income totalled 487.6 million kroons (31.2 million euros), a notable 110% improvement year-over-year.
- Operating profit surged to 88.1 million kroons (5.6 million euros), 72% up on a year ago.
- Net profit expanded 5.7-fold year-over-year to 227.1 million kroons (14.5 million euros).
- Equity to assets ratio was 58% (2006: 31%) and the period's return on equity was 40.0% (2006: 21.3%).
- Return on invested capital was 21.9% (2006: 9.8%).

Key financial indicators

	EEK				EUR			
	1 st half 2007	1 st half 2006	Q2 2007	Q2 2006	1 st half 2007	1 st half 2006	Q2 2007	Q2 2006
In thousands								
Revenue and other income	487,577	232,539	147,140	129,272	31,162	14,862	9,404	8,262
Operating profit	88,138	51,370	15,752	21,786	5,633	3,283	1,007	1,392
<i>Including gains on the revaluation of investment property</i>	55,355	21,000	6,685	21,000	3,538	1,342	427	1,342
Profit before tax	237,067	43,190	167,679	16,174	15,151	2,760	10,717	1,034
<i>Including gains on the divestment of financial assets</i>	123,027	41	118,625	0	7,863	3	7,582	0
Net profit	227,163	39,778	158,063	12,682	14,518	2,542	10,102	811
EPS 1 (in kroons)***)	3.27	0.59	2.34	0.18	0.21	0.04	0.15	0.01
EPS 2 (in kroons)***)	3.20	0.59	2.23	0.18	0.20	0.04	0.14	0.01
EPS 3 (in kroons)***)	2.33	0.59	1.66	0.18	0.15	0.04	0.11	0.01
Total assets at period end	3,334,012	1,812,759			213,082	115,856		
Invested capital at period end ***)	2,986,202	1,557,819			190,853	99,563		
Equity at period end	1,921,337	564,959			122,797	36,107		
ROIC *)	21.9%	9.8%			21.9%	9.8%		
ROE *) **)	40.0%	21.3%			40.0%	21.3%		
Number of staff at period end	574				574			

*) Rolling 4 quarters

**) Formula has been changed. See *Formulas used in the calculation of ratios*.

***) See *Formulas used in the calculation of ratios*

Commentary by chairman of the management board

- The first half-year marked a historical milestone for Arco Vara AS: the initial public offering of the company's shares in June 2007 increased its equity by 987,857 thousand kroons (63,136 thousand euros).
- The acquisition of the Latvian construction company Dinamo Buve SIA which to date has been renamed Arco Construction SIA will allow implementing our full business model in that market.
- The conclusion of a land purchase agreement in Sofia underpins our strategy for expanding development operations on the Balkan Peninsula.
- Despite the cooling of the Baltic real estate market, we succeeded in attaining the best ever half-yearly net profit, which boosted both return on equity and return on invested capital. We expect ROE and ROIC to decline somewhat in the second half-year due to the IPO.

Revenue and profit

	EEK				EUR			
	1 st half 2007	1 st half 2006	Q2 2007	Q2 2006	1 st half 2007	1 st half 2006	Q2 2007	Q2 2006
Revenue and other income								
Service	70,971	54,452	37,718	30,176	4,536	3,480	2,411	1,929
Development	382,491	98,190	87,714	55,080	24,446	6,275	5,606	3,520
Construction	157,418	139,430	100,199	86,954	10,061	8,912	6,403	5,557
Eliminations	-123,303	-59,533	-78,491	-42,938	-7,880	-3,805	-5,016	-2,744
Total revenue and other income	487,577	232,539	147,140	129,272	31,162	14,862	9,404	8,262
Operating profit								
Service	-6,673	5,740	-5,023	1,599	-426	367	-321	102
Development	114,330	70,779	28,192	31,873	7,307	4,524	1,802	2,037
Construction	-3,260	-15,000	3,074	-6,590	-208	-959	196	-421
Eliminations	975	-302	-4,673	-1,164	62	-19	-299	-74
Unallocated expenses	-17,234	-9,847	-5,818	-3,930	-1,101	-630	-371	-252
Total operating profit	88,138	51,370	15,752	21,788	5,633	3,283	1,007	1,393
Interest income and interest expense	-15,120	-8,172	-7,246	-5,198	-966	-522	-463	-332
Other financial income and expense	164,049	-8	159,173	-416	10,485	-1	10,173	-27
Income tax expense	-9,904	-3,412	-9,616	-3,492	-633	-218	-615	-223
Net profit for the period	227,163	39,778	158,063	12,682	14,518	2,543	10,102	811

Above all, the Group's revenue growth may be attributed to successful development activities and project sales. We sold Kereses Keskus (105.8 million kroons; 6.8 million euros), the Ulmana Gatves plot (53.0 million kroons; 3.4 million euros) and apartments in Kolde residential project (51.0 million kroons; 3.3 million euros).

Consolidated net profit for the first half-year was significantly increased by financial income of 118.4 million kroons (7.6 million euros) earned from the sale of the Group's stake in Sportings Riga SIA and 38 million kroons (2.4 million euros) generated by the restatement of the shares in Explorer Property Fund AB to fair value. Net gains from fair value adjustments to investment property amounted to 55.3 million kroons (3.5 million euros), including write-downs of 17.5 million kroons (1.1 million euros). Approximately 70% of the period's net profit was earned in the second quarter.

The operating loss of the Service division may be attributed to aggressive expansion. In 2007 we have opened already six new offices. The downturn in the number of transactions in the Baltics is countered by a rise in the average value of a transaction.

Although the Construction division increased sales by 13% and reduced operating loss by 11.7 million kroons (0.75 million euros), its half-year result was affected by intra-group transactions which brought about an operating loss of 3.3 million kroons (0.21 million euros).

Service division

The Service division ended the first half-year with revenue of 71 million kroons (4.5 million euros), a 30% improvement on the 54.4 million kroons (3.5 million euros) generated a year ago. Although the number of properties brokered decreased from 1,147 in the first half of 2006 to 981 in the first half of 2007, i.e. by 14.5%, a rise in the average value of a property and growth in the sale of short-term investments increased sales by 16.6 million kroons (1.1 million euros).

The number of valuation reports issued increased by 440, i.e. 9.8% year-over-year. Altogether, our appraisers issued 4,930 (1st half of 2006: 4,490) valuation reports in six countries, 55% of them in Estonia. In the new markets, valuation services were launched and the first valuation reports issued in 2007.

Project sales contracts totalled 180, increasing by 25% over the quarter. The main growth drivers were the Baltic and Bulgarian markets. At the end of the reporting period, the number of properties being brokered was 10,444.

	1 st half 2007	1 st half 2006	Q2 2007	Q2 2006
Number of properties brokered	981	1,147	479	523
Number of valuation reports	4,930	4,490	2,552	2,480
Number of appraisers	44	33	42	36
Number of projects on sale	180	n/a	180	n/a
Number of real estate brokers	196	103	193	101
Estonia	52	41	51	42
Latvia	58	46	52	46
Lithuania	25	7	26	6
Ukraine	43	9	39	7
Bulgaria	16	0	18	0
Romania	4	0	7	0
Average number of staff	340	186	344	189

In the first half of 2007, the real estate investment companies managed by the Group's joint venture AVEC Asset Management AS acquired the retail and office building Kereke Keskus in Narva, three shopping malls in Jõhvi, the Laracija office block in Lithuania, Hotel Portus in Tallinn, AS Favor's production complex in Maardu and Jeruzalemes Centrs in Riga.

The number of the division's staff increased by 82.3% to 340, mostly on account of the recruitment of brokers in Lithuania, Ukraine and Bulgaria.

In the second half-year, the division intends to enhance efficiency in the Baltics by cutting administrative expenses and fixed costs. The management of the division expects to cut overheads by reducing the proportion of administrative staff from 30% to 20%. Outside the Baltics, the objective is to achieve a substantial increase in operating volumes.

Development division

The sales of the Development division grew four-fold year-over-year. Strong results were supported by the sale of the Kerese Keskus building, the Ulmana Gatves plot, and new apartments in the Kolde residential project.

In the first half of 2007, 67 apartments and plots were sold or reserved: 37 in the Kolde project, 11 in the Kase project, and 14 in the MB-1 and 5 in the MB-5 projects in Riga. In the current stages of the projects, 123 units remain to be sold. The division's net profit was affected, above all, by the sale of the Kolde apartments and the divestment of the Group's ownership interest in Sportings Riga SIA.

	Residential development	Commercial development	Cash flow projects	Total
In thousands				
Number of projects	9	5	7	21
Associated land, ha	965 *)	117	211	1,294
Available rentable space, m2	n/a	0	48	48
Colliers' DCF valuation of 14 April 2007 (EEK) ***)	1,790,200	1,936,800	698,000	4,425,000
Colliers' DCF valuation of 14 April 2007 (EUR) ***)	114,415	123,784	44,610	282,809
Colliers' consolidated value of 14 April 2007 (EEK)	1,566,700	1,133,800 ****)	428,500	3,129,000
Colliers' consolidated value of 14 April 2007 (EUR)	100,130	72,463 ****)	27,386	199,980
Consolidated carrying amount at 31 December 2006 (EEK)	605,000	478,000	367,000	1,450,000
Consolidated carrying amount at 31 December 2006 (EUR)	38,667	30,550	23,456	92,672
.... Difference (EEK)	961,700	655,800	61,500	1,679,000
.... Difference (EUR)	61,464	41,913	3,931	107,308
Consolidated carrying amount at 30 June 2007 (EEK)	685,808 **)	486,284	420,411	1,592,503
Consolidated carrying amount at 30 June 2007 (EUR)	43,831	31,079	26,869	101,779
.... Difference (EEK)	880,892	647,516	8,089	1,536,497
.... Difference (EUR)	56,299	41,384	517	98,200
Number of apartments or plots sold or reserved during the period	67			
Number of remaining apartments or plots	123			

*) Includes development of plots

**) In June 2007 the Group divested of its stake in the company holding the Bishumuizhas 2 project. The transaction reduced the Group's assets by 8.5 million kroons (0,54 million euros).

***) Colliers International appraised the value of 21 of the Group's projects: Tooma 1, Kolde, Tivoli, Bishumuizhas 1 (BM-1), Baltezers (MB-5), Bishumuizhas 2 (BM-2), Pärtli, Vahi, TOP residential area, Ahtri 3, Kippsala, Laeva, Ilmarine, Paldiski mnt 80, TOP office property, Melon, STÜ, AVSK (Raekoja 10, Rütli 16/18, Kotzebue 18c), Enerpoint, Kerberon and Pärnu Turg (Pärnu Market).

****) Based on ownership interests as at the end of reporting period. The recognition of the sale of 50% of Ahtri project in January 2007 has reduced the figure by 192 million kroons (12.3 million euros).

In the second half-year the Group will complete four apartment houses in the Bishumuizhas-1 residential area in Riga (preliminary agreements have been signed on 49 of the 56 apartments) and phase II in its Kolde project (preliminary agreements have been signed on 44 of the 62 apartments). In addition, plots will be sold in Mazais Baltezers (out of 53 plots 44 remain to be sold). In the Baltics, the division's priority is to continue developing existing projects whereas in the Balkan area it will focus on creating a land bank.

At the beginning of 2007 Arco Vara AS disposed of a 50% stake in the subsidiary Arco HCE OÜ for 22.7 million kroons (1.5 million euros). In addition, the buyer settled 50% of Arco Vara AS' receivables from the subsidiary, i.e. 106.1 million kroons (6.8 million euros).

On 18 May 2007 the parent of the Development division, Arco Investeeringute AS concluded an agreement with SIA Linstow Baltic for the disposal of a 40% stake in Bishumuizhas Nami SIA. Under the terms of the transaction, Bishumuizhas Nami SIA will pay for the acquisition of the Group's subsidiary Sportings Riga SIA 19.2 million euros (300.7 million kroons); the payment will be made to Arco Vara AS and the minority shareholder of Sportings Riga SIA within four months of the conclusion of the transaction. After the closure of the transaction, the Group's subsidiary Arco Investeeringute AS owns 40% of the shares in Bishumuizhas Nami SIA and the investments in Bishumuizhas Nami SIA and Sportings Riga SIA have been classified as interests in joint ventures. The Group's transaction gains of 118.5 million kroons (7.6 million euros) have been recognised in finance income.

At the end of the second quarter, the Development division employed 61 people including 46 in Estonia.

Construction division

The Construction division increased sales by 13% to 157.4 million kroons (10.1 million euros), ending the period in an operating loss of 3.2 million kroons (0.2 million euros), an 11.7 million kroon (0.75 million euro) improvement on a year ago. Although the second quarter ended in an operating profit of 3.1 million kroons (0.2 million euros), it was not yet sufficient to overcome the loss of the first quarter.

The period's operating environment was similar to the prior year – rising labour and materials costs affected both general and subcontractors, triggering an increase in construction prices. We believe that in the second half-year construction prices will stabilise owing to shrinking demand and stiffening competition.

A highlight of the period was the acquisition of a 55% stake in the Latvian construction company Dinamo Buve SIA, which completed the implementation of the Group's full business model in Latvia.

In the first half-year the division acquired construction contracts of 426 million kroons (27.2 million euros), 70% of them in Estonia and 30% in Latvia. The largest contracts comprised the Kolde project apartment houses of 149 million kroons (9.5 million euros), Bishumuizhas apartment houses and infrastructure of 131 million kroons (8.4 million euros) and renovation of the Matsalu water and wastewater systems of 110 million kroons (7 million euros).

At period-end, the division's order backlog was 412 million kroons (26.3 million euros). The division employed 150 people, 46% of them in Latvia.

Changes in the Group's structure

In the first half of 2007, we continued streamlining our structure by selling investments previously held by the parent to the divisions' parent companies: Arco Real Estate AS in the Service division, Arco Investeeringute AS in the Development division and Arco Ehitus OÜ in the Construction division. Some shareholdings will be transferred in the third quarter. The process is aimed at harmonising the Group's legal structure with the segment reporting structure used for financial accounting purposes.

The Group's structure as at 30 June 2007 is presented in note 17 to the consolidated interim financial statements.

Formulas used in the calculation of ratios

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

Invested capital = (interest-bearing liabilities plus equity)

Average invested capital = (the past four quarters' invested capital) / 4

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

Average equity = (the past four quarters' equity) / 4

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

EPS 1 = net profit attributable to equity holders of the parent / weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares outstanding has been calculated without taking into account the number of shares registered on 3 July 2007.

EPS 2 = net profit attributable to equity holders of the parent / weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares outstanding has been calculated taking into account the number of shares registered on 3 July 2007 (27,500 thousand shares).

EPS 3 = net profit attributable to equity holders of the parent / (number of ordinary shares at 30 June 2007 plus the shares registered in the Commercial Register on 3 July 2007). On 3 July 27,500 thousand new shares were registered in the Commercial Register.

Condensed consolidated interim financial statements

Condensed consolidated interim income statement (EEK)

	Note	1 st half 2007	1 st half 2006	Q2 2007	Q2 2006
In thousands of kroons					
Rendering of services		135,621	141,084	81,783	65,212
Sale of goods		277,137	59,342	39,794	34,498
Total revenue	5	412,758	200,426	121,577	99,710
Cost of sales		-301,237	-146,692	-74,840	-79,671
Gross profit		111,521	53,734	46,737	20,039
Other income		74,819	32,113	25,563	29,562
Selling and distribution costs		-12,875	-12,345	-5,310	-8,674
Administrative expenses		-64,132	-21,841	-32,742	-18,964
Other expenses		-21,195	-291	-18,496	-177
Operating profit		88,138	51,370	15,752	21,786
Finance income	6	173,044	1,959	162,874	99
Finance expenses	6	-24,115	-10,139	-10,947	-5,711
Profit before tax		237,067	43,190	167,679	16,174
Income tax expense		-9,904	-3,412	-9,616	-3,492
Profit for the period		227,163	39,778	158,063	12,682
Attributable to:					
Minority interests		5,182	121	-419	187
Equity holders of the parent		221,981	39,657	158,482	12,495
Earnings per share (in kroons)	7				
- Basic		3.27	0.59	2.34	0.18
- Diluted		3.27	0.56	2.34	0.18

Condensed consolidated interim income statement (EUR)

	Note	1 st half 2007	1 st half 2006	Q2 2007	Q2 2006
In thousands of euros					
Rendering of services		8,668	9,017	5,227	4,168
Sale of goods		17,712	3,793	2,543	2,205
Total revenue	5	26,380	12,810	7,770	6,373
Cost of sales		-19,253	-9,376	-4,783	-5,092
Gross profit		7,127	3,434	2,987	1,281
Other income		4,782	2,052	1,634	1,889
Selling and distribution costs		-823	-789	-339	-554
Administrative expenses		-4,099	-1,395	-2,093	-1,212
Other expenses		-1,354	-19	-1,182	-12
Operating profit		5,633	3,283	1,007	1,392
Finance income	6	11,060	125	10,410	6
Finance expenses	6	-1,542	-648	-700	-364
Profit before tax		15,151	2,760	10,717	1,034
Income tax expense		-633	-218	-615	-223
Profit for the period		14,518	2,542	10,102	811
<i>Attributable to:</i>					
Minority interests		331	8	-27	12
Equity holders of the parent		14,187	2,534	10,129	799
Earnings per share (in euros)	7				
- Basic		0.21	0.04	0.15	0.01
- Diluted		0.21	0.04	0.15	0.01

Condensed consolidated interim balance sheet (EEK, EUR)

	Note	EEK		EUR	
		30 June 2007	31 December 2006	30 June 2007	31 December 2006
In thousands					
Cash and cash equivalents		1,098,746	58,345	70,223	3,729
Trade and other receivables	8	310,726	102,498	19,859	6,551
Prepayments		13,933	4,429	890	283
Inventories	9	680,711	431,817	43,505	27,598
Biological assets		5,798	6,141	371	392
Total current assets		2,109,914	603,230	134,848	38,553
Long-term receivables		11,668	10,673	746	682
Long-term investments in financial assets	10	106,641	65,769	6,816	4,203
Investment property	11	996,196	1,479,281	63,668	94,543
Property, plant and equipment	12	86,604	81,713	5,535	5,222
Intangible assets	13	22,989	16,705	1,469	1,069
Total non-current assets		1,224,098	1,654,141	78,234	105,719
TOTAL ASSETS		3,334,012	2,257,371	213,082	144,272
Interest-bearing loans and borrowings		555,949	699,568	35,532	44,710
Payables		276,533	249,275	17,674	15,932
Advances received		65,328	63,427	4,175	4,054
Provisions		1,190	1,953	76	125
Total current liabilities		899,000	1,014,223	57,457	64,821
Interest-bearing loans and borrowings		506,843	457,258	32,394	29,224
Long-term payables		4,089	41,561	261	2,657
Deferred income tax liabilities		1,643	1,353	105	86
Provisions		1,100	1,095	70	70
Total non-current liabilities		513,675	501,267	32,830	32,037
TOTAL LIABILITIES		1,412,675	1,515,490	90,287	96,857
Share capital		677,842	304,530	43,322	19,463
Unregistered share capital		275,000	0	17,576	0
Share premium		712,857	123,083	45,559	7,866
Statutory capital reserve		20,084	5,486	1,284	351
Other reserves		-193	-184	-12	-12
Retained earnings		213,224	292,002	13,627	18,663
Total equity attributable to equity holders of the parent		1,898,814	724,917	121,357	46,330
Minority interests		22,523	16,964	1,439	1,084
Total equity	14	1,921,337	741,881	122,797	47,414
TOTAL LIABILITIES AND EQUITY		3,334,012	2,257,371	213,082	144,272

Condensed consolidated interim cash flow statement (EEK, EUR)

	EEK		EUR	
	1st half 2007	1st half 2006	1st half 2007	1st half 2006
In thousands				
Operating profit	88,138	51,370	5,633	3,283
Adjustments for:	-51,984	-14,987	-3,323	-958
<i>Depreciation, amortisation and impairment losses</i>	<i>2,055</i>	<i>-12,594</i>	<i>131</i>	<i>-805</i>
<i>Gains and losses on sale of property, plant and equipment</i>	<i>-31</i>	<i>-8</i>	<i>-2</i>	<i>-1</i>
<i>Gains and losses on sale of investment property</i>	<i>1,347</i>	<i>-2,385</i>	<i>86</i>	<i>-152</i>
<i>Gains and losses on revaluation of investment property</i>	<i>-55,355</i>	<i>0</i>	<i>-3,538</i>	<i>0</i>
Change in trade and other receivables and prepayments	-20,072	-1,444	-1,283	-92
Change in inventories	21,223	-29,267	1,357	-1,871
Change in biological assets	344	108	22	7
Change in payables and advances received	-14,691	7,627	-939	487
NET CASH FROM OPERATING ACTIVITIES	22,958	13,407	1,467	857
Acquisition of property, plant and equipment and intangible assets	-17,403	-35,027	-1,112	-2,239
Proceeds from sale of property, plant and equipment	8,330	12	532	1
Acquisition of investment property	-8,796	-7,639	-562	-488
Proceeds from sale of investment property	40,518	5,051	2,590	323
Acquisition of subsidiaries and joint ventures	-8,560	-4,036	-547	-258
Proceeds from disposal of subsidiaries and joint ventures	95,388	0	6,095	0
Loans granted	-10,128	-165	-647	-11
Repayment of loans granted	27,353	2,235	1,748	143
Interest received	2,199	1,060	141	68
NET CASH FROM / USED IN INVESTING ACTIVITIES	128,901	-38,509	8,238	-2,461
Proceeds from loans received	306,159	59,831	19,567	3,824
Repayment of loans and payment of finance lease liabilities	-369,446	-19,216	-23,612	-1,228
Change in overdraft	-18,529	-80	-1,184	-5
Change in group account liability	-367	0	-23	0
Interest paid	-21,173	-6,590	-1,353	-421
Proceeds from issue of share capital	1,001,791	-1,408	64,026	-90
Dividends paid	-8,336	-4,079	-533	-261
Income tax paid on dividends	-1,451	-1,106	-93	-71
NET CASH FROM FINANCING ACTIVITIES	888,648	27,352	56,795	1,748
NET CASH FLOW	1,040,507	2,250	66,500	144
Cash and cash equivalents at beginning of period	58,345	143,985	3,729	9,202
Net increase in cash and cash equivalents	1,040,507	2,250	66,500	144
Effects of exchange rate fluctuations	-106	-42	-6	-3
Cash and cash equivalents at end of period	1,098,746	146,193	70,222	9,343

Condensed consolidated interim statement of changes in equity (EEK)

	Equity attributable to equity holders of the parent							Minority interests	Total equity
	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands of kroons									
At 31 December 2005	304,530	0	123,083	420	474	100,811	529,318	51,427	580,745
Change in unrealised exchange differences	0	0	0	0	0	0	0	0	0
Change in minority interests from change in the Group's interests in subsidiaries	0	0	0	0	0	0	0	-43,676	-43,676
Dividend distribution	0	0	0	0	0	-11,692	-11,692	-200	-11,892
Transfer to capital reserve	0	0	0	5,062		-5,062	0	0	0
Change in capital reserve from merger with a subsidiary	0	0	0	4	0	0	4		4
Profit for the period	0	0	0	0	0	39,657	39,657	121	39,778
At 30 June 2006	304,530	0	123,083	5,486	474	123,714	557,287	7,672	564,959
At 31 December 2006	304,530	0	123,083	5,486	-184	292,002	724,917	16,964	741,881
Change in unrealised exchange differences	0	0	0	0	-9	0	-9	0	-9
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
Transfer to capital reserve	0	0	0	14,598	0	-14,598	0	0	0
Dividends declared	0	0	0	0	0	-25,430	-25,430	-200	-25,630
Change in minority interests from change in the Group's interests in subsidiaries	0	0	0	0	0	0	0	577	577
Initial recognition of the put options of minority shareholders	0	0	0	0	0	-10,502	-10,502	0	-10,502
Profit for the period	0	0	0	0	0	221,981	221,981	5,182	227,163
At 30 June 2007	677,842	275,000	712,857	20,084	-193	213,224	1,898,814	22,523	1,921,337

Condensed consolidated interim statement of changes in equity (EUR)

	Equity attributable to equity holders of the parent							Minority interests	Total equity
	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands of euros									
At 31 December 2005	19,463	0	7,866	27	30	6,444	33,830	3,286	37,116
Change in unrealised exchange differences	0	0	0	0	0	0	0	0	0
Change in minority interests from change in the Group's interests in subsidiaries	0	0	0	0	0	0	0	-2,791	-2,791
Dividend distribution	0	0	0	0	0	-747	-747	-13	-760
Transfer to capital reserve	0	0	0	324	0	-324	0	0	0
Change in capital reserve from merger with a subsidiary	0	0	0	0	0	0	0	0	0
Profit for the period	0	0	0	0	0	2,534	2,534	8	2,542
At 30 June 2006	19,463	0	7,866	351	30	7,907	35,617	490	36,107
At 31 December 2006	19,463	0	7,866	351	-12	18,662	46,330	1,084	47,414
Change in unrealised exchange differences	0	0	0	0	0	0	0	0	0
Bonus issue	23,859	0	-7,866	0	0	-15,993	0	0	0
Issue of share capital	0	17,576	45,560	0	0	0	63,136	0	63,136
Transfer to capital reserve	0	0	0	933	0	-933	0	0	0
Dividends declared	0	0	0	0	0	-1,625	-1,625	-13	-1,638
Change in minority interests from change in the Group's interests in subsidiaries	0	0	0	0	0	0	0	37	37
Initial recognition of the put options of minority shareholders	0	0	0	0	0	-671	-671	0	-671
Profit for the period	0	0	0	0	0	14,187	14,187	331	14,518
At 30 June 2007	43,322	17,576	45,560	1,284	-12	13,627	121,357	1,439	122,797

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 second quarter and first half of 2007 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 2006. In addition, the Group has applied the following new and amended IFRS and IFRIC interpretations which did not affect the Group's financial results for the second quarter and the first half of 2007:

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

According to management's assessment, the new and revised standards and interpretations issued but not yet effective as 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 January 2008 (IFRIC 11) or 1 January 2009 (IFRS 8):

IFRS 8	<i>Operating Segments</i>
IFRIC 11	<i>IFRS 2 – Group and Treasury Share Transactions</i>

Financial instruments – amended accounting policies

Based on two shareholder agreements, four minority shareholders of Group entities have put options which grant them the right to sell and obligate the Group to purchase the shares held by those minority shareholders. In the case of one shareholder agreement, the option exercise price is the market value of the shares. In case of the other shareholder agreement, the option exercise price is a proportionate share of the book value of the company's equity, calculated according to IFRS.

In compliance with IAS 32 paragraph 23, the Group has recognised financial liabilities for the present values of the redemption amounts of the options. The liabilities are measured based on the market values (i.e. adjusted equity) or the book values of the entities in which the minority shareholders have an interest at the balance sheet date, as appropriate. Upon initial recognition, the minority shareholders' interests in the adjusted or book equity are recorded as current liabilities and adjustments to retained earnings. Subsequent gains and losses arising from changes in the carrying amounts of the financial liabilities are recognised directly in the income statement in finance income and finance expenses respectively.

2. Scope of consolidation

	Estonia	Latvia	Lithuania	Ukraine	Bulgaria	Romania	Total
Subsidiaries							
At 31 December 2006	20	7	2	2	1	-	32
Acquisitions	1	1	1	0	-	-	3
Disposals	-6	-	-	-1	-	-	-7
At 31 March 2007	15	8	3	1	1	-	28
Acquisitions	-	1	-	1	1	1	4
Disposals	-	-1	-	-	-	-	-1
At 30 June 2007	15	8	3	2	2	1	31
Interests in joint ventures							
At 31 December 2006	22	2	-	-	-	1	25
Acquisitions	1	-	-	-	-	-	1
Disposals	-2	-	-	-	-	-	-2
At 31 March 2007	21	2	-	-	-	1	24
Acquisitions	-	2	-	-	-	-	2
Disposals	-2	-1	-	-	-	-	-3
At 30 June 2007	19	3	0	0	0	1	23
Associates (not consolidated)							
							-
At 31 December 2006	1	0	0	0	0	0	1
Acquisitions	-	-	-	-	-	-	0
Disposals	-	-	-	-	-	-	0
At 30 June 2007	1	0	0	0	0	0	1

In the second quarter of 2007, the number of consolidated entities increased by two: four subsidiaries were established and interests in two joint ventures were sold.

During the first half of 2007, the number of consolidated entities decreased by three: five subsidiaries were combined with other Group companies, six subsidiaries were founded, one subsidiary was acquired through a business combination (note 4), one subsidiary and interests in five joint ventures (note 3) were sold, and two investments were reclassified to interests in joint ventures due to the sale of ownership interest in a subsidiary (note 3).

3. Disposals of interests in subsidiaries and joint ventures

At the beginning of 2007 Arco Vara AS disposed of a 50% stake in the subsidiary Arco HCE OÜ. The sales price of the shareholding was 22,711 thousand kroons (1,451 thousand euros). In addition, the buyer settled 50% of Arco Vara AS' receivables from the subsidiary, i.e. 106,188 thousand kroons (6,787 thousand euros).

The effect of the sale and the reclassification of the investment to an interest in a joint venture was the following:

	EEK	EUR
In thousands		
Cash and cash equivalents ¹	121,356	7,756
Other current assets	-2,423	-155
Long-term receivables	49,322	3,152
Investment property (note 11)	-192,500	-12,303
Current portion of interest-bearing loans and borrowings	-62,509	-3,995
Other payables	-46,351	-2,962
Non-current portion of interest-bearing loans and borrowings	49,322	3,152

¹ Cash and cash equivalents includes the sales price of the interest in Arco HCE OÜ and the Group's receivables from Arco HCE OÜ as at 31 December 2006, which were settled by the buyer.

After the disposal of the ownership interest, the share capital of Arco HCE OÜ was increased by 20 thousand kroons (1 thousand euros). The par value of the share of either shareholder was increased in proportion to their ownership interest in the company. Shareholders paid for the increase in their ownership interest with share premium of 73,329 thousand kroons (4,719 thousand euros) in aggregate. The Group contributed share premium of 72,839 thousand kroons (4,655 thousand euros).

The direct costs of disposing of the 50% interest in Arco HCE OÜ totalled 2,000 thousand kroons (128 thousand euros).

In March 2007, the Group disposed of its investment in the Ukrainian subsidiary Arco Capital TOV for 2,649 thousand kroons (169 thousand euros). The effect of the disposal on the Group's assets and liabilities was the following:

	EEK	EUR
In thousands		
Cash and cash equivalents	-403	-26
Other current assets	-66	-4
Property, plant and equipment (note 12)	-6,802	-435
Other payables	-44	-3

In March 2007, the Group divested of its interest in the joint venture Kramer Kinnisvara OÜ. The effect of the divestment on the Group's assets and liabilities was the following:

	EEK	EUR
In thousands		
Cash and cash equivalents	-53	-3
Other current assets	-481	-31
Inventories (note 9)	-14,624	-935
Current portion of interest-bearing loans and borrowings	-2,385	-152
Other payables	-303	-19
Non-current portion of interest-bearing loans and borrowings	-11,213	-717

In the first half of 2007, the Group disposed of its interests in joint ventures Cromer Trade OÜ, Barrow Investments OÜ and Castleberry OÜ for 3,737 thousand kroons (239 thousand euros) in aggregate. The entities were project companies which held properties carried as inventories. Therefore, the disposal of the interests has been recognised in revenue in the income statement and in operating cash flows in the cash flow statement.

On 18 May 2007 the Group concluded a share sale agreement with SIA Linstow Baltic for the disposal of a 40% stake in Bishumuizhas Nami SIA. Under the terms of the transaction, Bishumuizhas Nami SIA will pay for the acquisition of the Group's subsidiary Sportings Riga SIA 19,220 thousand euros (300,728 thousand kroons); the payment will be made to Arco Vara AS and the minority shareholder of Sportings Riga SIA within four months of the conclusion of the transaction. After the closure of the transaction, the Group's subsidiary Arco Investeeringute AS owns 40% of the shares in Bishumuizhas Nami SIA and the investments in Bishumuizhas Nami SIA and Sportings Riga SIA have been classified as interests in joint ventures. The Group's transaction gains of 118,454 thousand kroons (7,571 thousand euros) have been recognised in finance income.

The effect of the transaction and the reclassification on the Group's assets and liabilities was the following:

	EEK	EUR
In thousands		
Other current assets	-6	0
Inventories	-8,083	-517
Property, plant and equipment (note 12)	-94	-6
Current portion of interest-bearing loans and borrowings	-27	-2

4. Business combinations and acquisition of minority interests

On 11 January 2007, the Group acquired a 55% stake in the Latvian construction company Arco Construction SIA for 4,303 thousand kroons (275 thousand euros); 2,224 thousand kroons (142 thousand euros) of the purchase price was settled in the first half of 2007 in cash and the rest will be settled within three years. The liability does not bear any interest. Therefore the liability and the cost of the acquisition have been discounted to 4,070 thousand kroons (260 thousand euros). The purchase price has been allocated to net assets and goodwill as follows:

	EEK	EUR
In thousands		
Cost of acquisition	4,070	260
Fair value of net assets acquired	710	45
Goodwill	3,360	215

The Group's consolidated financial statements for the first half of 2007 comprise Arco Construction SIA's revenue and expenses for the first six months of 2007 and its assets and liabilities as at 30 June 2007. Arco Construction SIA's external sales for the first half of 2007 amounted to 16,806 thousand kroons (1,074 thousand euros).

At the beginning of 2007, the Group acquired from minority shareholders their interests in the Group's subsidiaries Arco Vara Riia Valdused OÜ (a 25% interest), Arco Vara Puukool OÜ (a 25% interest) and Arco Real Estate UAB (a 20% interest), taking its ownership in the subsidiaries to 100%. Acquisition of the shareholdings cost 2,466 thousand kroons (158 thousand euros) in aggregate and gave rise to positive goodwill of 2,581 thousand kroons (165 thousand euros).

5. Segment reporting by business segments

Revenue and other income by segments	EEK		EUR		Proportion of consolidated revenue for 1st half 2007 (%)
	1st half 2007	1st half 2006	1st half 2007	1st half 2006	
In thousands					
Service	70,971	54,452	4,536	3,480	15
External revenue	63,779	49,908	4,077	3,190	13
Other external income	660	30	42	2	0
Inter-segment revenue and other income	6,532	4,514	417	288	1
Development	382,491	98,190	24,446	6,275	78
External revenue	294,775	65,162	18,840	4,165	60
Other external income	74,146	30,345	4,739	1,939	15
Inter-segment revenue and other income	13,570	2,683	867	171	3
Construction	157,418	139,430	10,061	8,911	32
External revenue	54,205	85,357	3,464	5,455	11
Other external income	13	363	1	23	0
Inter-segment revenue and other income	103,200	53,710	6,596	3,433	21
Eliminations	-123,303	-59,533	-7,880	-3,804	-25
Total revenue and other income	487,577	232,539	31,162	14,862	100

Operating profit by segments	EEK		EUR	
	1st half 2007	1st half 2006	1st half 2007	1st half 2006
In thousands				
Service	-6,673	5,740	-426	367
Including depreciation and amortisation	-670	-393	-43	-24
Including recognition of negative goodwill as income and impairment of goodwill	0		0	0
Development	114,330	70,779	7,307	4,524
Including depreciation and amortisation	-137	-244	-9	-15
Including recognition of negative goodwill as income and impairment of goodwill	0	13,399	0	856
Including fair value gains on investment properties	55,355	22,375	3,538	1,430
Construction	-3,260	-15,000	-208	-959
Including depreciation and amortisation	-785	-517	-50	-31
Including recognition of negative goodwill as income and impairment of goodwill	0	90	0	6
Eliminations	975	-302	62	-19

Continued

	EEK		EUR	
	1st half 2007	1st half 2006	1st half 2007	1st half 2006
Operating profit by segments				
Unallocated expenses	-17,234	-9,849	-1,101	-630
Including depreciation and amortisation	-463	-246	-30	-15
Including recognition of negative goodwill as income and impairment of goodwill	0	0	0	0
Total operating profit	88,138	51,368	5,633	3,283
Including depreciation and amortisation	-2,055	-1,400	-131	-84
Including recognition of negative goodwill as income and impairment of goodwill	0	13,399	0	862
Including fair value gains on investment properties	55,355	22,375	3,538	1,430

	EEK		EUR	
	1st half 2007	1st half 2006	1st half 2007	1st half 2006
Capital expenditures				
In thousands				
Service	8,663	22,213	554	1,420
Development	16,653	240,557	1,064	15,374
Construction	5,792	4,217	370	270
Unallocated expenditures	303	3,004	20	192
Total capital expenditures	31,411	269,991	2,008	17,256

	EEK		EUR	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
Assets				
In thousands				
Service	55,668	31,900	3,558	2,039
Development	1,834,820	2,054,015	117,266	131,275
Construction	114,540	92,240	7,320	5,895
Eliminations	-46,382	-20,665	-2,964	-1,321
Unallocated assets	1,375,366	99,881	87,902	6,384
Total assets	3,334,012	2,257,371	213,082	144,272

The assets of the Development segment have decreased compared with 31 December 2006 largely on account of the disposal of a 50% interest in Arco HCE OÜ, the latter's transformation from a subsidiary into a joint venture (note 3) and the sale of properties carried as inventories (note 9).

6. Finance income and expenses

Finance income

	EEK		EUR	
	1st half 2007	1st half 2006	1st half 2007	1st half 2006
In thousands				
Gains on disposal of shares in subsidiaries ¹	123,394	0	7,886	0
Gains on disposal of shares in joint ventures	2,271	41	145	3
Interest income	5,160	1,720	330	110
Foreign exchange gains	3		0	0
Income on other long-term financial investments ²	42,216	198	2,698	13
Total finance income	173,044	1,959	11,060	125

¹ Gains on disposal of shares in subsidiaries includes gains on the disposal of shares in Sportings Riga SIA, an entity holding the Bishumizhas 2 project, of 118,454 thousand kroons (7,571 thousand euros).

² Income on other long-term financial investments includes fair value gains on shares in joint venture Explorer Property Fund AB of 37,982 thousand kroons (2,247 thousand euros).

Finance expenses

	EEK		EUR	
	1st half 2007	1st half 2006	1st half 2007	1st half 2006
In thousands				
Losses on disposal of shares in subsidiaries	-2,638	0	-169	0
Interest expense	-20,280	-9,892	-1,296	-632
Expenses on other long-term financial investments		0	0	0
Foreign exchange losses	-265	-247	-17	-16
Other finance expenses	-932	0	-61	0
Total finance expenses	-24,115	-10,139	-1,542	-648

7. Earnings per share

	EEK		EUR	
	1st half 2007	1st half 2006	1st half 2007	1st half 2006
Weighted average number of ordinary shares ¹	67,784,150	67,784,150	67,784,150	67,784,150
Net profit attributable to ordinary equity holders of the parent (in thousands)	221,981	39,657	14,187	2,535
Earnings per share (in EEK and EUR)	3.27	0.59	0.21	0.04

¹ The weighted average number of ordinary shares at 30 June 2007 does not include the 27,500 thousand shares which were registered on 2 July 2007.

8. Trade and other receivables

	EEK		EUR	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
In thousands				
Trade receivables	44,505	45,147	2,844	2,885
Receivables from joint ventures (note 15)	191,948	9,042	12,269	578
Other receivables	29,767	25,015	1,902	1,599
Accrued income	44,506	23,294	2,845	1,489
Total receivables	310,726	102,498	19,858	6,551

Receivables from joint ventures have increased significantly due to the reclassification of Arco HCE OÜ from subsidiaries to joint ventures and the sale of an interest in the subsidiary Bishumuizhas Nami SIA. At 30 June 2007, the Group's receivables from Arco HCE OÜ amounted to 41,581 thousand kroons (2,658 thousand euros) the amount due from Bishumuizhas Nami SIA was 144,350 thousand kroons (9,226 thousand euros).

9. Inventories

	EEK		EUR	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
In thousands				
Properties acquired and developed for resale	654,968	415,567	41,860	26,560
Goods purchased for resale	4,539	6,580	290	420
Materials and finished goods	934	0	60	0
Prepayments to suppliers	20,270	9,670	1,295	618
Total inventories	680,711	431,817	43,505	27,598

Properties acquired and developed for resale have expanded substantially due to the reclassification of the Tivoli project from investment property to inventories (note 9). At the beginning of 2007, 300,000 thousand kroons (19,173 thousand euros) was reclassified in connection with the assessment made by the management of the Development segment regarding the future use of the property and positive developments in the adoption of the project's detailed plan.

In addition, in the first half of 2007 the Group sold the Ulmana Gatves property in Riga, the Kerese Keskus building in Narva, apartments in Kolde community and a significant portion of the Kase project in Tallinn, which reduced inventories by a total of 183,183 thousand kroons (11,708 thousand euros).

The sale of an interest in a joint venture in March 2007 reduced properties under construction by 14,624 thousand kroons (935 thousand euros) (note 3).

Other changes in inventories stem from investments made in development projects in progress in Estonia, Latvia and Bulgaria.

10. Long-term investments in financial assets

	EEK		EUR	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
In thousands				
Long-term investments in equities – measured at cost	131	131	8	8
Long-term investments in equities – measured at fair value	47,914	8,215	3,062	525
Prepayments for equities	58,596	57,423	3,745	3,670
Total long-term investments in financial assets	106,641	65,769	6,816	4,203

11. Investment property

	EEK	EUR
In thousands		
At 31 December 2005	851,104	54,395
Acquisitions	19,009	1,216
Capitalised borrowing costs	600	38
Disposals	-4,251	-272
Transferred from inventories	3,973	254
Transferred from property, plant and equipment	23,377	1,494
Gains and losses from changes in fair value	21,000	1,342
At 30 June 2006	914,812	58,467
At 31 December 2006	1,479,281	94,543
Acquisitions	997	63
Disposals	-48,919	-3,126
Disposals through sale of a stake in a subsidiary and the transformation of a subsidiary into a joint venture (note 3)	-192,500	-12,303
Transferred to inventories (note 9)	-300,000	-19,173
Transferred from property, plant and equipment	1,982	127
Gains and losses from changes in fair value	55,355	3,538
At 30 June 2007	996,196	63,669

12. Property, plant and equipment

	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction and prepayments	Total property, plant and equipment
In thousands of kroons					
Carrying amount at 31 December 2005	16,956	1,464	2,938	153,043	174,401
Acquisitions and improvements	2,986	784	1,414	173,368	178,552
Capitalised borrowing costs	0	0	0	7,781	7,781
Disposals	-29	-9	0	0	-38
Disposals through divestment of interests in joint ventures	0	0	-6		-6
Transfer to investment property	0	0	0	-23,377	-23,377
Depreciation for the period	-372	-270	-602	0	-1,244
Carrying amount at 30 June 2006	19,541	1,969	3,744	310,815	336,069
<i>Cost at 30 June 2006</i>	<i>24,860</i>	<i>5,686</i>	<i>8,539</i>	<i>310,815</i>	<i>349,900</i>
<i>Accumulated depreciation at 30 June 2006</i>	<i>-5,319</i>	<i>-3,717</i>	<i>-4,795</i>	<i>0</i>	<i>-13,831</i>
Carrying amount at 31 December 2006	21,329	2,261	4,324	53,799	81,713
Acquisitions and improvements	4,373	1,573	2,107	12,248	20,301
Capitalised borrowing costs	0	0	0	3,216	3,216
Acquisitions through business combinations (note 4)	0	0	695	0	695
Disposals	0	-436	-48	-7,839	-8,323
Disposals through divestment of subsidiaries (note 3)	-96	0	0	-6,802	-6,898
Transfers	0	300	-300	0	0
Transfer to investment property (note 11)	0	0	0	-1,982	-1,982
Depreciation charge for the period	-706	-502	-910	0	-2,118
Carrying amount at 30 June 2007	24,900	3,196	5,868	52,640	86,604
<i>Cost at 30 June 2007</i>	<i>34,317</i>	<i>6,380</i>	<i>10,073</i>	<i>52,640</i>	<i>103,410</i>
<i>Accumulated depreciation at 30 June 2007</i>	<i>-9,417</i>	<i>-3,184</i>	<i>-4,205</i>	<i>0</i>	<i>-16,806</i>

	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction and prepayments	Total property, plant and equipment
In thousands of euros					
Carrying amount at 31 December 2005	1,084	94	188	9,781	11,147
Acquisitions and improvements	191	50	90	11,080	11,411
Capitalised borrowing costs	0	0	0	497	497
Disposals	-2	-1	0	0	-3
Disposals through divestment of interests in joint ventures	0	0	0	0	0
Transfer to investment property	0	0	0	-1,494	-1,494
Depreciation charge for the period	-24	-17	-38	0	-79
Carrying amount at 30 June 2006	1,249	126	240	19,864	21,479
<i>Cost at 30 June 2006</i>	<i>1,589</i>	<i>363</i>	<i>546</i>	<i>19,864</i>	<i>22,362</i>
<i>Accumulated depreciation at 30 June 2006</i>	<i>-340</i>	<i>-238</i>	<i>-306</i>	<i>0</i>	<i>-884</i>

Continued

	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction and prepayments	Total property, plant and equipment
Carrying amount at 31 December 2006	1,363	145	276	3,438	5,222
Acquisitions and improvements	279	101	135	783	1,297
Capitalised borrowing costs	0	0	0	206	206
Acquisitions through business combinations (note 4)	0	0	44	0	44
Disposals	0	-28	-3	-501	-532
Disposals through divestment of subsidiaries (note 3)	-6	0	0	-435	-441
Transfers	0	19	-19	0	0
Transfer to investment property (note 11)	0	0	0	-127	-127
Depreciation charge for the period	-45	-32	-58	0	-135
Carrying amount at 30 June 2007	1,591	205	375	3,364	5,535
<i>Cost at 30 June 2007</i>	<i>2,193</i>	<i>408</i>	<i>644</i>	<i>3,364</i>	<i>6,609</i>
<i>Accumulated depreciation at 30 June 2007</i>	<i>-602</i>	<i>-203</i>	<i>-269</i>	<i>0</i>	<i>-1,074</i>

13. Intangible assets

	Goodwill	Negative goodwill	Software	Total intangible assets
In thousands of kroons				
Carrying amount at 31 December 2005	13,071	0	513	13,584
Acquisitions and improvements	0	0	51	51
Acquisitions through business combinations	4,010	13,606	0	17,616
Disposals	0	-13,606	0	-13,606
Amortisation for the period	0	0	-154	-154
Carrying amount at 30 June 2006	17,081	0	410	17,491
<i>Cost at 30 June 2006</i>	<i>17,081</i>	<i>0</i>	<i>1,134</i>	<i>18,215</i>
<i>Accumulated amortisation at 30 June 2006</i>	<i>0</i>	<i>0</i>	<i>-724</i>	<i>-724</i>
Carrying amount at 31 December 2006	15,558	0	1,147	16,705
Acquisitions and improvements	0	0	533	533
Acquisitions through business combinations and acquisition of minority interests (note 4)	5,941	-283	11	5,669
Transfer of negative goodwill to income	0	283	0	283
Amortisation for the period	0	0	-201	-201
Carrying amount at 30 June 2007	21,499	0	1,490	22,989
<i>Cost at 30 June 2007</i>	<i>21,499</i>	<i>0</i>	<i>2,384</i>	<i>23,883</i>
<i>Accumulated amortisation at 30 June 2007</i>	<i>0</i>	<i>0</i>	<i>-894</i>	<i>-894</i>

Continued

	Goodwill	Negative goodwill	Software	Total intangible assets
In thousands of euros				
Carrying amount at 31 December 2005	835	0	33	868
Acquisitions and improvements	0	0	3	3
Acquisitions through business combinations	256	870	0	1,126
Disposals	0	-870	0	-870
Amortisation for the period	0	0	-10	-10
Carrying amount at 30 June 2006	1,091	0	26	1,117
<i>Cost at 30 June 2006</i>	<i>1,091</i>	<i>0</i>	<i>72</i>	<i>1,163</i>
<i>Accumulated amortisation at 30 June 2006</i>	<i>0</i>	<i>0</i>	<i>-46</i>	<i>-46</i>
Carrying amount at 31 December 2006	994	0	73	1,068
Acquisitions and improvements	0	0	34	34
Acquisitions through business combinations and acquisition of minority interests (note 4)	380	-18	1	362
Transfer of negative goodwill to income	0	18	0	18
Amortisation for the period	0	0	-13	-13
Carrying amount at 30 June 2007	1,374	0	95	1,469
<i>Cost at 30 June 2007</i>	<i>1,374</i>	<i>0</i>	<i>152</i>	<i>1,526</i>
<i>Accumulated amortisation at 30 June 2007</i>	<i>0</i>	<i>0</i>	<i>-57</i>	<i>-57</i>

In the first half of 2007, the Group acquired goodwill of 3,361 thousand kroons (215 thousand euros) through a business combination. The amount represents the payment made for the client relations and construction contracts of Arco Construction SIA which could not be separately measured or recognised.

The purchase of minority interests gave rise to goodwill of 2,580 thousand kroons (165 thousand euros). The amount represents the payment made for the client relations and growing markets of Group companies which could not be individually identified or separately recognised.

14. Equity

In May 2007, Arco Vara AS increased its share capital by 373,331 thousand kroons (23,860 thousand euros) through a bonus issue. The issue was arranged using the company's equity; no additional contributions were made. The company issued 37,311,113 new shares with a par value of 10 kroons each.

In July 2007 the company issued an additional 27,500 thousand shares with a par value of 10 kroons each. The shares were subscribed during the initial public offering (IPO) of the shares of Arco Vara AS on Tallinn Stock Exchange. The subscription price of a share was set to 38 kroons. As a result of the IPO, the company was paid 1,045,000 thousand kroons (66,788 thousand euros) in cash. Direct issue costs of 57,143 thousand kroons (3,652 thousand euros) have been recognised as a reduction of share premium.

15. Transactions with related parties

	EEK		EUR	
	For 1 st half of 2007 or as at 30 June 2007	For 1st half of 2006 or as at 31 December 2006	For 1 st half of 2007 or as at 30 June 2007	For 1st half of 2006 or as at 31 December 2006
In thousands				
Transactions with joint ventures				
Revenue	367	665	23	43
Services purchased	-23	0	-1	0
Short-term loan receivables ¹	47,378	4,075	3,028	260
Short-term receivables from sale of shares	144,357	0	9,226	0
Long-term loan receivables	1,503	2,215	96	142
Accounts receivable	48	4,846	3	310
Other receivables	165	121	11	8
Payables	644	1	41	0
Transactions with companies having joint control over Group companies				
Revenue	135	24	9	2
Services purchased	-375	-75	-24	-5
Other receivables ²	8,532	0	545	0
Short-term loan receivables	0	113	0	7
Current portion of interest-bearing loans and borrowings ³	45,951	3,240	2,937	207
Other payables ⁴	22,124	3,897	1,414	249
Non-current portion of interest-bearing loans and borrowings	13,288	12,438	849	795
Transactions with key staff of the Group or the Group's management				
Revenue	1,457	0	93	0
Short-term loan receivables	0	5,017	0	321
Accounts receivable	7,765	104	496	7
Short-term loan liabilities	2,100	268	134	17
Other payables	285	0	18	0
Transactions with other related parties				
Revenue	4,689	313	300	20
Services purchased	-1,836	-150	-117	-10
Short-term loan receivables ⁵	12,871	8,196	823	524
Other receivables	2,760	5,089	176	325
Accounts receivable	1,157	0	74	0
Long-term loan receivables	1,255	5,197	80	332
Accounts payable	39	0	2	0
Current portion of interest-bearing loans and borrowings	0	552	0	35
Other payables	40,431	39,616	2,584	2,532
Other long-term liabilities	589	0	38	0
Non-current portion of interest-bearing loans and borrowings	14,936	2,960	955	189

¹ In January 2007, the Group sold a 50% stake in the subsidiary Arco HCE OÜ. As a result of the transaction, Arco HCE OÜ became a joint venture and the consolidated accounts include 50% of the Group's receivables from the joint venture. At 30 June 2007, short-term loan receivables from joint venture Arco HCE OÜ amounted to 41,581 thousand kroons (2,658 thousand euros). The annual interest rate of the loan is 10%.

² At 30 June 2007, other receivables from companies with joint control over Group companies included receivables of 8,532 thousand kroons (545 thousand euros) from the Group's related parties which in the second quarter were taken over by companies holding shares in Arco Vara AS. On the distribution of dividends the receivables will be offset against the Group's dividend liabilities.

³ Current portion of interest-bearing loans and borrowings includes 40,640 thousand kroons (2,597 thousand euros) due to the other venturer of Arco HCE OÜ. The annual interest rate of the loan is 10%.

⁴ At 30 June 2007, other payables to companies having joint control over Group companies included dividends payable of 21,192 thousand kroons (1,354 thousand euros).

⁵ At 31 December 2006, other receivables included items due from Arco Kinnisvaraholduse AS arisen on the takeover of liabilities to Group companies of 3,810 thousand kroons (243 thousand euros). At the beginning of 2007, the receivable was transformed into a loan. At 30 June 2007, short-term loans to Arco Kinnisvaraholduse AS and the receivables which were transformed into a loan totalled 9,163 thousand kroons (586 thousand euros). The annual interest rate of the loans is 6%.

16. Subsequent events

Disposal of the Group's interest in a subsidiary of a joint venture

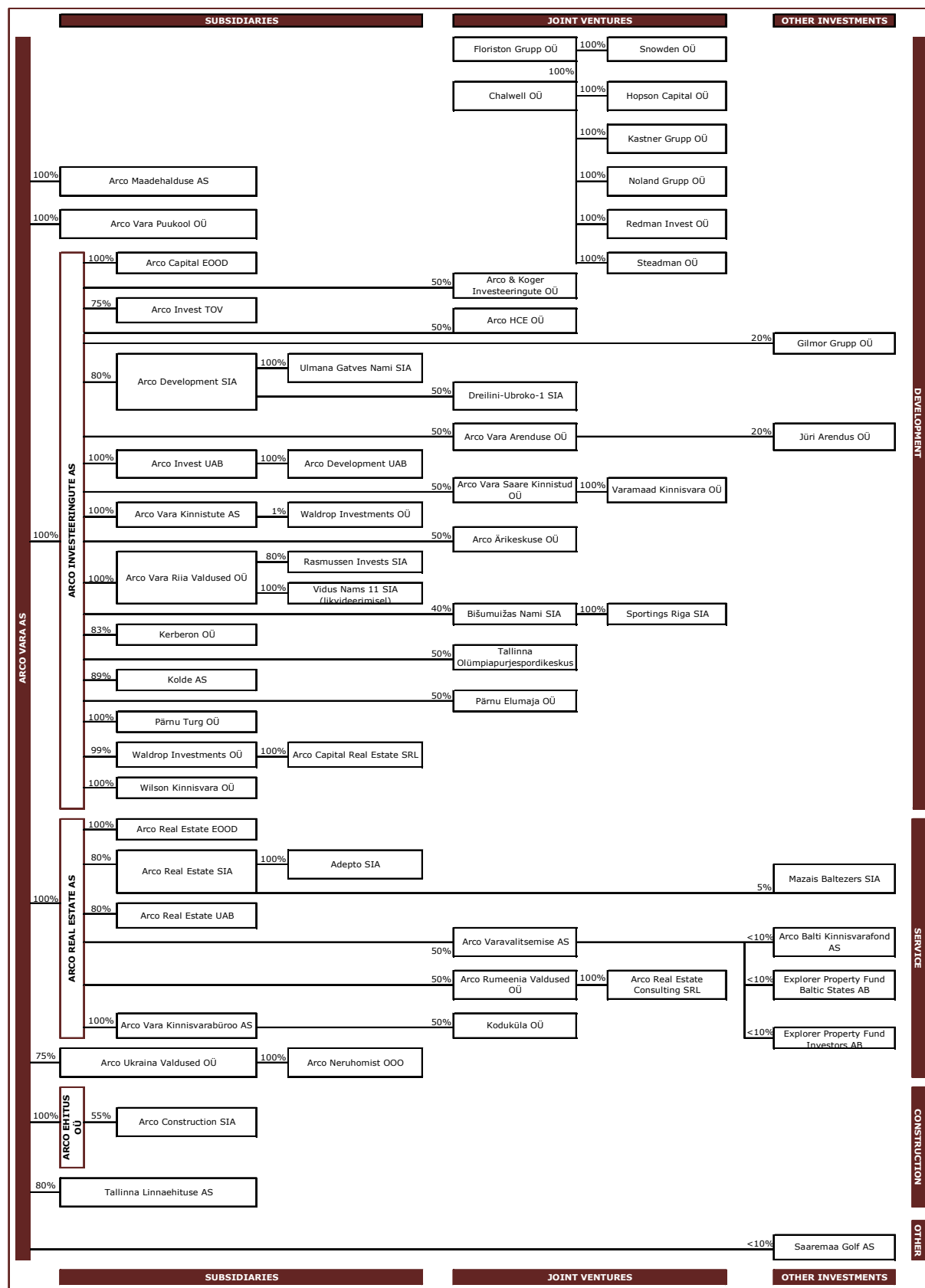
On 2 August 2007, Arco Vara Saare Kinnistud OÜ, an entity in which Arco Vara AS has a 50% shareholding, sold one third of Varamaad Kinnisvara OÜ for 17,300 thousand kroons (1,106 thousand euros). The Group's transaction gains amounted to 8,247 thousand kroons.

Acquisition of development projects in Bulgaria

In July and August 2007 the Group acquired two properties in Sofia, Bulgaria. The initial cost of the projects amounted to 19 million euros (297 million kroons).

17. The Group's structure

At 30 June 2007



Management's statement

The management board of Arco Vara AS has prepared the condensed consolidated interim financial statements for the second quarter and first half of 2007 presented on pages 2 to 30.

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, results of operations and cash flows of Arco Vara AS. Arco Vara AS is a going concern.

Viljar Arakas
Chairman of the Management Board

Aare Tammemäe
Member of the Management Board

Ivar Siimar
Member of the Management Board

Veiko Pedosk
Member of the Management Board

Ahto Altjõe
Member of the Management Board