



Arco Vara AS

Interim report 1 quarter of 2008

 ARCO REAL ESTATE

ESTONIA • LATVIA • LITHUANIA • UKRAINE • BULGARIA • ROMANIA

FIRST QUARTER 2008
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

Business name: Arco Vara AS

Registry number: 10261718

Address: Jõe 2b, 10151 Tallinn, Estonia

Telephone: +372 6 144 630

Fax: +372 6 144 631

E-mail: info@arcovara.ee

Corporate website: www.arcorealestate.com

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

Financial year: 1 January 2008 – 31 December 2008

Reporting period: 1 January 2008 – 31 March 2008

Supervisory board: Arti Arakas, Hillar-Peeter Luitsalu, Richard Tomingas,
Kalev Tanner, Aare Tark

Management board: Aare Tammemäe, Avo Rõõmussaar,
Veiko Taevere, Ahto Altjõe

Auditor: Ernst & Young Baltic AS

CONTENTS

MANAGEMENT REPORT FOR THE FIRST QUARTER OF 2008	4
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	12
CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT	12
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET	13
CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT	14
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	15
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	16
1. SIGNIFICANT ACCOUNTING POLICIES	16
2. SCOPE OF CONSOLIDATION	16
3. SEGMENT REPORTING BY BUSINESS SEGMENTS	17
4. OTHER INCOME	18
5. ADMINISTRATIVE EXPENSES	18
6. OTHER EXPENSES	18
7. FINANCE INCOME.....	18
8. FINANCE EXPENSES.....	19
9. EARNINGS PER SHARE	19
10. RECEIVABLES.....	19
11. INVENTORIES	20
12. INVESTMENT PROPERTY.....	20
13. PROPERTY, PLANT AND EQUIPMENT.....	21
14. INTANGIBLE ASSETS.....	22
15. LOANS AND BORROWINGS.....	22
16. PAYABLES AND OTHER LIABILITIES	23
17. DEFERRED INCOME	24
18. TRANSACTIONS WITH RELATED PARTIES	24
19. SUBSEQUENT EVENTS	25
SIGNATURES	27

Management report for the first quarter of 2008

SELECTED FINANCIALS

- Revenue and other income for Q1 totalled 111.9 million kroons (7.1 million euros), 67% down year-over-year.
- Operating loss amounted to 29.7 million kroons (1.9 million euros), a 141% decrease from the operating profit of a year ago.
- Net loss was 16.7 million kroons (1.1 million euros), a 124% decrease from the net profit earned a year ago.
- Equity to assets ratio was 54.3% (Q1 2007: 37.2%), return on equity 7.8% (Q1 2007: 38.6) and return on invested capital 6.2% (Q1 2007: 17.2%).
- At 31 March, the Group's order backlog stood at 358.3 million kroons (22.9 million euros) compared to 331 million kroons (21.1 million euros) in 4th quarter.
- During the reporting period, 59 apartments and plots were sold or reserved compared to 15 in the 4th quarter.

	EEK		EUR	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007
In millions				
Revenue and other income	111.9	340.4	7.2	21.8
Operating profit / loss	-29.7	72.4	-1.9	4.6
<i>Including net gain / loss on fair value adjustments to investment property</i>	-12.4	48.7	-0.8	3.1
Profit before tax	-16.4	69.4	-1.0	4.4
<i>Including net gain on the divestment of financial assets</i>	0.0	2.2	0.0	0.1
Net profit / loss	-16.7	69.1	-1.1	4.4
EPS 1 (in kroons and euros)	-0.16	0.94	-0.01	0.06
EPS 2 (in kroons and euros)	-0.16	0.94	-0.01	0.06
Total assets at period end	3,521.8	2,153.0	225.1	137.6
Invested capital at period end	3,227.8	1,897.1	206.3	121.2
Net loans at period end	684.4	980.8	43.7	62.7
Equity at period end	1,911.3	800.8	122.2	51.2
ROIC (rolling 12 months)	6.2%	17.2%		
ROE (rolling 12 months)	7.8%	38.6%		
Number of staff at period end	654	541	654	541

Commentary by chairman of the management board

- The time of lavish profits and huge returns is over. The Baltic development market has stabilised even though less attractively located and lower quality properties may undergo further price adjustment. Although approximately 75% of Arco's real estate portfolio is located in Estonia, the Group's focus has shifted to Ukraine and the Balkans.
- We anticipated the decline in the profit of the Development division because a number of major projects (Tivoli, Ahtri 3, Laeva, Bishumuizhas 2, etc) are still in the planning phase. The division's Q1 performance indicators (planning, construction, vacancies and apartment sales) were positive but the current stages of the projects allow recognising only liabilities for reservation fees received, not sales revenue. The results of the Development division are subject to significant fluctuations and the figures for the following quarters may be radically different as the projects progress. Q1 highlights include rapid progress in the planning of the Tivoli project, investment in a project in Simferopol and an en-bloc apartment sale in Sofia. In 2008, plans should be adopted for the Laeva, Ahtri and MB-3 projects.
- The Service division performance was lower than expected.. The year will be testing and the Service division will end it with a loss despite continuing cost cutting. Although the performance of the Service division began recovering at the end of the previous year the stagnation of the market in Riga and reorganization expenses have increased its operating loss.. Nevertheless, the Group's market position is strong and the division's performance indicators (number of transactions performed and valuation reports issued) have dropped substantially less than the market's average
- The Construction division continues turning a profit and has displayed strong capability for winning environmental engineering tenders in Estonia and Latvia. Without the sale of major projects or properties and revaluation gain, the consolidated result of operations will be considerably weaker than a year ago. Winning of tenders in Estonia as well as in Latvia, has increased the proportion of construction revenue in the Group's revenue structure. The decline in the contribution of civil engineering projects and internal sales confirms the strategy adopted.
- Demand for centrally located category A commercial real estate has not diminished. In Tallinn, vacancies of category A office and commercial premises are almost down to zero. Moreover, a 20% fall in construction prices has created excellent opportunities for executing major long-term development projects such as Ahtri 3. In 2008, we shall continue developing our Kolde (Estonia) and Madrid (Bulgaria) projects and intend to take advantage of opportunities provided by the slump in the Baltics and the opportunities opening up in Ukraine and the Balkans. Accordingly, in 2008 we expect to be a net investor not an achiever of enhanced development revenue.

REVENUE AND PROFIT

	EEK		EUR	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007
In millions				
Revenue and other income				
Service	29.2	30.2	1.9	1.9
Development	29.7	294.8	1.9	18.8
Construction	89.5	57.2	5.7	3.7
Asset management	3.4	3.1	0.2	0.2
Eliminations	-39.9	-44.8	-2.6	-2.9
Total revenue and other income	111.9	340.4	7.2	21.8

	EEK		EUR	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007
Operating profit / loss				
Service	-9.5	-3.3	-0.6	-0.2
Development	-16.1	86.1	-1.0	5.5
Construction	4.2	-6.3	0.3	-0.4
Asset management	1.3	1.7	0.1	0.1
Eliminations	-4.6	5.6	-0.3	0.4
Unallocated expenses	-5.1	-11.4	-0.3	-0.7
Total operating profit / loss	-29.7	72.4	-1.8	4.7
Interest income and expense	5.0	-7.9	0.3	-0.5
Other financial income and expense	8.3	4.9	0.5	0.3
Income tax expense	-0.4	-0.3	0.0	0.0
Net profit / loss for the period	-16.7	69.1	-1.0	4.5

The bulk of the Group's revenue was generated by the Construction division which increased sales by almost 56.5% to 89.5 million kroons (5.7 million euros). The significant fall in revenue may be attributed to the performance of the Development division. Although 59 apartments and plots were reserved (Kolde 18, Madrid 52, BM-1 -10 and MB-5 -1), most of related revenue and gross profit will realise within the next 1.5 years after the Madrid project has been completed. In Q1 2007, the division realised the Kerese Keskus, Ulmana Gatve and Suur-Sõjamäe properties, which boosted quarterly revenue and profit figures. Management intends to sell larger properties in the form of projects also in 2008 but the impact will be visible in the second half of the year only. If properties cannot be sold, the division's revenue will be considerably weaker than in 2007. The operating result of the Development division includes property revaluation losses (net) of 12.4 million kroons (0.8 million euros) and foreign exchange losses of 4.5 million kroons (0.3 million euros). Although in 2008 plans should be adopted for the Tivoli, Ahtri, MB-3 and Laeva projects, which will have a significant impact on the values of the properties, Tivoli and MB-3 cannot be restated because they are carried at cost.

The Service division has been able to maintain revenue, largely thanks to its Estonian operations. Restructuring expenses (including redundancy benefits) have expanded the division's loss and will continue expanding it through the next two quarters where we expect the lowest ever results for the Service division. In addition, the division's Q1 expenses include non-recurring vacancy guarantee costs of 1.4 million kroons (0.1 million euros) from the Dantes project in Riga.

CASH FLOWS

	EEK		EUR	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007
In millions				
Cash flows from operating activities	-33.3	31.5	-2.1	2.0
Cash flows from investing activities	-180.6	89.1	-11.5	5.7
Cash flows from financing g activities	-69.4	-63.5	-4.4	-4.1
Net cash flow	-283.3	57.1	-18.1	3.7
Cash and cash equivalents at beginning of period	765.0	58.3	48.9	3.7
Effect of exchange rate fluctuations	0.0	-0.1	0.0	0.0
Cash and cash equivalents at end of period	481.7	115.4	30.8	7.4

In Q1 2008, operating cash flows were mainly affected by investment in residential development projects in Estonia, Latvia and Bulgaria and the reservation fees received for apartments in the Madrid project (11.4 million kroons (0.7 million euros) in aggregate).

Cash flows from investing activities were primarily influenced by a prepayment of 82.4 million kroons (5.3 million euros) made for a stake in the Simferopol project and the acquisition of short-term financial assets of 80 million kroons (5.1 million euros). Arco's liquidity remains strong and management intends to maintain a sufficient liquidity buffer in the next few years owing to continuing turbulence in the capital markets.

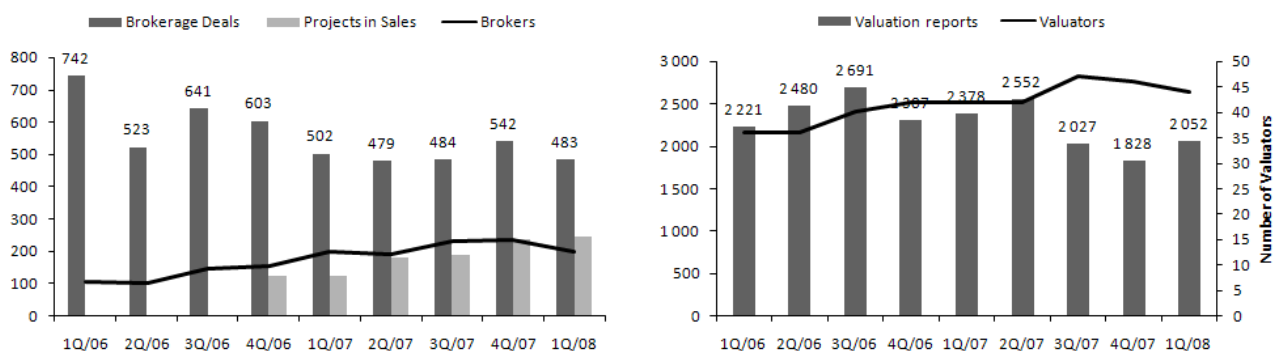
SERVICE DIVISION

For the Service division, Q1 2008 was a period of taxing adjustment: the cost cutting measures implemented in Q4 2007 needed to be reinforced on a monthly basis to mitigate the impact of the faster than expected cooling of Baltic economies. In making our projections in 2007 we expected a rise in the second half of 2008. Today we expect more positive developments for the second half of 2009. The change in projections has heightened the need for further streamlining and cost cutting. Although division's brokerage revenue has remained steady, the division has not been able to achieve targeted growth in the Balkans.

In the reporting period, the Service division issued 2,052 (Q1 2007: 2,378) valuation reports in six countries, a 13.7% decrease year-over-year. The division is still introducing valuation services in the new markets and promoting real estate counselling in the Baltics.

	Q1 2008	Q1 2007	Change
Number of properties brokered	483	502	-3.8%
Number of projects on sale	247	144	71.5%
Number of valuation reports issued	2052	2378	-13.7%
Number of appraisers	44	45	-2.2%
Number of real estate brokers	201	198	1.5%
Average number of staff	367	315	16.5%

Project sales contracts numbered 247, up 71.5% year-over-year, and brokerage transactions totalled 483, a 3.8% decrease year-over-year. At 31 March 2008, the Service division employed 377 people (Q1 2007: 346). The number of brokers has increased slightly in connection with expansion in the Balkans.



DEVELOPMENT DIVISION

In the Baltics, the number of real estate transactions plummeted steepest in Latvia where our customers were prepared to waive 11 reservations (out of a total of 52). The decline in Latvia was counterbalanced by growth in other markets – Tallinn and Sofia. In our Kolde project in Tallinn 18 and in Sofia 52 apartments were either sold or reserved. The results of Q1 indicate that there is clear interest in the Kolde project from the level of 29,700-31,300 kroons/m² (1900-2000 euros/m²).

Although 61% of the apartments in the Madrid project have been reserved, active sales have only begun. The project's apartment space has been reduced by a floor, which has been redesigned for business and commercial purposes. The Manastirski project in Sofia has also been redesigned and the construction tender launched.

Approval of the detailed plans for the Tivoli and Laeva projects in Estonia is in the final stage. A significant development of Q1 was the Group's penetration of the Ukrainian commercial development sector in Simferopol where a prepayment was made for a 50% stake in a shopping mall project.

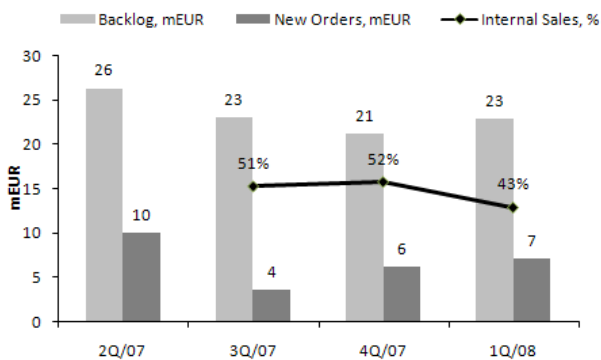
In the reporting period, 59 apartments and plots were sold or reserved. At 31 March, the division employed 55 people (Q1 2007: 41).

CONSTRUCTION DIVISION

According to management's estimates, the decrease in the demand for residential construction services has lowered residential construction prices by approx. 15 - 20%. As a result, the Construction division has won environmental- but not any civil engineering tenders at the beginning of 2008 – 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 reached a stage in which it can participate in public procurement tenders. The first public procurement contract won in Latvia involves the design and construction of an iron removal plant for a water treatment facility in the village of Ogre. The size of the contract is 48.5 million kroons (3.1 million euros).

In Q1 the division acquired construction contracts of 111 million kroons (7.1 million euros), including contracts of 50.4 million kroons (3.2 million euros) in Latvia and contracts of 60.6 million kroons (3.9 million euros) in Estonia, the total figure surpassing the one achieved in Q4 2007.

By the end of the reporting period, the division's order backlog had increased to 358 million kroons (22.9 million euros). Intra-group sales for Q1 accounted for 43% of revenue. At period-end, the division employed 195 people (Q1 2007: 134).



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	Simferopol	Ukraine, Simferopol	n/a	53.134 m2	A prepayment has been made for an 50% interest in the project. For the creation of ownership, the seller has to meet the terms and conditions outlined in the contract by October 2008. If the terms and conditions are not met, the seller has to refund the prepayment. The construction of the O'Key hypermarket is under way and the hypermarket should be opened at the end of 2008.	Long-term receivables
Commercial	Ahtri 3	Estonia, Tallinn	50%	47.075 m2	The old plan and building permit are in effect. A new detailed plan has been initiated to obtain more extensive building rights. In the new plan, above-ground building rights extend to ca 51,110 m2. Design work is under way and we are looking for tenants.	Investment property
Commercial	Ilmarine	Estonia, Tallinn	50%	Ca 80,000 m2	The city is preparing a general plan for the high rise area. Partial demolition of existing buildings is under way.	Investment property
Commercial	Laeva 2	Estonia, Tallinn	100%	7.776 m2	A new detailed plan has been approved and disclosed. Arrangement of a construction tender and preparation of sales materials for tenants are under way.	Assets under construction
Commercial	Marsili, Vizni	Latvia, Riga	80%	n/a	No building rights. Project suspended.	Investment property
Commercial	Paldiski mnt 80	Estonia, Tallinn	100%	24.000 m2	No building rights. Preparations for initiation of a detailed plan are under way.	Investment property

Project type	Project name	Location	Legal holding	Building rights according to business plan	Current state	Classification in the balance sheet
Cash flow	Enerpoint	Estonia, Kuressaare	100%	3,201 m2	Building rights. Generates cash flow.	Investment property
Cash flow	Kerberon	Estonia, Tallinn	83%	2,391 m2	Building rights. The right to superficies. Generates cash flow. We are building additional space for a specific client.	Investment property
Cash flow	Tallinna 77/79	Estonia, Kuressaare	100%	2,500 m2	Building rights. Generates cash flow. Pre-agreement for the sales of the project.	Investment property
Cash flow	Melon	Estonia, Tallinn	50%	7,461 m2	Building rights. Generates cash flow. We have applied for additional building rights up to ca 12,000m2 at the back yard.	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	9,745 m2	Building rights. Generates cash flow.	Investment property
Cash flow	Rüütli 16/18	Estonia, Tallinn	50%	980 m2	Building rights. Generates cash flow.	Investment property
Cash flow	TOP Commercial premises	Estonia, Tallinn	50%	We are working for the adoption of a new zoning plan for at least in total volume of 74.675 m2	Building rights correspond to currently built-up area. Generates cash flow. 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%	Buildings rights to unsold part 19.300 m2	Building rights. Construction and sale of apartments is under way.	Inventories
Apartments	Bishumuizhas 2	Latvia, Riga	40%	87.770 m2	Intended purpose is provided in the general plan. Design work is under way.	Inventories
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m2	Building rights. Design work is under way. The project is on sale.	Inventories
Apartments	Kolde	Estonia, Tallinn	89%	Buildings rights to unsold part of 20.775m2	Right of superficies. Building rights. Construction and sale of apartments are under way.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Buildings rights to unsold part of 14.483 m2	Building rights. Construction and sale of apartments are under way.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	27.006 m2	Building rights. Changing of architecture is completed. Construction tender in progress.	Inventories
Apartments	Plavnieku centrs	Latvia, Riga	40%	13,243 m2	Building rights. We are preparing a joint business plan with the city.	Inventories
Apartments	Tivoli	Estonia, Tallinn	100%	58,470 m2	No building rights. Planning is in the final stage.	Inventories
Apartments	TOP Residential premises	Estonia, Tallinn	50%	33,770 m2	No building rights. Planning is in the initial stage.	Investment property
Plots	Baltezers-3	Latvia, Riga	80%	n/a, land area 860,000 m2	The right of superficies. Adoption of a detailed plan for the construction of ca 120 000 m2 of detached houses is in the final stage.	Inventories
Plots	Baltezers-5	Latvia, Riga	80%	45 unsold plots	Building rights. Construction and sale are under way.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	n/a	Negotiations with the City of Tallinn regarding exchange of land are under way.	Inventories
Plots	Pärtli	Estonia, Saue	50%	84 plots, average plot 1,500 m2	No building rights. Draft plans have been approved. Suspended until improvement in market situation.	Inventories
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1,802 m2	No building rights. Draft plans have been approved. Suspended until improvement in market situation.	Inventories
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3,363 m2	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, such as 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, the current state, project type and classification of the project in the balance sheet, has been recorded based on management's best estimates and 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 31 March 2008	Carrying amount of projects presented in the summary table at 31 March 2008	Balance sheet item at 31 March 2008	Carrying amount of projects presented in the summary table at 31 March 2008
In millions				
Total assets	3,521.8	2,206.5	225.1	141.0
Long-term receivables	79.3	79.1	5.1	5.1
Inventories	1,216.3	1,105.6	77.7	70.7
Investment property	1,004.2	946.6	64.2	60.5
Property, plant and equipment	134.3	75.2	8.6	4.8

SIGNIFICANT CHANGES IN DETAILPLANS IN Q1 2008

Tivoli: Design work and preparation of a concept has commenced. A detailed plan of the property should be adopted by Tallinn City Council in May 2008. At the date these financial statements are authorised for issue, the detailed plan has been adopted. It's possible that after the approval of the zoning plan one person from the neighbourhood will argue the zoning. According to management's opinion it will not have substantial effect on project profitability.

Ahtri: The plot has a detailed plan with building rights. However, 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 apply. The Planning Department has approved the draft of the new detailed plan and will prepare resolutions for the initiation of a detailed plan at a session of the city government in May. The new plan includes above-ground building rights to 51,110 m².

Laeva 2: The plot had a detailed plan. We have applied for the initiation of a new detailed plan which maintains the construction volume but changes the boundaries of the construction area. The new plan was approved and referred for public display. No challenges were submitted. The plan should be initiated in May.

PM80: City government has approved the draft of a detailed plan. The Planning Department will prepare resolutions for the initiation of a detailed plan at a session of the City government. At the earliest, the plan will be initiated in May.

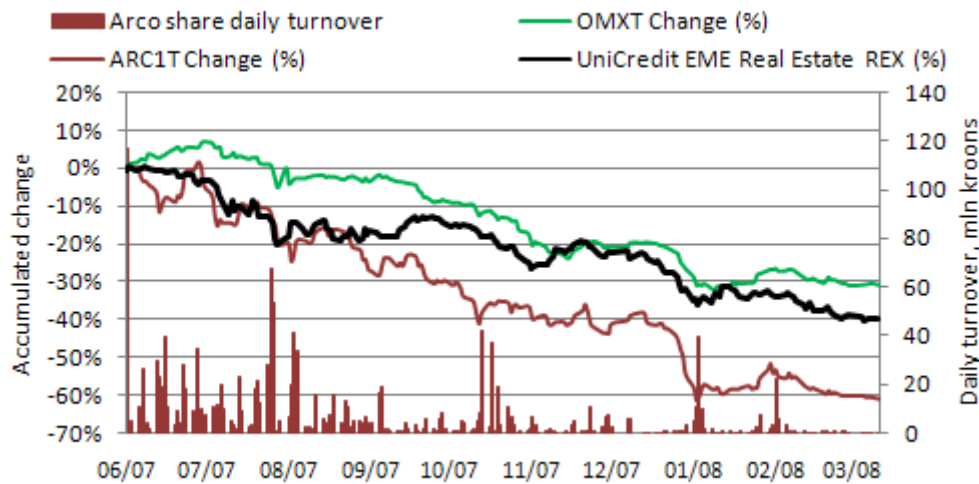
Baltezeres-3: A general plan has been adopted for the area according to which its intended purpose is residential land. We expect a detailed plan to be adopted at the beginning of Q2.

CHANGES IN THE GROUP'S STRUCTURE

During the reporting period, the Group's structure did not undergo any major changes.

SHARE INFO

At 31 March 2008, three founders of the Group's parent company held a total of 64.4% of the shares in Arco Vara AS. The company has a total of 1,528 shareholders, 79% of them holding less than 1,000 shares.



Major shareholders at 31 March 2008	Number of shares	Ownership interest
TOLETUM OÜ	23,755,315	24.9%
HM INVESTEERINGUD OÜ	20,301,300	21.3%
OÜ GREATWAY	17,350,945	18.2%
JPMORGAN CHASE BANK, UK RESIDENTS	9,967,565	10.5%
DEUTSCHE BANK AG LONDON	4,484,675	4.7%
Central Securities Depository of Lithuania	3,668,526	3.9%
Skandinaviska Enskilda Banken Ab Clients	3,426,350	3.6%
INVESTORS BANK & TRUST COMPANY	1,994,329	2.1%
J.P. MORGAN BANK LUXEMBOURG S.A.	1,500,000	1.6%
PICTET & CIE CLIENT ACCOUNT	879,465	0.9%

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

EPS 2 = net profit attributable to equity holders of the parent / number of shares outstanding at end of period

Condensed consolidated interim financial statements

Condensed consolidated interim income statement

	Note	EEK		EUR	
		Q1 2008	Q1 2007	Q1 2008	Q1 2007
In thousands					
Rendering of services		88,691	53,838	5,668	3,441
Sale of goods		18,830	237,343	1,203	15,169
Total revenue	3	107,521	291,181	6,871	18,610
Cost of sales		-86,327	-226,397	-5,517	-14,469
Gross profit		21,194	64,784	1,354	4,141
Other income	4	4,394	49,256	281	3,148
Selling and distribution costs		-4,672	-7,565	-299	-483
Administrative expenses	5	-34,075	-31,390	-2,178	-2,006
Other expenses	6	-16,512	-2,699	-1,055	-172
Operating profit / loss		-29,671	72,386	-1,897	4,628
Finance income	7	14,011	10,170	895	650
Finance expenses	8	-703	-13,168	-45	-842
Profit / loss before tax		-16,363	69,388	-1,047	4,436
Income tax expense		-366	-288	-23	-18
Profit / loss for the period		-16,729	69,100	-1,070	4,418
<i>Attributable to minority interests</i>		<i>-1,442</i>	<i>5,601</i>	<i>-92</i>	<i>358</i>
<i>Attributable to equity holders of the parent</i>		<i>-15,287</i>	<i>63,499</i>	<i>-977</i>	<i>4,060</i>
Earnings per share (in kroons and euros)	9				
- Basic		-0.16	0.94	-0.01	0.06
- Diluted		-0.16	0.94	-0.01	0.06

Condensed consolidated interim balance sheet

	Note	EEK		EUR	
		31 March 2008	31 December 2007	31 March 2008	31 December 2007
In thousands					
Cash and cash equivalents		481,722	765,008	30,788	48,893
Other financial assets		150,361	78,595	9,610	5,023
Receivables	10	290,896	297,189	18,591	18,994
Prepayments		10,618	10,450	679	668
Inventories	11	1,216,314	1,148,433	77,737	73,398
Biological assets		8,376	8,360	535	534
Non-current assets held for sale		1,701	0	109	0
Total current assets		2,159,988	2,308,035	138,049	147,510
Other financial assets		47,160	48,515	3,014	3,101
Receivables	10	150,677	40,124	9,630	2,564
Investment property	12	1,004,198	999,999	64,180	63,912
Property, plant and equipment	13	134,277	141,863	8,582	9,067
Intangible assets	14	25,476	25,505	1,628	1,630
Total non-current assets		1,361,788	1,256,006	87,034	80,274
TOTAL ASSETS		3,521,776	3,564,041	225,083	227,784
Loans and borrowings	15	744,254	753,077	47,567	48,130
Payables	16	208,057	223,591	13,297	14,290
Deferred income	17	81,587	47,216	5,214	3,018
Provisions		4,326	3,468	276	222
Total current liabilities		1,038,224	1,027,352	66,354	65,660
Loans and borrowings	15	566,943	600,938	36,234	38,407
Other liabilities	16	4,680	4,607	299	294
Deferred income tax liability		616	1,321	39	84
Provisions		0	251	0	16
Total non-current liabilities		572,239	607,117	36,572	38,801
TOTAL LIABILITIES		1,610,463	1,634,469	102,926	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		20,084	20,084	1,284	1,284
Other reserves		-241	37	-15	2
Retained earnings		203,543	218,830	13,009	13,986
Total equity attributable to equity holders of the parent		1,888,742	1,904,307	120,714	121,708
Minority interests		22,571	25,265	1,443	1,615
Total equity		1,911,313	1,929,572	122,157	123,323
TOTAL LIABILITIES AND EQUITY		3,521,776	3,564,041	225,083	227,784

Condensed consolidated interim cash flow statement

	EEK		EUR	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007
In thousands				
Net profit / loss	-16,729	69,100	-1,070	4,418
Interest income and expense	-5,019	7,875	-321	503
Gains and losses on disposal of subsidiaries and interests in jointly controlled entities	0	-4,402	0	-281
Gains and losses on other financial assets	507	-545	32	-35
Impairment losses on financial assets	-13,264	0	-848	0
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	1,325	1,103	85	69
Gain / loss on the sale of property, plant and equipment and intangible assets	-1	-36	-1	-1
Gain / loss on the sale of investment property	4	2,272	1	145
Change in the fair value of investment property and biological assets	12,437	-48,670	795	-3,111
Exchange gains and losses	4,468	70	286	4
Corporate income tax expense	366	288	23	18
Operating cash flow before working capital changes	-15,906	27,055	-1,018	1,729
Change in receivables and prepayments	20,767	-59,867	1,327	-3,825
Change in inventories	-44,466	114,622	-2,842	7,326
Change in biological assets	-16	-1	-1	0
Change in payables and deferred income	6,313	-50,310	403	-3,215
NET CASH USED IN / FROM OPERATING ACTIVITIES	-33,308	31,499	-2,131	2,015
Acquisition of property, plant and equipment and intangible assets	-7,242	-3,589	-463	-229
Proceeds from sale of property, plant and equipment and intangible assets	89	19	6	1
Acquisition of investment property	-516	-6,128	-33	-392
Proceeds from sale of investment property	103	9,418	7	602
Acquisition of subsidiaries and interests in jointly controlled entities	-82,616	-4,976	-5,280	-318
Proceeds from disposal of subsidiaries and interests in jointly controlled entities	0	90,608	0	5,791
Acquisition of other financial assets	-80,000	0	-5,113	0
Proceeds from sale of other financial assets	8,332	0	533	0
Loans granted	-30,667	-9,426	-1,960	-602
Repayment of loans granted	832	12,000	53	767
Interest received	11,052	1,205	706	77
Dividends received	0	0	0	0
NET CASH USED IN / FROM INVESTING ACTIVITIES	-180,633	89,131	-11,544	5,697
Proceeds from loans received	12,115	160,928	774	10,285
Repayment of loans and payment of finance lease liabilities	-58,656	-196,491	-3,749	-12,558
Change in overdraft	43	-15,598	3	-997
Change in group account liability	-804	-376	-51	-24
Interest paid	-17,156	-9,288	-1,096	-594
Dividends paid	-2,557	-1,990	-163	-127
Income tax paid on dividends	-2,338	-668	-149	-43
NET CASH USED IN FINANCING ACTIVITIES	-69,353	-63,483	-4,431	-4,058
NET CASH FLOW	-283,294	57,147	-18,106	3,654
Cash and cash equivalents at beginning of period	765,008	58,345	48,893	3,729
Decrease / increase in cash and cash equivalents	-283,294	57,147	-18,106	3,654
Effect of exchange rate fluctuations	8	-56	0	-4
Cash and cash equivalents at end of period	481,722	115,436	30,788	7,378

Condensed consolidated statement of changes in equity

	Equity attributable to equity holders of the parent						Minority interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands, EEK								
At 31 December 2006	304,530	123,083	5,486	-184	292,002	724,917	16,964	741,881
Change in unrealised exchange differences	0	0	0	-4	0	-4	0	-4
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	300	300
Initial recognition of minority shareholders' options	0	0	0	0	-10,502	-10,502	0	-10,502
Transfer to capital reserve	0	0	5,062	0	-5,062	0	0	0
Profit for the period	0	0	0	0	63,499	63,499	5,601	69,100
At 31 March 2007	304,530	123,083	10,548	-188	339,937	777,910	22,865	800,775
In thousands, EUR								
At 31 December 2007	952,842	712,514	20,084	37	218,830	1,904,307	25,265	1,929,572
Change in unrealised exchange differences	0	0	0	-278	0	-278	0	-278
Dividends declared	0	0	0	0	0	0	-1,252	-1,252
Loss for the period	0	0	0	0	-15,287	-15,287	-1,442	-16,729
At 31 March 2008	952,842	712,514	20,084	-241	203,543	1,888,742	22,571	1,911,313

	Equity attributable to equity holders of the parent						Minority interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands, EUR								
At 31 December 2006	19,463	7,866	351	-12	18,662	46,330	1,084	47,414
Change in unrealised exchange differences	0	0	0	0	0	0	19	19
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	-671	-671	0	-671
Initial recognition of minority shareholders' options	0	0	324	0	-324	0	0	0
Transfer to capital reserve	0	0	0	0	4,058	4,058	358	4,416
Profit for the period	19,463	7,866	675	-12	21,725	49,717	1,461	51,178
In thousands, EUR								
At 31 December 2007	60,897	45,538	1,284	3	13,986	121,708	1,615	123,323
Change in unrealised exchange differences	0	0	0	-18	0	-18	0	-18
Dividends declared	0	0	0	0	0	0	-80	-80
Loss for the period	0	0	0	0	-977	-977	-92	-1,069
At 31 March 2008	60,897	45,538	1,284	-15	13,009	120,713	1,443	122,156

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 first quarter of 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, IAS 23):

IAS 1 *Presentation of Financial Statements* (revised)

IAS 23 *Borrowing Costs* (revised)

IFRS 8 *Operating Segments*

IFRIC 13 *Customer Loyalty Programmes*¹

¹ 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.

2. Scope of consolidation

At 31 March 2008, Arco Vara Group comprised 33 subsidiaries and 20 interests in joint ventures. In addition, the Group has an associate which is not consolidated. In Q1 2008, the Group combined two subsidiaries in the Service segment. There were no other changes in the Group's structure in Q1 2008.

3. Segment reporting by business segments

Segment	Development		Service		Construction		Asset management		Eliminations		Consolidated	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007	Q1 2008	Q1 2007	Q1 2008	Q1 2007	Q1 2008	Q1 2007	Q1 2008	Q 2007
In thousands, EEK												
External revenue	25,599	244,429	26,824	25,440	51,718	18,254	3,380	3,058	0	0	107,521	291,181
<i>Change</i>	-90%		5%		183%		11%				-63%	
Other external income	3,864	49,118	285	131	245	7	0	0	0	0	4,394	49,256
Revenue and other income from other segments	265	1,230	2,106	4,624	37,542	38,958	0	0	-39,913	-44,812	0	0
Total revenue and other income	29,728	294,777	29,215	30,195	89,505	57,219	3,380	3,058	-39,913	-44,812	111,915	340,437
Segment result	-16,062	86,138	-9,462	-3,349	4,243	-6,334	1,305	1,699	-4,634	5,648	-24,610	83,802
Unallocated expenses	0	0	0	0	0	0	0	0	0	0	-5,061	-11,416
Operating profit / loss	0	0	0	0	0	0	0	0	0	0	-29,671	72,386
Revaluation of investment property	-12,437	48,670	0	0	0	0	0	0	0	0	-12,437	48,670
Depreciation, amortisation and impairment losses	-321	-208	-478	-295	-176	-369	-19	-2	0	0	-1,308	-874
Finance income	0	0	0	0	0	0	0	0	0	0	14,011	10,170
Finance expenses	0	0	0	0	0	0	0	0	0	0	-703	-13,168
Income tax expense	0	0	0	0	0	0	0	0	0	0	-366	-288
Net profit / loss	0	0	0	0	0	0	0	0	0	0	-16,729	69,100

Segment	Development		Service		Construction		Asset management		Eliminations		Consolidated	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007	Q1 2008	Q1 2007	Q1 2008	Q1 2007	Q1 2008	Q1 2007	Q1 2008	Q1 2007
In thousands, EUR												
External revenue	1,636	15,622	1,714	1,626	3,305	1,167	216	195	0	0	6,872	18,610
<i>Change</i>	-90%		5%		183%		11%				-63%	
Other external income	247	3,139	18	8	16	0	0	0	0	0	281	3,148
Revenue and other income from other segments	17	79	135	296	2,399	2,490	0	0	-2,551	-2,864	0	0
Total revenue and other income	1,900	18,840	1,867	1,930	5,720	3,657	216	195	-2,551	-2,864	7,153	21,758
Segment result	-1,027	5,505	-605	-214	271	-405	83	109	-296	361	-1,573	5,356
Unallocated expenses	0	0	0	0	0	0	0	0	0	0	-323	-730
Operating profit / loss	0	0	0	0	0	0	0	0	0	0	-1,896	4,626
Revaluation of investment property	-795	3,111	0	0	0	0	0	0	0	0	-795	3,111
Depreciation, amortisation and impairment losses	-21	-13	-31	-19	-11	-24	-1	0	0	0	-84	-56
Finance income	0	0	0	0	0	0	0	0	0	0	895	650
Finance expenses	0	0	0	0	0	0	0	0	0	0	-45	-842
Income tax expense	0	0	0	0	0	0	0	0	0	0	-23	-18
Net profit / loss	0	0	0	0	0	0	0	0	0	0	-1,069	4,416

4. Other income

	EEK		EUR	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007
In thousands				
Gains on fair value adjustments to investment property (note 12)	3,580	48,670	229	3,111
Gains on sale of investment property	0	28	0	2
Gains on sale of property, plant and equipment	1	36	0	2
Miscellaneous income	813	522	52	90
Total other income	4,394	49,256	281	3,205

5. Administrative expenses

	EEK		EUR	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007
In thousands				
Personnel expenses	-16,415	-14,862	-1,049	-950
Office expenses	-7,827	-7,219	-501	-462
Legal and consulting fees	-5,007	-5,044	-320	-322
Depreciation, amortisation and impairment losses (notes 13, 14)	-892	-648	-57	-41
Allowance for doubtful receivables	-852	9	-54	1
Vehicle expenses	-2,332	-2,050	-149	-131
Other expenses	-750	-1,576	-48	-101
Total administrative expenses	-34,075	-31,390	-2,178	-2,006

6. Other expenses

	EEK		EUR	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007
In thousands				
Losses on fair value adjustments to investment property (note 12)	-16,017	0	-1,024	0
Losses on sale of investment property	-4	-2,300	0	-147
Losses on disposal and impairment of property, plant and equipment	-17	-6	-1	0
Interest on arrears and penalty charges	-168	-34	-11	-2
Miscellaneous expenses	-306	-359	-19	-23
Total other expenses	-16,512	-2,699	-1,055	-172

7. Finance income

	EEK		EUR	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007
In thousands				
Gains on sale of investments in subsidiaries	0	4,859	0	311
Gains on sale of interests in jointly controlled entities	0	2,181	0	139
Interest income	12,922	2,585	825	165
Foreign exchange gains	48	0	3	0
Income on other non-current financial assets	1,041	545	67	35
Total finance income	14,011	10,170	895	650

8. Finance expenses

	EEK		EUR	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007
In thousands				
Losses on sale of investments in subsidiaries	0	-2,638	0	-169
Losses on equity-accounted investments (associates)	0	0	0	0
Interest expense	-7,903	-10,460	-505	-669
Expenses on other non-current financial assets	-1,548	0	-99	0
Foreign exchange losses	-4,516	-70	-289	-4
Impairment losses on financial assets ¹	13,264	0	848	0
Total finance expenses	-703	-13,168	-45	-842

¹ Impairment losses on financial assets for Q1 2008 comprises the reversal of an impairment loss of 13,264 thousand kroons (848 thousand euros) recognised for a receivable related to the Kippsala project.

9. Earnings per share

	EEK		EUR	
	Q1 2008	Q1 2007	Q1 2008	Q1 2007
Weighted average number of ordinary shares outstanding	95,284,150	67,784,150	95,284,150	67,784,150
Profit / loss attributable to equity holders of the parent (in thousands)	-15,287	63,499	-977	4,060
Earnings per share (in kroons and euros per share)	-0.16	0.94	-0.01	0.06

10. Receivables

Current items

	EEK		EUR	
	31 March 2008	31 December 2007	31 March 2008	31 December 2007
In thousands				
Trade receivables				
Receivables from customers	59,264	48,236	3,787	3,083
Allowance for doubtful receivables	-928	-70	-59	-4
Total trade receivables	58,336	48,166	3,728	3,079
Other receivables				
Receivables from jointly controlled entities (note 18)	52,970	53,719	3,385	3,433
Loans granted	12,904	12,391	825	792
Miscellaneous receivables ¹	59,960	47,449	3,832	3,033
Total other receivables	125,834	113,559	8,042	7,258
Accrued income				
Interest receivable	5,313	5,807	340	371
Due from customers under long-term construction contracts	20,944	21,635	1,339	1,383
Prepaid and refundable VAT	78,351	107,406	5,008	6,864
Other accrued income	2,118	616	135	39
Total accrued income	106,726	135,464	6,822	8,657
Total current receivables	290,896	297,189	18,592	18,994

¹ The increase in miscellaneous receivables results mainly from the reversal in Q1 2008 of an impairment loss of 13,264 thousand kroons (848 thousand euros) recognised for a receivable related to the Kippsala project.

Non-current items	EEK		EUR	
	31 March 2008	31 December 2007	31 March 2008	31 December 2007
In thousands				
Receivables from jointly controlled entities (note 18)	50,895	38,538	3,253	2,463
Long-term loan receivables	19,784	907	1,264	58
Prepayments for long-term financial assets ¹	79,343	0	5,071	0
Other non-current receivables	655	679	42	43
Total non-current receivables	150,677	40,124	9,630	2,564

¹ Prepayments for long-term financial assets include a prepayment of 79,098 thousand kroons (5,055 thousand euros) made for a stake in a company participating in a shopping mall project in Simferopol in Ukraine.

11. Inventories

	EEK		EUR	
	31 March 2008	31 December 2007	31 March 2008	31 December 2007
In thousands				
Properties purchased and developed for resale ¹	1,175,571	1,111,527	75,133	71,040
Other goods purchased for resale	4,498	4,498	287	287
Materials and finished goods	518	529	33	34
Prepayments to suppliers	35,727	31,879	2,284	2,037
Total inventories	1,216,314	1,148,433	77,737	73,398

¹ The notable increase in properties purchased and developed for resale results from investment in the Bulgarian residential development projects of 24,262 thousand kroons (1,551 thousand euros), the Bishumuizhas project in Latvia of 15,749 thousand kroons (1,007 thousand euros) and the Tivoli project of 6,922 thousand kroons (442 thousand euros). Investments and sales in the Kolde project (net) increased the inventory balance by 12,784 thousand kroons (817 thousand euros).

12. Investment property

	EEK		EUR	
	At 31 December 2006	At 31 December 2007	At 31 March 2007	At 31 March 2008
In thousands				
At 31 December 2006	1,479,281		94,543	
Acquisitions		433		28
Sales		-41,847		-2,675
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
Gain or loss on change in fair value (notes 4, 6)		48,670		3,111
At 31 March 2007		994,037		63,531
At 31 December 2007		999,999		63,912
Acquisitions		520		33
Sales		-4		0
Transfer from property, plant and equipment		16,120		1,030
Gain or loss on change in fair value (notes 4, 6)		-12,437		-795
At 31 March 2008		1,004,198		127,711

13. Property, plant and equipment

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total
In thousands, EEK					
Carrying amount at 31 December 2006	21,329	2,261	4,324	53,799	81,713
Additions	0	1,016	724	2,655	4,395
Capitalised borrowings costs	0	0	0	20	20
Additions through business combinations	0	0	695	0	695
Disposals	0	-436	-29	0	-465
Disposals through divestment of subsidiaries	0	0	0	-6,802	-6,802
Depreciation charge for the period	-339	-152	-511	0	-1,002
Carrying amount at 31 March 2007	20,990	2,689	5,203	49,672	78,554
<i>Cost at 31 March 2007</i>	<i>30,046</i>	<i>5,391</i>	<i>9,220</i>	<i>49,672</i>	<i>94,329</i>
<i>Accumulated depreciation at 31 March 2007</i>	<i>-9,056</i>	<i>-2,702</i>	<i>-4,017</i>	<i>0</i>	<i>-15,775</i>
Carrying amount at 31 December 2007	26,940	5,134	7,983	101,806	141,863
Additions	306	50	457	6,117	6,930
Capitalised borrowings costs	0	0	0	4,619	4,619
Disposals	0	-23	-100	0	-123
Transfer to non-current assets held for sale	-1,701	0	0	0	-1,701
Transfer to investment property (note 12)	0	0	0	-16,120	-16,120
Depreciation charge for the period	-425	-388	-378	0	-1,191
Carrying amount at 31 March 2008	25,120	4,773	7,962	96,422	134,277
<i>Cost at 31 March 2008</i>	<i>35,629</i>	<i>9,233</i>	<i>13,971</i>	<i>96,422</i>	<i>155,255</i>
<i>Accumulated depreciation at 31 March 2008</i>	<i>-10,509</i>	<i>-4,460</i>	<i>-6,009</i>	<i>0</i>	<i>-20,978</i>
In thousands, EUR					
Carrying amount at 31 December 2006	1,363	145	276	3,438	5,222
Additions	0	65	46	170	281
Capitalised borrowings costs	0	0	0	1	1
Additions through business combinations	0	0	44	0	44
Disposals	0	-28	-2	0	-30
Disposals through divestment of subsidiaries	0	0	0	-435	-435
Depreciation charge for the period	-22	-10	-33	0	-65
Carrying amount at 31 March 2007	1,342	172	333	3,175	5,018
<i>Cost at 31 March 2007</i>	<i>1,920</i>	<i>345</i>	<i>589</i>	<i>3,175</i>	<i>6,029</i>
<i>Accumulated depreciation at 31 March 2007</i>	<i>-579</i>	<i>-173</i>	<i>-257</i>	<i>0</i>	<i>-1,009</i>
Carrying amount at 31 December 2007	1,722	328	510	6,507	9,067
Additions	20	3	29	390	442
Capitalised borrowings costs	0	0	0	295	295
Disposals	0	-1	-6	0	-7
Transfer to non-current assets held for sale	-109	0	0	0	-109
Transfer to investment property (note 12)	0	0	0	-1,030	-1,030
Depreciation charge for the period	-27	-25	-24	0	-76
Carrying amount at 31 March 2008	1,605	305	509	6,162	8,582
<i>Cost at 31 March 2008</i>	<i>2,277</i>	<i>590</i>	<i>893</i>	<i>6,162</i>	<i>9,923</i>
<i>Accumulated depreciation at 31 March 2008</i>	<i>-672</i>	<i>-285</i>	<i>-384</i>	<i>0</i>	<i>-1,341</i>

14. Intangible assets

	Goodwill	Software	Total
In thousands, EEK			
Carrying amount at 31 December 2006	15,558	1,147	16,705
Additions	0	327	327
Additions through business combinations	3,360	11	3,371
Amortisation charge for the period	0	-96	-96
Carrying amount at 31 March 2007	18,918	1,389	20,307
Carrying amount at 31 December 2007			
Carrying amount at 31 December 2007	23,957	1,548	25,505
Additions	0	92	92
Impairment losses	0	-3	-3
Amortisation charge for the period	0	-118	-118
Carrying amount at 31 March 2008	23,957	1,519	25,476
<i>Cost at 31 March 2008</i>	<i>23,957</i>	<i>2,760</i>	<i>26,717</i>
<i>Accumulated amortisation at 31 March 2008</i>	<i>0</i>	<i>-1,241</i>	<i>-1,241</i>
Goodwill			
In thousands, EUR			
Carrying amount at 31 December 2006	994	73	1,068
Additions	0	21	21
Additions through business combinations	215	1	216
Amortisation charge for the period	0	-6	215
Carrying amount at 31 March 2007	1,209	89	1,298
Carrying amount at 31 December 2007			
Carrying amount at 31 December 2007	1,531	99	1,630
Additions	0	6	6
Impairment losses	0	0	0
Amortisation charge for the period	0	-8	-8
Carrying amount at 31 March 2008	1,531	97	1,628
<i>Cost at 31 March 2008</i>	<i>1,531</i>	<i>176</i>	<i>1,708</i>
<i>Accumulated amortisation at 31 March 2008</i>	<i>0</i>	<i>-79</i>	<i>-79</i>

15. Loans and borrowings

	31 March 2008		31 December 2007	
	Total	Including current portion	Total	Including current portion
In thousands, EEK				
Overdrafts	57	57	0	0
Debt securities	125,012	125,012	139,284	124,545
Bank loans	1,071,042	550,928	1,094,580	563,689
Finance lease liabilities	6,623	1,926	6,712	2,475
Other loans ¹	108,463	66,331	113,439	62,368
Total	1,311,197	744,254	1,354,015	753,077

	31 March 2008		31 December 2007	
	Total	Including current portion	Total	Including current portion
In thousands, EUR				
Overdrafts	4	4	0	0
Debt securities	7,990	7,990	8,902	7,960
Bank loans	68,452	35,211	69,956	36,026
Finance lease liabilities	423	123	429	158
Other loans ¹	6,932	4,239	7,250	3,986
Total	83,801	47,567	86,537	48,130

¹ Other loans include loan liabilities to related parties of 96,983 thousand kroons (6,198 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 18.

16. Payables and other liabilities

Payables, current items

	EEK		EUR	
	31 March 2008	31 December 2007	31 March 2008	31 December 2007
In thousands				
Trade payables	56,268	60,612	3,596	3,874
Other payables				
Payables to jointly controlled entities (note 18)	5,568	6,386	356	408
Payables from securities transactions	48,013	48,616	3,069	3,107
Miscellaneous payables	31,586	29,496	2,019	1,885
Total other payables	85,167	84,498	5,444	5,400
Taxes payable				
Value added tax	1,540	1,761	98	113
Income tax on dividends	1,127	3,449	72	220
Personal income tax	2,705	2,535	173	162
Social tax	5,051	4,841	323	309
Other taxes	3,681	4,037	235	258
Total taxes payable	14,104	16,623	901	1,062
Accrued expenses				
Interest payable	6,859	7,164	438	458
Payables to employees	26,059	27,671	1,665	1,768
Dividends payable	5,757	8,743	368	559
Other accrued expenses	13,843	18,280	885	1,169
Total accrued expenses	52,518	61,858	3,356	3,954
Total payables	208,057	223,591	13,297	14,290

Other liabilities, non-current items

	EEK		EUR	
	31 March 2008	31 December 2007	31 March 2008	31 December 2007
In thousands				
Liabilities from securities transactions	975	1,211	62	77
Deposits received	1,498	1,461	96	93
Miscellaneous long-term liabilities	2,207	1,935	141	124
Total other liabilities	4,680	4,607	299	294

17. Deferred income

	EEK		EUR	
	31 March 2008	31 December 2007	31 March 2008	31 December 2007
In thousands				
Advances for sale of real estate	56,888	23,758	3,636	1,518
Deferred income from long-term service contracts	5,947	2,114	380	135
Other deferred income	18,752	21,344	1,198	1,365
Total deferred income	81,587	47,216	5,214	3,018

18. Transactions with related parties

	EEK		EUR	
	Q1 2008 or 31 March 2008	Q1 2007 or 31 March 2007	Q1 2008 or 31 March 2008	Q1 2007 or 31 March 2007
In thousands				
Transactions with jointly controlled entities				
Sales revenue	217	183	14	12
Services purchased	12	12	1	1
Short-term loan receivables	50,552	52,530	3,231	3,357
Long-term loan receivables	50,225	37,688	3,210	2,409
Trade receivables	1,185	963	76	62
Short-term interest receivables	1,233	226	79	14
Long-term interest receivables	670	850	43	54
Payables	5,568	6,386	356	408
Transactions with companies having joint control over Group companies				
Sales revenue	0	135	0	9
Other current receivables	1,809	3,490	116	223
Short-term loan liabilities	49,253	51,852	3,148	3,314
Dividends payable	4,238	8,743	271	559
Trade payables	92	24	6	2
Interest payable	1,063	2,101	68	134
Long-term loan liabilities	38,387	38,898	2,453	2,486
Long-term interest liabilities	670	815	43	52

	EEK		EUR	
	Q1 2008 or 31 March 2008	Q1 2007 or 31 December 2007	Q1 2008 or 31 March 2008	Q1 2007 or 31 December 2007
Transactions with key staff of the Group and the Group's management				
Sales revenue	5,308	788	339	50
Trade receivables	2,436	1,377	156	88
Short-term loan liabilities	1,710	1,945	109	124
Interest payable	416	373	27	24
Transactions with other related parties				
Sales revenue	170	1,353	11	86
Services purchased	73	1,378	5	88
Short-term loan receivables	12,321	12,391	845	792
Interest receivable	1,847	1,242	118	79
Other short-term receivables	1,279	2,825	82	181
Long-term loan receivables	0	907	0	58
Short-term loan liabilities	298	298	19	19
Trade payables	0	17	0	1
Other payables	30,599	28,406	1,956	1,815
Long-term interest liabilities	1,145	997	73	64
Long-term loan liabilities	7,335	7,491	469	479

The remuneration of the parent company's management board and division managers for Q1 2008, including relevant taxes, totalled 1,327 thousand kroons (85 thousand euros), Q1 2007 accordingly 864 thousand kroons (55 thousand euros).

19. Subsequent events

Acquisition of a stake 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). The purchase price will be settled in instalments by the end of 2010. The acquisition gave rise to positive goodwill of 4,310 thousand kroons (275 thousand euros).

Exchange of interests in subsidiaries

In a share exchange transaction performed at the beginning of April 2008, the Group exchanged interests in subsidiaries as follows:

Transaction	Interest divested / acquired	Entity's equity at 31 March 2008	Equity involved in the transaction	Goodwill	Cost of transaction	Gain / loss on the transaction
In thousands, EEK						
Divestment of shares in Tallinna Linnaehituse AS	-80%	12,528	10,022	4,014	12,943	-1,094
Acquisition of shares in Kerberon OÜ	16.63%	57,477	9,556	0	10,199	643
Acquisition of shares in Kolde OÜ	10.71%	29,899	3,203	0	3,101	-102
Total gain / loss for the Group						-553

Sale of a business building in Kuressaare

In April 2008, the Group's subsidiary Arco Vara Kinnistute AS sold a business building located at Tallinna mnt 77/79 / Kalevi põik 6 in Kuressaare for 29,000 thousand kroons (1,853 thousand euros).

Signatures

The management board of Arco Vara AS has prepared the condensed consolidated interim financial statements for the first quarter of 2008 presented on pages 2 to 25.

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.

Aare Tammemäe
Chairman of the Management Board

Avo Rõõmussaar
Member of the Management Board

Ahto Altjõe
Member of the Management Board

Veiko Taevere
Member of the Management Board