



# Arco Vara AS

Interim report 12 months of 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: Aare Tammemäe, Avo Rõõmussaar

Veiko Taevere, Ahto Altjõe

Auditor: Ernst & Young Baltic AS

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## Management report for the fourth quarter and 12 months of 2007

### SELECTED FINANCIALS FOR 2007

- Revenue and other income for 2007 totalled 886.1 million kroons (56.6 million euros), 2.2% down from 2006.
- Operating profit for 2007 was 103.1 million kroons (6.6 million euros), a 60.4% decrease year-on-year.
- Net profit grew to 235.5 million kroons (15.1 million euros), a 10.3% improvement on 2006.
- Equity ratio rose to 54.1 % (2006: 32.8%). Return on equity was 14.2% (2006: 31.5%) and return on invested capital 10.0% (2006: 15.7%)
- At 31 December 2007, construction backlog stood at 331.4 million kroons (21.2 million euros)
- In 2007, 110 apartments and plots were sold or reserved.

	EEK				EUR			
	12 months 2007	12 months 2006	Q4 2007	Q4 2006	12 months 2007	12 months 2006	Q4 2007	Q4 2006
In millions								
<b>Revenue and other income</b>	886.1	906.5	199.4	518.2	56.6	57.9	12.7	33.1
<b>Operating profit</b>	103.1	260.4	-9.3	187.9	6.6	16.6	-0.6	12.0
<i>Including net gain on the revaluation of investment property</i>	76.6	374.9	10.5	353.9	4.9	24.0	0.7	22.6
<b>Profit before tax</b>	250.3	226.9	-28.9	168.3	16.0	14.5	-1.8	10.8
<i>Including net gain on the divestment of financial assets</i>	131.1	0.0	8.1	0.0	8.4	0.0	0.5	0.0
<b>Net profit</b>	235.5	217.3	-28.6	162.5	15.1	13.9	-1.8	10.4
<b>EPS 1 (in kroons/euros)</b>	2.76	3.07	-0.30	2.26	0.18	0.20	-0.02	0.14
<b>EPS 2 (in kroons/euros)</b>	2.39	3.07	-0.30	2.26	0.15	0.20	-0.02	0.14
<b>Total assets at period end</b>	3,564.0	2,257.4			227.8	144.3		
<b>Invested capital at period end</b>	3,283.6	1,898.7			209.9	121.3		
<b>Net Debt</b>	517.7	1,142.5			33.1	73.0		
<b>Equity at period end</b>	1,929.6	741.9			123.3	47.4		
<b>ROIC (rolling 12 months)</b>	10.0%	15.7%			10.0%	15.7%		
<b>ROE (rolling 12 months)</b>	14.2%	31.5%			14.2%	31.5%		
<b>Number of staff at period end</b>	664	478			664	478		

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## Commentary by chairman of the management board

- The difficulties in the Baltic market which emerged in spring 2007 prevailed through the fourth quarter. The decline in transaction volumes has stabilised at the level of three years ago. Liquidity issues on international capital markets are postponing the development of ever larger projects, providing well capitalised companies attractive investment opportunities. Nevertheless, the Group's focus is shifting on Ukraine and the Balkans retail- and office sector. In Sofia the construction of first 112 apartments is under way.
- The demand for commercial real estate in city centres has not subsided. For example, in Tallinn vacancies of centrally located category A office and commercial premises are almost down to zero. Situation is the same in Vilnius, Kiev and Bucharest. The situation enhances the value of the Group's existing cash generating properties in Tallinn and creates a sound basis for launching the construction of Ahtri 3 and Laeva 2 in Tallinn within the next six months.
- We are pleased about the strong results of the Construction division which indicate that the recovery and restructuring processes launched in 2006 are bearing fruit. Operating profit for 2007 is almost 15.0 million kroons (0.9 million euros) up on 2006, with fourth quarter operating profit amounting to 7.0 million kroons (0.5 million euros). New contracts include provisions which better divide construction price risk with the client.
- Service division results show some signs of improvement. If third quarter sales in 2007 was 16.4% less compared to the same period in 2006, then fourth quarter sales in 2007 improved considerably compared to fourth quarter in 2006. The number of brokerage deals has stabilised.
- Greatest achievements of the period has been the expansion of development activities to the Balkans and major improvements in the zoning processes in Tivoli, Ahtri, Laeva and Baltezers-3 projects.
- Already in the third quarter, the capital of the two-year old Explorer Property Fund – Baltic States AB, a real estate investment company managed by AVEC Asset Management AS, was fully invested. The assets of the fund have grown to 3,129 million kroons (200 million euros) and the average entrance yield is 8.35%.

## REVENUE AND PROFIT

In millions	EEK				EUR			
	12 months 2007	12 months 2006	Q4 2007	Q4 2006	12 months 2007	12 months 2006	Q4 2007	Q4 2006
<b>Revenue and other income</b>								
Service	139.6	119.4	43.2	34.5	8.9	7.6	2.8	2.2
Development	585.0	626.6	91.5	437.2	37.4	40.0	5.8	27.9
Construction	425.5	359.3	131.8	117.9	27.2	23.0	8.4	7.5
Eliminations	-264.1	-198.9	-67.1	-71.4	-16.9	-12.7	-4.3	-4.6
<b>Total revenue and other income</b>	<b>886.1</b>	<b>906.5</b>	<b>199.4</b>	<b>518.2</b>	<b>56.6</b>	<b>57.9</b>	<b>12.7</b>	<b>33.1</b>
<b>EBIT</b>								
Service	-16.5	8.6	-5.1	-1.0	-1.1	0.6	-0.3	-0.1
Development	162.0	278.2	16.7	181.9	10.4	17.8	1.1	11.6
Construction	16.9	1.0	7.0	14.0	1.1	0.1	0.4	0.9
Eliminations	-16.5	1.4	-5.2	7.8	-1.1	0.1	-0.3	0.5
Unallocated expenses	-42.9	-28.8	-22.7	-14.8	-2.7	-0.6	-1.4	-0.9
<b>Total EBIT</b>	<b>103.1</b>	<b>260.4</b>	<b>-9.3</b>	<b>187.9</b>	<b>6.6</b>	<b>17.9</b>	<b>-0.6</b>	<b>12.0</b>
Interest income and interest expense	-3.7	-27.4	6.6	-13.5	-0.2	-1.8	0.4	-0.9
Other financial income and expense	150.9	-6.0	-26.3	-6.0	9.6	-0.4	-1.7	-0.4
Income tax expense	-14.8	-9.6	0.3	-5.9	-0.9	-0.6	0.0	-0.4
<b>Net profit for the period</b>	<b>235.5</b>	<b>217.3</b>	<b>-28.6</b>	<b>162.5</b>	<b>15.1</b>	<b>15.1</b>	<b>-1.8</b>	<b>10.4</b>



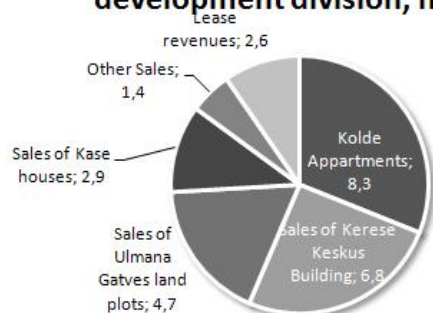
The largest revenue was earned by the Development division where sales of apartments and registered properties totalled 381.3 million kroons (24.4 million euros). Sales of “Kolde” apartments contributed 130.0 million kroons (8.3 million euros), the divestment of the retail and office building “Kerese Keskus” yielded 106 million kroons (6.8 million euros), and sales of the “Ulmana Gatves” property and “Kase” project generated 74.0 million kroons (4.7 million euros) and 46.0 million kroons (2.9 million euros) respectively.

Consolidated net profit for 2007 was significantly improved by net gain of 76.6 million kroons (4.5 million euros) on fair value adjustments to investment property and property, plant and equipment, finance income of 118.4 million kroons (7.6 million euros) generated by the sale of the Group’s interest in Sportings Riga SIA, finance income of 42.6 million kroons (2.7 million euros) contributed by AVEC Asset Management AS, income of 8.4 million kroons (0.5 million euros) derived from the divestment of a stake in Varamaad Kinnisvara OÜ and net gain of 27.6 million kroons (1.8 million euros) earned on the Kolde project.

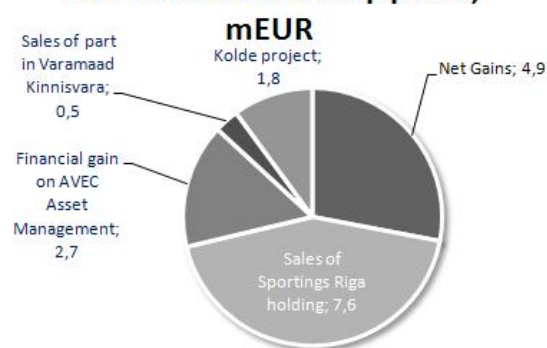
The Group’s profit was adversely affected by the loss of the Service division of 16.5 million kroons (1.0 million euros), caused mostly by rapid expansion. Despite this, expansion to new markets remains a priority.

The Construction division’s fourth quarter and whole-year results surpassed all expectations. The division’s fourth quarter results are not comparable with the same period in 2006 because the previous year’s profit figures were affected by some price disputes which were resolved positively for the Group and recognised in the fourth quarter. The improvement in profitability may be ascribed to structural changes in the division’s order backlog where many unfavourable contracts were replaced with more profitable ones.

**Main sources of revenues in development division, mEUR**



**Main sources of Group profit, mEUR**



## CASH FLOWS

	EEK		EUR	
	12 months 2007	12 months 2006	12 months 2007	12 months 2006
In millions				
Cash flows from operating activities	-547.7	-117.5	-35.0	-7.5
Cash flows from investing activities	136.7	-341.9	8.7	-21.8
Cash flows from financing activities	1,118.2	374.9	71.5	23.9
<b>Net cash flow</b>	<b>707.1</b>	<b>-84.5</b>	<b>45.2</b>	<b>-5.4</b>
Cash and cash equivalents at beginning of period	58.3	144.0	3.7	9.2
Effect of exchange rate fluctuations	-0.5	-1.1	0.0	0
Cash and cash equivalents at end of period	765.0	58.3	48.9	3.7

Operating cash flows were strongly affected by expenditures related to the acquisition of properties in Bulgaria and Lithuania (348.3 million kroons or 22.2 million euros), investments in ongoing projects (266.4 million kroons or 17.0 million euros) and an increase in VAT receivables (91 million kroons or 5.9 million euros).

Cash flows from investing activities were influenced by the divestment of an interest in the BM-2 project (127.0 million kroons or 8.1 million euros) and an investment in short-term bonds (78.6 million kroons or 5.0 million euros).

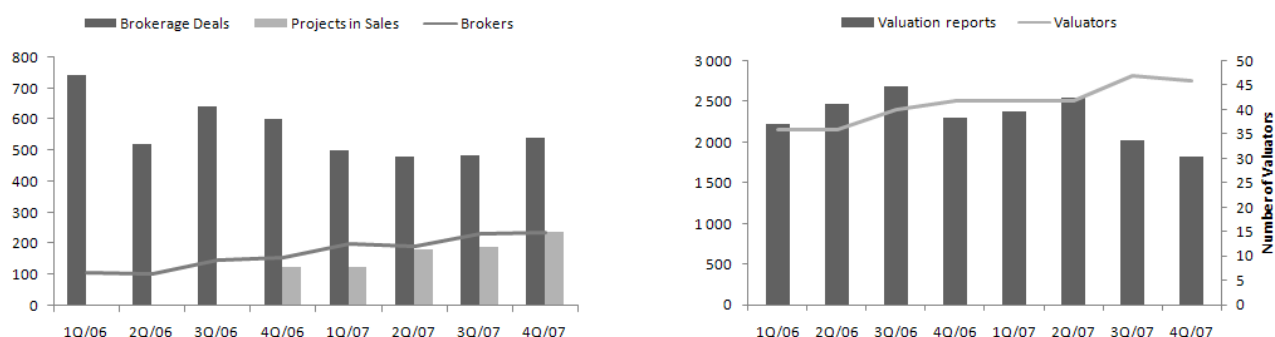
Cash flows from financing activities were increased by IPO-related proceeds (987 million kroons or 63.1 million euros).

## SERVICE DIVISION

Developments in the Lithuanian, Bulgarian and Romanian markets have corresponded to expectations and the Ukrainian market is perking up. In financial terms, the best performance is posted by the Bulgarian office. The cooling of the Latvian and Estonian markets continues to exert a negative effect. A decline in brokerage transactions affects the provision of valuation services. To resolve the situation, we are optimising our back-office expenses and right-sizing the staff. The measures should yield a positive effect in 2008. Although the foreign investors' interest in Romania and Bulgaria began decreasing in the fourth quarter, we intend to sustain vigorous growth.

The service division's year-over-year revenue growth was 17% for the year and 25% for the fourth quarter. The divisions' overall result is increasingly affected by the results of the new offices. If third quarter sales were 16.4% smaller than in the third quarter of 2006, the result for the fourth quarter was significantly better than in 2006.

Compared with 2006, the number of valuation reports issued has decreased by 9%. Although the figures posted by the Lithuanian office are improving steadily, the overall result is weakened by the nosedive in the Latvian market. In 2007, our appraisers issued 8,785 valuation reports in six countries (2006: 9,699). The division is introducing valuation services in the new markets and has launched property advisory services in the Baltics.



	12 months 2007	12 months 2006	Change, %	Q4 2007	Q4 2006	Change, %
Number of properties brokered	2 007	2 509	-20%	542	603	-10%
Number of projects on sale	240	124	94%	240	124	94%
Number of valuation reports issued	8 785	9 699	-9%	1 828	2 307	-21%
Number of appraisers	45	38	18%	46	42	10%
Number of real estate brokers	215	126	71%	237	153	55%
Estonia	53	43	23%	58	44	32%
Latvia	55	49	12%	55	50	10%
Lithuania	31	11	182%	34	16	113%
Ukraine	47	19	147%	54	35	54%
Bulgaria	18	3	500%	21	7	200%
Romania	11	1	1000%	15	1	1400%
<b>Average number of staff</b>	<b>363</b>	<b>224</b>	<b>62%</b>	<b>395</b>	<b>276</b>	<b>43%</b>

Project sales contracts totalled 240, 94% up on 2006. The number of brokerage transactions was 2,007, a 20% decrease year-over-year.

In 2007, the real estate investment companies managed by the Group's joint venture AVEC Asset Management AS acquired the retail and office building Kerese 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, Jeruzalemes Centrs in Riga and phase I in the office and commercial building Papiniidu Keskus in Pärnu. After the acquisition of Papiniidu Keskus, the capital of AVEC Baltic Property Fund AB was fully invested. In addition, in the third quarter 56.5 million kroons (3.6 million euros) was raised through the issue of shares in Arco Balti Kinnisvaraportfell AS. Through the transactions, the assets of the real estate investment companies managed by AVEC Asset Management AS have grown to 3,442 million kroons (220 million euros).

## DEVELOPMENT DIVISION

Developments in the new markets do not outweigh the cooling in the Baltics. The discussion is no longer about the devaluation of the Latvian lats or the Baltic macroeconomic indicators as it was three months ago but a turbulence on global capital markets. The situation has unnerved market participants who are postponing their real estate acquisitions because of the risk of a general economic slump in the Baltics. It is positive that the Group has been able to maintain its liquidity and to reinvest its profits. Group brokerage already shows a signs of stabilisation and improvement in the sentiment.

In the Baltic market, the priorities of the Development division are further development of projects in progress, the launch of the construction of commercial properties Ahtri 3 and Laeva 2, and the mitigation of the risk levels of properties by the adoption of detailed plans. In the Balkans, the Group is already developing the Madrid project in Sofia (112 apartments) and will soon launch the Manastirski project. Further expansion of the land bank will be characterized by the assumption of greater zoning risk in the Balkans and realisation of opportunities in Ukraine.

The Development division ended 2007 with sales of 585.0 million kroons (37.4 million euros), 6.5% down from 2006, and an operating profit of 162.0 million kroons (10.4 million euros), a 41.7% decrease year-over-year. Major fluctuations in quarterly sales and profit figures are common in real estate development. However, it ought to be noted that revaluation gains (fair value adjustments to investment properties and property, plant and equipment) for the fourth quarter and full year totalled 3.5 million kroons (0.2 million euros) and 71.6 million kroons (4.6 million euros) respectively which means that the division earned positive EBITDA of 84.5 million kroons (5.4 million euros).

In 2007, 110 apartments and plots were sold or reserved. In the current stages of the projects, 139 plots and apartments remain to be sold.

## CONSTRUCTION DIVISION

In the near future, a reduction of orders in the residential sector is going to exert downward pressure on residential construction prices. The commercial and industrial sectors are still stable – there is no visible decline in orders. In connection with allocations from the EU Structural Funds, the number of environmental engineering projects is going to increase. Development of the Group's environmental engineering capabilities is a priority. The number of public procurement tenders for the construction and rehabilitation of local government facilities remains large as well.

The Construction division ended 2007 with revenue of 425.5 million kroons (27.2 million euros), an 18.4% rise year-over-year, and an operating profit of 16.9 million kroons (1.1 million euros), an exceptional 17-fold improvement on a year ago. Significant profit growth was achieved in the second half-year because a number of unfavourable fixed-price environmental engineering contracts in Saaremaa and commercial construction contracts in Tallinn expired in the first

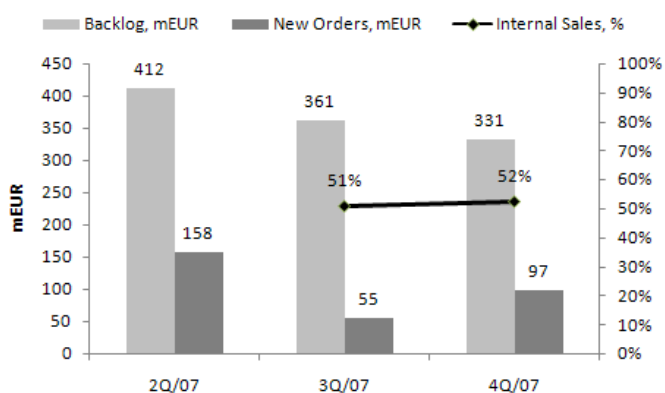


half-year (the contracts were concluded two years ago). The current market situation provides better opportunities for sharing the price risk.

A major transaction of 2007 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. Consolidation in the construction sector will continue.

In the fourth quarter, the division acquired construction contracts of 96.7 million kroons (6.2 million euros), including contracts of 77.6 million kroons (5.0 million euros) in Latvia and 19.1 million kroons (1.2 million euros) in Estonia.

At the end of the fourth quarter, the division's order backlog stood at 331.4 million kroons (21.2 million euros). The largest contracts comprised the rehabilitation of Matsalu water and wastewater systems (67.5 million kroons or 4.31 million euros) and the construction of the Bishumuizhas apartment houses (63.0 million kroons or 4.0 million euros). Intra-group sales for 12 months and the fourth quarter of 2007 accounted for 57.2% and 52.4% of the division's sales respectively. At 31 December 2007, the Construction division employed 173 people, 50.3% of them in Latvia.



## SUMMARY TABLE OF MAJOR PROJECTS

Project type	Project name	Country	Legal holding	Building rights according to business plan	Current state	Classification in the balance sheet
Commercial	Ahtri 3	Estonia, Tallinn	50%	47 075 m <sup>2</sup>	The old plan and building permit in effect. A new detailed plan initiated to obtain more extensive building rights. The planning process in the final phase. In the new plan, above-ground building rights extend to ca 51,110 m <sup>2</sup> .	Investment property
Commercial	Ilmarine	Estonia, Tallinn	50%	Ca 80,000 m <sup>2</sup>	The City is preparing the general plan of the high rise area. Partial demolition of existing buildings under way.	Investment property
Commercial	Kipsala	Latvia, Riga	50%	50,000 m <sup>2</sup>	No building rights. Project in the planning stage.	Receivables
Commercial	Laeva 2	Estonia, Tallinn	100%	7,697 m <sup>2</sup>	Building rights. Re-planning in the final stage.	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%	23,600 m <sup>2</sup>	No building rights. Planning in the initial stage.	Investment property
Apartments	Bišumuižas 1	Latvia, Riga	80%	Building rights to unsold part 7,768 m <sup>2</sup>	Building rights. Construction and sale of apartments under way.	Inventories
Apartments	Bišumuižas 2	Latvia, Riga	40%	95,970 m <sup>2</sup>	Intended purpose established in the general plan. Preparation of architectural drawings under way.	Inventories
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m <sup>2</sup>	Building rights.	Inventories
Apartments	Kolde	Estonia, Tallinn	89%	Building rights to unsold part 21,539 m <sup>2</sup>	Leasehold right. Building rights. Construction and sale of apartments under way.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	24,700 m <sup>2</sup>	Building rights. Construction under way.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	26,239 m <sup>2</sup>	Building rights. Changing of architecture under way.	Inventories
Apartments	Plavnieku centrs	Latvia, Riga	40%	13,243 m <sup>2</sup>	Building rights. Preparation of a joint business plan with the City.	Inventories
Apartments	Tivoli	Estonia, Tallinn	100%	58,470 m <sup>2</sup>	No building rights. Planning in the final stage.	Inventories
Apartments	TOP Residential premises	Estonia, Tallinn	50%	33,770 m <sup>2</sup>	No building rights. Planning in the initial stage	Investment property
Plots	Baltezers-3	Latvia, Riga	80%	n/a, land area 860,000 m <sup>2</sup>	Leasehold right. Awaits privatisation. The right of superficies. No building rights. General plan adopted. Intended purpose residential land. A detailed plan will be adopted in the near future for construction of ca 120 000 m <sup>2</sup> of detached houses.	Inventories
Plots	Baltezers-5	Latvia, Riga	80%	53 plots	Building rights. Construction and sale under way.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	n/a	Negotiations with the City of Tallinn regarding exchange of land.	Inventories
Plots	Pärtli	Estonia, Saue	50%	84 plots, average plot 1,500 m <sup>2</sup>	No building rights. Draft plans approved. Suspended until improvement in market situation.	Inventories
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1,802 m <sup>2</sup>	No building rights. Draft plans approved. Suspended until improvement in market situation.	Inventories
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3,363 m <sup>2</sup>	Building rights. Suspended until improvement in market situation.	Inventories

Project type	Project name	Country	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	Melon	Estonia, Tallinn	50%	7,461 m2	Building rights. Generates cash flow. We have applied for additional building rights to ca 12,000m2.	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	Tallinna 77/79	Estonia, Kuressaare	100%	2,500 m2	Building rights. Generates cash flow.	Investment property
Cash flow	TOP Commercial premises	Estonia, Tallinn	50%	We are dealing with the adoption of a new detail plan for at least 74,675 m2.	Building rights correspond to currently built-up area. Generates cash flow. Current total leased area ca 17,000 m2. Zoning process in initial phase.	Investment property

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 or planning authorities. The information presented in the tables, such as building rights according to business plan, the current state, project type and the classification of the project in the balance sheet, has been recorded based on management's best judgment and knowledge and may change according to 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 their feasibility analysis.

### The carrying amounts of projects presented in the summary table compared with the Group's assets

Balance sheet item	EEK		EUR	
	Balance sheet item at 31 December 2007	Carrying amount of projects presented in the summary table at 31 December 2007	Balance sheet item at 31 December 2007	Carrying amount of projects presented in the summary table at 31 December 2007
In millions				
Total assets	3,565.0	2,097.6	227.8	134.1
Short-term receivables	297.2	33.7	19.0	2.2
Inventories	1,148.3	1,059.3	73.4	67.7
Investment property	1,000.0	930.4	63.9	59.5
Assets under construction	101.8	74.2	6.5	4.7

### ADJUSTED NAV

During the IPO, major projects of the Group were valued by Colliers international by discounted cash flow (DCF) method. Although the Group's investment properties are measured in the financial statements by applying the fair value model, IFRS provides that it is not always possible to estimate the values of all properties using the DCF method, 'cause the method uses cash flows that take place in the future and this is not an approved method to revalue non-cash generating properties for accounting purposes. Therefore, the Group upholds the tradition that once a year an independent international property valuation company appraises all major projects using the comparable sales method and the discounted cash flow method.

If all assets had been measured using the DCF method, the carrying amounts of the Group's properties as at 31 December 2007 would have been 864 million kroons (55.2 million euros) larger – assets under construction by 76.0

million kroons (4.8 million euros), inventories by 335.8 million kroons (21.5 million euros) and investment property by 452.9 million kroons (28.9 million euros).

The following projects were analysed using DCF: Ahtri 3, Laeva 2, Narva mnt 67 (Tivoli), the potential of TOP Residential premises, Ilmarine, Kaarli 2 and Hills. The adjusted NAV does not include the cost of the Construction and Service divisions as during the IPO. It should be noted that Colliers International has not appraised Baltezers-3 for which a general plan was adopted in December and whose book value is 0.6 million kroons (0.04 million euros). Nor has the valuation company appraised the whole volume of TOP's detailed plan of ca 110,000 m<sup>2</sup>.

### **SIGNIFICANT CHANGES IN DETAILED PLANS IN 2007**

Tivoli: Tallinn City government approved the plan and referred it for public display. Two challenges were submitted (by an apartment owner in an adjacent residential area and by Eesti Energia) of which Eesti Energia is resolved already. According to management's assessment, the challenges will not put the building right at risk but may postpone the adoption of the plan by a quarter. The works submitted to the architectural competition were made public on 23 November. The best solution has been selected and design work will commence. Tallinn City Government has referred the plan to Harju County Governor for supervision who has already approved the plan.

Ahtri: The plot has a detailed plan with building rights. However, we have submitted the City government a draft of a new detailed plan. Until the new plan is adopted, the building rights provided in the previous plan are in effect. The Planning Department of Tallinn has approved the draft of the new detailed plan and will prepare draft resolutions for the initiation of a detailed plan by a session of the City government. The new plan includes above-ground building rights to 51,110m<sup>2</sup>. Right now the Group is negotiating syndication term sheet to finance first phase of the project.

Laeva 2: The plot has a detailed plan. Still, we have initiated the adoption of a new detailed plan which would maintain the construction volume but would change the boundaries of the construction area. The Group expects the City government to approve the plan in March 2008.

PM80: City government has approved a draft of the detailed plan. The Planning Department will prepare draft resolutions for the initiation of a detailed plan by a session of the City government.

Baltezers-3: A general plan has been adopted for the area according to which its intended purpose is residential land.

### **CHANGES IN THE GROUP'S STRUCTURE**

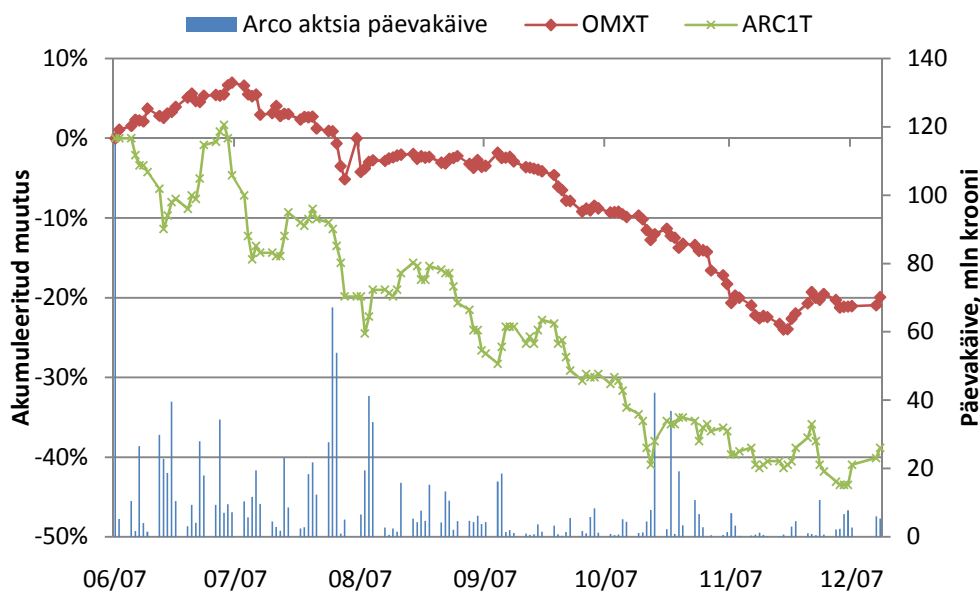
In 2007, the Group continued streamlining its legal structure by selling investments previously held by the parent to the divisions' parent companies: Arco Real Estate AS in the Service division, Arco Investeeringute AS in the Development division and Arco Ehitus OÜ in the Construction division. The process is aimed at harmonising the Group's legal structure with the segment reporting structure used for financial accounting purposes.

In addition to legal restructuring, the Group disposed of and acquired numerous ownership interests. The transactions involved the following companies: Arco HCE OÜ, Arco Capital TOV, Kramer Kinnisvara OÜ, Cromer Trade OÜ, Barrow Investments OÜ, Castleberry OÜ, Bišumuižas Nami SIA, Dreilini-Ulbroko-1 SIA, Varamaad Kinnisvara OÜ, Arco Construction SIA, Arco Vara Riga Valdused OÜ, Arco Vara Puukool OÜ, Arco Real Estate UAB and Arco Rumeenia Valduste OÜ. The effect of the transactions on the Group's financial position and results of operation is described in notes 3 and 4 to the consolidated interim financial statements.

The Group's structure as at 31 December 2007 is presented in note 18 to the consolidated interim financial statements.

## SHARE INFO

At 31 December 2007, three founders of the Group's parent company held a total of 63.8% of the shares in Arco Vara AS. Members of the management board and other key executives held 1.6% of the shares. The company has a total of 1,489 shareholders, 81.2% of them holding less than 1,000 shares.



Major shareholders at 31 December 2007	Number of shares	Ownership interest, %
OÜ Toletum	40,711,100	42.7%
HM Investeeringud OÜ	20,301,300	21.3%
JPMORGAN CHASE BANK, UK RESIDENTS	8,895,666	9.3%
DEUTSCHE BANK AG LONDON PRIME BROKERAGE	3,578,865	3.8%
Central Securities Depository of Lithuania	3,172,584	3.3%
J.P. MORGAN BANK LUXEMBOURG S.A.	2,550,000	2.7%
Skandinaviska Enskilda Banken Ab Clients	2,223,350	2.3%
INVESTORS BANK & TRUST COMPANY	1,994,329	2.1%
MORGAN STANLEY & CO	1,550,000	1.6%
PICTET & CIE CLIENT ACCOUNT	879,465	0.9%

### FORMULAS USED FOR 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 + 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 (EEK)

	Note	12 months 2007	12 months 2006	Q4 2007	Q4 2006
<b>In thousands of kroons</b>					
Rendering of services		345,856	324,656	113,422	89,761
Sale of goods		381,332	158,930	20,023	42,509
<b>Total revenue</b>	5	<b>727,188</b>	<b>483,586</b>	<b>133,445</b>	<b>132,270</b>
Cost of sales		-542,135	-349,067	-107,194	-95,070
<b>Gross profit</b>		<b>185,053</b>	<b>134,519</b>	<b>26,251</b>	<b>37,200</b>
Other income		158,868	422,928	65,943	385,942
Selling and distribution costs		-22,534	-18,595	-3,771	-4,381
Administrative expenses		-136,053	-115,713	-42,867	-69,951
Other expenses		-82,276	-162,788	-54,816	-160,925
<b>Operating profit</b>	5	<b>103,058</b>	<b>260,351</b>	<b>-9,260</b>	<b>187,885</b>
Finance income	6	215,005	16,215	16,874	13,280
Finance expenses	6	-67,744	-49,654	-36,515	-32,825
<b>Profit before tax</b>		<b>250,319</b>	<b>226,912</b>	<b>-28,901</b>	<b>168,340</b>
Income tax expense		-14,808	-9,563	304	-5,852
<b>Profit for the period</b>		<b>235,511</b>	<b>217,349</b>	<b>-28,597</b>	<b>162,488</b>
<i>Attributable to minority interests</i>		7,924	9,404	-243	9,061
<i>Attributable to equity holders of the parent</i>		227,587	207,945	-28,354	153,427
<b>Earnings per share (in kroons)</b>	7				
- Basic		2.76	3.07	-0.30	2.26
- Diluted		2.76	3.07	-0.30	2.26



## Condensed consolidated interim income statement (EUR)

	Note	12 months 2007	12 months 2006	Q4 2007	Q4 2006
<b>In thousand of euros</b>					
Rendering of services		22,104	20,749	7,249	5,737
Sale of goods		24,372	10,156	1,280	2,717
<b>Total revenue</b>	5	<b>46,476</b>	<b>30,907</b>	<b>8,529</b>	<b>8,454</b>
Cost of sales		-34,649	-22,309	-6,852	-6,076
<b>Gross profit</b>		<b>11,827</b>	<b>8,596</b>	<b>1,678</b>	<b>2,378</b>
Other income		10,154	27,030	4,215	24,666
Selling and distribution costs		-1,440	-1,188	-241	-280
Administrative expenses		-8,695	-7,395	-2,740	-4,470
Other expenses		-5,259	-10,404	-3,503	-10,286
<b>Operating profit</b>	5	<b>6,587</b>	<b>16,639</b>	<b>-592</b>	<b>12,008</b>
Finance income	6	13,741	1,036	1,078	848
Finance expenses	6	-4,330	-3,173	-2,334	-2,097
<b>Profit before tax</b>		<b>15,997</b>	<b>14,502</b>	<b>-1,847</b>	<b>10,759</b>
Income tax expense		-946	-611	19	-374
<b>Profit for the period</b>	7	<b>15,052</b>	<b>13,891</b>	<b>-1,828</b>	<b>10,385</b>
<i>Attributable to minority interests</i>		506	601	-15	579
<i>Attributable to equity holders of the parent</i>		14,545	13,290	-1,812	9,806
<b>Earnings per share (in euros)</b>					
- Basic		<b>0.18</b>	0.20	<b>-0.02</b>	0.14
- Diluted		<b>0.18</b>	0.20	<b>-0.02</b>	0.14

## Condensed consolidated interim balance sheet (EEK, EUR)

	Note	EEK		EUR	
		31 December 2007	31 December 2006	31 December 2007	31 December 2006
In thousands					
Cash and cash equivalents		765,008	58,345	48,893	3,729
Short-term investments in financial assets		78,595	0	5,023	0
Trade and other receivables	8	297,189	102,498	18,994	6,551
Prepayments		10,450	4,429	667	283
Inventories	9	1,148,433	431,817	73,399	27,598
Biological assets		8,360	6,141	534	392
<b>Total current assets</b>		<b>2,308,035</b>	<b>603,230</b>	<b>147,510</b>	<b>38,553</b>
Long-term receivables	8	40,124	10,673	2,564	682
Long-term investments in financial assets	10	48,515	65,769	3,101	4,203
Investment property	11	999,999	1,479,281	63,912	94,543
Property, plant and equipment	12	141,863	81,713	9,067	5,222
Intangible assets	13	25,505	16,705	1,630	1,069
<b>Total non-current assets</b>		<b>1,256,006</b>	<b>1,654,141</b>	<b>80,274</b>	<b>105,719</b>
<b>TOTAL ASSETS</b>		<b>3,564,041</b>	<b>2,257,371</b>	<b>227,784</b>	<b>144,272</b>
Interest-bearing loans and borrowings	14	753,077	699,568	48,130	44,710
Payables	15	223,591	249,275	14,290	15,932
Advances received		47,216	63,427	3,018	4,054
Provisions		3,468	1,953	222	124
<b>Total current liabilities</b>		<b>1,027,352</b>	<b>1,014,223</b>	<b>65,660</b>	<b>64,820</b>
Interest-bearing loans and borrowings	14	600,938	457,258	38,407	29,224
Long-term payables	15	4,607	41,561	294	2,657
Deferred income tax liability		1,321	1,353	84	86
Provisions		251	1,095	16	70
<b>Total non-current liabilities</b>		<b>607,117</b>	<b>501,267</b>	<b>38,802</b>	<b>32,037</b>
<b>TOTAL LIABILITIES</b>		<b>1,634,469</b>	<b>1,515,490</b>	<b>104,463</b>	<b>96,857</b>
Share capital		952,842	304,530	60,898	19,463
Share premium		712,514	123,083	45,538	7,866
Statutory capital reserve		20,084	5,486	1,284	351
Other reserves		37	-184	2	-12
Retained earnings		218,830	292,002	13,986	18,663
<b>Total equity attributable to equity holders of the parent</b>		<b>1,904,307</b>	<b>724,917</b>	<b>121,707</b>	<b>46,331</b>
Minority interests		25,265	16,964	1,615	1,084
<b>Total equity</b>	<b>16</b>	<b>1,929,572</b>	<b>741,881</b>	<b>123,322</b>	<b>47,415</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,564,041</b>	<b>2,257,371</b>	<b>227,784</b>	<b>144,272</b>

## Condensed consolidated interim cash flow statement (EEK, EUR)

	Note	EEK		EUR	
		12 months 2007	12 months 2006	12 months 2007	12 months 2006
In thousands					
<b>Operating profit</b>		103,058	260,351	6,587	16,639
Adjustments for:		-72,190	-333,738	-4,615	-21,330
<i>Depreciation, amortisation and impairment losses</i>	12, 13	-13,931	73,744	-890	4,713
<i>Gains and losses on sale of property, plant and equipment and intangible assets</i>	12, 13	-18	-6,346	-1	-406
<i>Gains and losses on sale of investment property</i>		1,633	-25,224	104	-1,612
<i>Gains and losses on revaluation of investment property and biological assets</i>		-59,874	-59,874	-375,912	-3,827
<b>Operating profit after adjustments</b>		<b>30,868</b>	<b>-73,387</b>	<b>1,972</b>	<b>-4,690</b>
Change in trade and other receivables and prepayments <sup>1</sup>		-80,085	-18,255	-5,118	-1,167
Change in inventories <sup>2</sup>		-424,728	-190,857	-27,144	-12,198
Change in biological assets		-174	204	-11	13
Change in payables and advances received		-73,593	164,835	-4,703	10,535
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>-547,712</b>	<b>-117,460</b>	<b>-35,005</b>	<b>-7,507</b>
Acquisition of property, plant and equipment and intangible assets		-47,204	-294,375	-3,017	-18,814
Proceeds from sale of property, plant and equipment and intangible assets		8,436	11,944	539	763
Acquisition of investment property		-12,000	-17,616	-767	-1,126
Proceeds from sale of investment property		51,834	57,087	3,313	3,649
Acquisition of subsidiaries and joint ventures		-20,176	-91,251	-1,289	-5,832
Proceeds from disposal of subsidiaries and joint ventures		222,650	0	14,230	0
Acquisition of other financial assets		-78,595	0	-5,023	0
Loans granted		-52,681	-22,338	-3,367	-1,428
Repayment of loans granted		40,878	12,690	2,613	811
Interest received		20,389	1,941	1,303	124
Dividends received		3,147	0	201	0
<b>NET CASH FROM / USED IN INVESTING ACTIVITIES</b>		<b>136,678</b>	<b>-341,918</b>	<b>8,735</b>	<b>-21,853</b>
Proceeds from loans received		800,488	723,267	51,161	46,225
Repayment of loans and payment of finance lease liabilities		-572,650	-292,312	-36,599	-18,682
Change in overdraft		-18,516	10,116	-1,183	647
Change in group account liability		382	0	24	0
Interest paid		-55,486	-45,412	-3,546	-2,902
Proceeds from issue of share capital		987,514	-1,223	63,114	-78
Dividends paid		-16,006	-13,263	-1,023	-848
Corporate income tax paid		-7,541	-6,297	-482	-402
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>1,118,185</b>	<b>374,876</b>	<b>71,465</b>	<b>23,959</b>
<b>NET CASH FLOW</b>		<b>707,151</b>	<b>-84,502</b>	<b>45,195</b>	<b>-5,401</b>
Cash and cash equivalents at beginning of period		58,345	143,985	3,729	9,202
Net increase / decrease in cash and cash equivalents		707,151	-84,502	45,195	-5,401
Effects of exchange rate fluctuations		-488	-1,138	-32	-72
<b>Cash and cash equivalents at end of period</b>		<b>765,008</b>	<b>58,345</b>	<b>48,893</b>	<b>3,729</b>

<sup>1</sup> *Change in trade and other receivables and prepayments* includes, among other items, an increase of 91,711 thousand kroons (5,861 thousand euros) in the Group's VAT receivables. For further information on receivables, please refer to note 8.

<sup>2</sup> *Change in inventories* comprises mainly payments made and expenditures incurred in connection with the acquisition and construction of properties held for the development of apartment houses. For further information on inventories, please refer to note 9.

## Condensed consolidated interim statement of changes in equity (EEK)

	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 of kroons								
<b>At 31 December 2005</b>	<b>304,530</b>	<b>123,083</b>	<b>420</b>	<b>474</b>	<b>100,811</b>	<b>529,318</b>	<b>51,427</b>	<b>580,745</b>
Change in unrealised exchange differences	0	0	0	-658	0	-658	0	-658
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	-43,667	-43,667
Dividend distribution	0	0	0	0	-11,692	-11,692	-200	-11,892
Transfer to capital reserve	0	0	5,062	0	-5,062	0	0	0
Change in capital reserve from merger with a subsidiary	0	0	4	0	0	4	0	4
Profit for the period	0	0	0	0	207,945	207,945	9,404	217,349
<b>At 31 December 2006</b>	<b>304,530</b>	<b>123,083</b>	<b>5,486</b>	<b>-184</b>	<b>292,002</b>	<b>724,917</b>	<b>16,964</b>	<b>741,881</b>
Change in unrealised exchange differences	0	0	0	221	0	221	0	221
Bonus issue	373,312	-123,083	0	0	-250,229	0	0	0
Issue of share capital	275,000	712,514	0	0	0	987,514	0	987,514
Transfer to capital reserve	0	0	14,598	0	-14,598	0	0	0
Dividend distribution	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	577	577
Initial recognition of the put options of minority shareholders	0	0	0	0	-10,502	-10,502	0	-10,502
Profit for the period	0	0	0	0	227,587	227,587	7,924	235,511
<b>At 31 December 2007</b>	<b>952,842</b>	<b>712,514</b>	<b>20,084</b>	<b>37</b>	<b>218,830</b>	<b>1,904,307</b>	<b>25,265</b>	<b>1,929,572</b>

## Condensed consolidated interim statement of changes in equity (EUR)

	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 of euros								
<b>At 31 December 2005</b>	<b>19,463</b>	<b>7,866</b>	<b>27</b>	<b>30</b>	<b>6,444</b>	<b>33,830</b>	<b>3,286</b>	<b>37,116</b>
Change in unrealised exchange differences	0	0	0	-42	0	-42	0	-42
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	-2,791	-2,791
Dividend distribution	0	0	0	0	-747	-747	-13	-760
Transfer to capital reserve	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
Profit for the period	0	0	0	0	13,289	13,289	601	13,890
<b>At 31 December 2006</b>	<b>19,463</b>	<b>7,866</b>	<b>351</b>	<b>-12</b>	<b>18,662</b>	<b>46,330</b>	<b>1,083</b>	<b>47,414</b>
Change in unrealised exchange differences	0	0	0	14	0	14	0	14
Bonus issue	23,859	-7,866	0	0	-15,993	0	0	0
Issue of share capital	17,576	45,538	0	0	0	63,114	0	63,114
Transfer to capital reserve	0	0	933	0	-933	0	0	0
Dividend distribution	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	39	39
Initial recognition of the put options of minority shareholders	0	0	0	0	-671	-671	0	-671
Profit for the period	0	0	0	0	14,545	14,545	506	15,052
<b>At 31 December 2007</b>	<b>60,898</b>	<b>45,538</b>	<b>1,284</b>	<b>2</b>	<b>13,986</b>	<b>121,707</b>	<b>1,615</b>	<b>123,322</b>

## Notes to the condensed consolidated interim financial statements

### 1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the fourth quarter and twelve months 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 fourth quarter and twelve months 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, in the first half of 2007 four minority shareholders of Group entities had put options which granted them the right to sell and obligated the Group to purchase the shares held by the minority shareholders. In the case of one shareholder agreement, the option exercise price was the market value of the shares. In the case of the other, the option exercise price was a proportionate share of the book value of the company's equity.

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 value (i.e. adjusted equity) or book value 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

In the third quarter of 2007, the put options (the ones whose exercise price was a proportionate share of the book value of the company's equity) provided by one shareholder agreement were cancelled. The option provided by the second shareholder agreement was effective at 31 December 2007.



## 2. Scope of consolidation

	Estonia	Latvia	Lithuania	Ukraine	Bulgaria	Romania	Total
<b>Subsidiaries</b>							
At 31 December 2006	20	7	2	2	1	-	<b>32</b>
Acquisitions	1	2	1	1	1	1	<b>7</b>
Disposals	-6	-2	-	-1	-	-	<b>-9</b>
<b>At 30 June 2007</b>	<b>15</b>	<b>7</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>30</b>
Acquisitions	-	-	-	-	-	-	-
Disposals	-1	-	-	-	-	-	<b>-1</b>
<b>At 30 September 2007</b>	<b>14</b>	<b>7</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>29</b>
Acquisitions	1	1	-	-	-	1	<b>3</b>
Disposals	-	-	-	-	-	-	-
<b>At 31 December 2007</b>	<b>15</b>	<b>8</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>32</b>
<b>Interests in joint ventures</b>							
At 31 December 2006	22	2	-	-	-	1	<b>25</b>
Acquisitions	1	2	-	-	1	-	<b>4</b>
Disposals	-4	-1	-	-	-	-	<b>-5</b>
<b>At 30 June 2007</b>	<b>19</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>24</b>
Acquisitions	-	1	-	-	-	-	<b>1</b>
Disposals	-	-1	-	-	-	-	<b>-1</b>
<b>At 30 September 2007</b>	<b>19</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>24</b>
Acquisitions	-	-	-	-	-	-	-
Disposals	-1	-	-	-	-	-1	<b>-2</b>
<b>At 31 December 2007</b>	<b>18</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>22</b>
<b>Associates (not consolidated)</b>							
At 31 December 2006	1	-	-	-	-	-	<b>1</b>
Acquisitions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
<b>At 31 December 2007</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

In the fourth quarter of 2007, the number of consolidated entities increased by one – an entity of the Development division which was established in Latvia. In October 2007, the Group acquired the remaining 50% of the shares in the joint venture Arco Rumeenia Valdused OÜ, becoming the sole shareholder of Arco Rumeenia Valdused OÜ and Arco Real Estate Capital SRL. As a result of the transaction, two interests in joint ventures were reclassified to subsidiaries (note 4).

In 2007, the number of consolidated entities decreased by three: six subsidiaries were combined with other Group companies, seven subsidiaries and two joint ventures were founded, one subsidiary was acquired through a business combination (note 4), and one subsidiary and interests in six joint ventures were sold (note 3).

The Group's subsidiaries and interests in joint ventures as well as other investments are presented in note 18.

### 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 price of the transaction 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 <sup>1</sup>	121,356	7,756
Other current assets	-2,423	-155
Long-term receivables	49,322	3,152
Investment properties (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

<sup>1</sup> *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 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. Shareholders paid for the increase with share premium of 73,829 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 2,360 thousand kroons (150,8 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)	-6,801	-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 entered into an agreement with SIA Linstow Baltic for the disposal of a 40% stake in Bishumuizhas Nami SIA. In August 2007, Bishumuizhas Nami SIA paid Arco Vara AS and the minority shareholder of Sportings Riga SIA 19,220 thousand euros (300,728 thousand kroons) for the acquisition of the Group's subsidiary Sportings Riga SIA. After 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 are 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 (note 9)	-8,083	-517
Property, plant and equipment (note 12)	-94	-6
Other payables	-27	-2

In August 2007, the Group sold its interest in the Latvian joint venture Dreilini-Ulbroke-1 SIA for 22 thousand kroons (1 thousand euros). The divestment did not have a significant impact on the Group's financial position or assets and liabilities.

In addition, in August 2007 the Group divested of a 16.6% interest in the joint venture Varamaad Kinnisvara OÜ for 8,650 thousand kroons (553 thousand euros). The receivable was offset against the Group's liabilities to the acquirer of the interest. After the transaction, the Group's interest in Varamaad Kinnisvara OÜ is 33.4%.

#### **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); 1,945 thousand kroons (124 thousand euros) of the purchase price was settled in 2007 in cash and the rest will be settled within two years by March 2010. 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 acquired and goodwill as follows:

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

The cost of acquisition breaks down between the assets and liabilities of Arco Construction SIA as follows:

	EEK	EUR
In thousands		
Cash and cash equivalents	179	11
Trade and other receivables and prepayments	3,239	207
Inventories	559	36
Property, plant and equipment	382	24
Goodwill (note 13)	3,360	215
Payables	-3,649	-233
<b>Cost of acquisition</b>	<b>4,070</b>	<b>260</b>

The Group's consolidated financial statements for twelve months of 2007 comprise Arco Construction SIA's revenue and expenses for twelve months of 2007 and assets and liabilities as at 31 December 2007. Arco Construction SIA's external sales for twelve months of 2007 amounted to 37,664 thousand kroons (2,407 thousand euros).

At the beginning of 2007, the Group acquired from minority shareholders their interests in the Group's subsidiaries Arco Vara Riga 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) and gave rise to positive goodwill of 2,581 thousand kroons (165 thousand euros).

In October 2007, the Group acquired the remaining 50% of the shares in the joint venture Arco Rumeenia Valdused OÜ, taking its ownership interest in Arco Rumeenia Valdused OÜ and Arco Real Estate Capital SRL to 100%. The shares cost 20 thousand kroons (1 thousand euros) and the acquisition gave rise to positive goodwill of 2,458 thousand kroons (157 thousand euros). As a result of the transaction, the Group reclassified two interests in joint ventures to subsidiaries. The effect of the reclassification on the Group's assets and liabilities was the following:

	EEK	EUR
In thousands		
Cash and cash equivalents	399	26
Other current assets	276	18
Property, plant and equipment (note 12)	576	37
Goodwill (note 13)	2,458	157
Current portion of interest-bearing loans and borrowings	1,522	97
Payables	843	54

## 5. Segment reporting by business segments

Revenue and other income by segments	EEK		EUR		Proportion of consolidated revenue for 12 months 2007 (%)
	12 months 2007	12 months 2006	12 months 2007	12 months 2006	
In thousands					
<b>Service</b>	<b>139,621</b>	<b>119,437</b>	<b>8,924</b>	<b>7,633</b>	<b>16</b>
External revenue	115,184	107,264	7,362	6,855	13
Other external income	8,588	702	549	45	1
Inter-segment revenue and other income	15,849	11,471	1,013	733	2
<b>Development</b>	<b>585,038</b>	<b>626,614</b>	<b>37,391</b>	<b>40,048</b>	<b>66</b>
External revenue	418,372	199,655	26,739	12,760	47
Other external income	152,524	421,764	9,748	26,956	17
Inter-segment revenue and other income	14,142	5,195	904	332	2
<b>Construction</b>	<b>425,484</b>	<b>359,345</b>	<b>27,193</b>	<b>22,966</b>	<b>48</b>
External revenue	193,631	176,667	12,375	11,290	22
Other external income	44	462	3	30	0
Inter-segment revenue and other income	231,809	182,216	14,815	11,646	26
<b>Eliminations</b>	<b>-264,087</b>	<b>-198,882</b>	<b>-16,879</b>	<b>-12,710</b>	<b>-30</b>
<b>Total revenue and other income</b>	<b>886,056</b>	<b>906,514</b>	<b>56,629</b>	<b>57,937</b>	<b>100</b>

	EEK		EUR	
	12 months 2007	12 months 2006	12 months 2007	12 months 2006
<b>Operating profit by segments</b>				
In thousands				
<b>Service</b>	<b>-16,540</b>	<b>8,624</b>	<b>-1,057</b>	<b>551</b>
Including depreciation and amortisation	-1,575	-966	-101	-58
Including recognition of negative goodwill as income and impairment of goodwill	0	0	0	0
Including change in fair value of investment property	7,000	170	447	11
<b>Development</b>	<b>161,988</b>	<b>278,185</b>	<b>10,353</b>	<b>17,779</b>
Including depreciation and amortisation	-948	-536	-61	-32
Including recognition of negative goodwill as income and impairment of goodwill	283	1,868	18	119
Including impairment of property, plant and equipment	18,772	-72,805	1,200	-4,653
Including change in fair value of investment property and biological assets	52,874	375,742	3,379	24,014
<b>Construction</b>	<b>16,926</b>	<b>959</b>	<b>1,082</b>	<b>61</b>
Including depreciation and amortisation	-1,789	-1,031	-114	-62
Including recognition of negative goodwill as income and impairment of goodwill	0	281	0	18
Including impairment of property, plant and equipment	-30	-18	-2	-1
<b>Eliminations</b>	<b>-16,455</b>	<b>1,408</b>	<b>-1,052</b>	<b>90</b>
<b>Unallocated expenses</b>	<b>-42,861</b>	<b>-28,825</b>	<b>-2,739</b>	<b>-1,842</b>
Including depreciation and amortisation	-821	-537	-52	-32
<b>Total operating profit</b>	<b>103,058</b>	<b>260,351</b>	<b>6,587</b>	<b>16,639</b>
Including depreciation and amortisation	-5,133	-3,070	-328	-184
Including recognition of negative goodwill as income and impairment of goodwill	283	2,149	18	137
Including impairment of property, plant and equipment	18,742	-72,823	1,198	-4,654
Including change in fair value of investment property and biological assets	59,874	375,912	3,827	24,025

	EEK		EUR	
	12 months 2007	12 months 2006	12 months 2007	12 months 2006
<b>Capital expenditures</b>				
In thousands				
<b>Service</b>	<b>14,220</b>	<b>9,449</b>	<b>909</b>	<b>604</b>
<b>Development</b>	<b>59,233</b>	<b>333,718</b>	<b>3,786</b>	<b>21,328</b>
<b>Construction</b>	<b>7,546</b>	<b>5,349</b>	<b>482</b>	<b>342</b>
Unallocated expenditures	484	3,488	31	223
<b>Total capital expenditures</b>	<b>81,483</b>	<b>352,004</b>	<b>5,208</b>	<b>22,497</b>



	EEK		EUR	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
<b>Assets</b>				
in thousands				
<b>Service</b>	63,600	31,900	4,065	2,039
<b>Development</b>	2,395,424	2,054,015	153,095	131,275
<b>Construction</b>	126,767	92,240	8,102	5,895
Eliminations	-83,558	-20,665	-5,340	-1,321
Unallocated assets	1,061,808	99,881	67,862	6,384
<b>Total assets</b>	<b>3,564,041</b>	<b>2,257,371</b>	<b>227,784</b>	<b>144,272</b>

The carrying amount of the assets of the Development segment has changed on account of the disposal of a 50% interest in Arco HCE OÜ, the latter's transformation from a subsidiary into an interest in a joint venture (note 3) and acquisitions and sales of properties carried as inventories (note 9).

Unallocated assets have increased on account of amounts received through the IPO and the divestment of subsidiaries.

## 6. Finance income and expenses

### Finance income

	EEK		EUR	
	12 months 2007	12 months 2006	12 months 2007	12 months 2006
In thousands				
Gains on disposal of shares in subsidiaries <sup>1</sup>	123,414	7,463	7,888	477
Gains on disposal of shares in joint ventures	10,650	42	681	3
Interest income	30,177	3,367	1,928	215
Foreign exchange gains	39	0	2	0
Income on other long-term investments <sup>2</sup>	50,725	5,343	3,242	341
<b>Total finance income</b>	<b>215,005</b>	<b>16,215</b>	<b>13,741</b>	<b>1,036</b>

<sup>1</sup> *Gains on disposal of shares in subsidiaries* comprises gains on the disposal of shares in Sportings Riga SIA (an entity holding the Bishumuižas 2 project) of 118,491 thousand kroons (7,573 thousand euros) and gains on the sale of the Ukrainian subsidiary Arco Capital TOV of 4,923 thousand kroons (315 thousand euros).

<sup>2</sup> *Income on other long-term investments* includes, among other things, revaluation gains of 41,238 thousand kroons (2,636 thousand euros) arisen on the restatement of Explorer Property Fund AB (an entity belonging to a Group's joint venture) to fair value and revaluation gains of 2,725 thousand kroons (174 thousand euros) arisen on the restatement of Arco Balti Kinnisvaraportfell AS to fair value. The cancellation of the put options of three minority shareholders gave rise to gains of 3,330 thousand kroons (213 thousand euros).

**Finance expenses**

	EEK		EUR	
	12 months 2007	12 months 2006	12 months 2007	12 months 2006
In thousands				
Losses on disposal of shares in subsidiaries	-2,981	0	-191	0
Losses on investments in equity accounted associates	0	-40	0	-3
Interest expense	-33,840	-30,800	-2,163	-1,968
Expenses on other long-term investments	0	-6,411	0	-410
Foreign exchange losses	-2,291	-682	-146	-44
Impairment of financial assets	-25,266	-11,721	-1,615	-748
Other finance expenses	-3,366	0	-215	0
<b>Total finance expenses</b>	<b>-67,744</b>	<b>-49,654</b>	<b>-4,330</b>	<b>-3,173</b>

**7. Earnings per share**

	12 months 2007	12 months 2006	Q4 2007	Q4 2006
<b>EEK</b>				
Weighted average number of ordinary shares	82,516,293	67,784,150	95,284,150	67,784,150
Net profit attributable to ordinary equity holders of the parent (in thousands of kroons)	227,587	207,945	-28,354	153,427
<b>Earnings per share (in kroons)</b>	<b>2.76</b>	<b>3.07</b>	<b>-0.30</b>	<b>2.26</b>

**8. Trade and other receivables****Short-term receivables**

	EEK		EUR	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
In thousands				
Trade receivables	48,166	45,147	3,078	2,885
Receivables from joint ventures (note 17)	53,719	9,042	3,434	578
Other receivables	59,840	25,015	3,824	1,599
Accrued income	135,464	23,294	8,658	1,489
<b>Total receivables</b>	<b>297,189</b>	<b>102,498</b>	<b>18,994</b>	<b>6,551</b>

The significant increase in *Receivables from joint ventures* results, among other things, from the reclassification of Arco HCE OÜ from subsidiaries to joint ventures. At 31 December 2007, the Group's receivables from Arco HCE OÜ totalled 46,975 thousand kroons (3,002 thousand euros).

In 2007, the Group reclassified a prepayment made for the shares in the Latvian company Eurolines SIA which at 31 December 2006 was recognised in *Long-term investments in financial assets*. In these financial statements, the item is reported in *Other receivables* in an amount of 33,675 thousand kroons (2,152 thousand euros). The reclassification was performed because the Group's joint venture Floriston Grupp OÜ exited the Eurolines project.

Accrued income as at 31 December 2007 includes, among other things, VAT receivables of 107,406 thousand kroons (6,864 thousand euros).

**Long-term receivables**

	EEK		EUR	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
In thousands				
Receivables from joint ventures (note 17)	38,538	2,215	2,463	142
Long-term loan receivables	39	5,564	2	356
Prepayments for long-term investments	0	2,781	0	178
Other long-term receivables	1,547	113	99	7
<b>Total long-term receivables</b>	<b>40,124</b>	<b>10,673</b>	<b>2,564</b>	<b>682</b>

**9. Inventories**

	EEK		EUR	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
In thousands				
Properties acquired and developed for resale	1,111,527	415,567	71,040	26,560
Goods purchased for resale	4,498	6,580	287	420
Materials and finished goods	529	0	34	0
Prepayments to suppliers	31,879	9,670	2,037	618
<b>Total inventories</b>	<b>1,148,433</b>	<b>431,817</b>	<b>73,399</b>	<b>27,598</b>

*Properties acquired and developed for resale* has expanded substantially due to the reclassification of the Tivoli project from investment property to inventories (note 11). 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.

Properties acquired in Bulgaria and Lithuania in 2007 increased inventories by 348,375 thousand kroons (22,265 thousand euros) and investments in projects in progress in Estonia and Latvia increased the carrying amount of inventories as at 31 December 2007 by 173,994 thousand kroons (11,120 thousand euros).

In addition, in 2007 the Group sold the Ulmana Gatves property in Riga, the Kerese Keskus building in Narva, and apartments in Kolde community and terraced houses in Kase community in Tallinn, which reduced inventories by a total of 249,370 thousand kroons (15,938 thousand euros).

The sale of interests in a joint ventures in March and May 2007 reduced properties under construction by 22,657 thousand kroons (1,448 thousand euros) (note 3).

Other changes in *Properties acquired and developed for resale* stem from investments in other development projects in progress in Estonia and Latvia.

## 10. Long-term investments in financial assets

	EEK		EUR	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
In thousands				
Long-term investments in equities - measured at cost	128	131	8	8
Long-term investments in equities - measured at fair value	48,387	8,215	3,092	525
Prepayments for equities	0	57,423	0	3,670
<b>Total long-term investments in financial assets</b>	<b>48,515</b>	<b>65,769</b>	<b>3,101</b>	<b>4,203</b>

Long-term investments in equities measured at fair value includes shares in Explorer Property Fund AB (an entity belonging to a Group's joint venture) whose restatement to fair value gave rise to gains of 41,238 thousand kroons (2,636 thousand kroons) in 2007.

## 11. Investment property

	EEK	EUR
In thousands		
<b>At 31 December 2005</b>	<b>851,104</b>	<b>54,395</b>
Acquisitions	13,274	849
Capitalised borrowing costs	551	35
Disposals	-26,559	-1,697
Acquisitions through business combinations	14,031	897
Transferred from property, plant and equipment	251,961	16,103
Gains and losses from changes in fair value	374,919	23,962
<b>At 31 December 2006</b>	<b>1,479,281</b>	<b>94,543</b>
Acquisitions	3,016	193
Disposals	-58,949	-3,768
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 inventories (note 9)	4,446	284
Transferred from property, plant and equipment (note 12)	6,876	439
Gains and losses from changes in fair value	57,829	3,696
<b>At 31 December 2007</b>	<b>999,999</b>	<b>63,912</b>

## 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					
<b>Carrying amount at 31 December 2005</b>	<b>16,956</b>	<b>1,464</b>	<b>2,938</b>	<b>153,043</b>	<b>174,401</b>
Additions	5,662	1,580	3,242	296,159	306,643
Capitalised borrowing costs	0	0	0	16,232	16,232
Government grants	-723	-242	-315	-104	-1,384
Impairment	0	-10	-8	-72,805	-72,823
Disposals	-30	0	-98	-5,470	-5,598
Disposals through divestment of interests in joint ventures	0	0	-5	0	-5
Transfers	297	0	-10	-333,256	-332,969
Depreciation charge for the period	-833	-531	-1,420	0	-2,784
<b>Carrying amount at 31 December 2006</b>	<b>21,329</b>	<b>2,261</b>	<b>4,324</b>	<b>53,799</b>	<b>81,713</b>
<i>Cost at 31 December 2006</i>	<i>30,052</i>	<i>5,553</i>	<i>8,256</i>	<i>53,799</i>	<i>97,660</i>
<i>Accumulated depreciation at 31 December 2006</i>	<i>-8,723</i>	<i>-3,292</i>	<i>-3,932</i>	<i>0</i>	<i>-15,947</i>
Additions	7,207	3,115	5,396	37,341	53,059
Capitalised borrowing costs	0	662	0	14,530	15,192
Acquisitions through business combinations (note 4)	0	482	789	0	1,271
Impairment	0	0	0	18,778	18,778
Disposals	0	-569	-79	-8,965	-9,613
Disposals through divestment of subsidiaries (note 3)	-96	0	0	-6,801	-6,897
Transfers	0	300	-300	0	0
Transfers to inventories (note 9)	-63	0	0	0	-63
Transfers to investment property (note 11)	0	0	0	-6,876	-6,876
Depreciation charge for the period	-1,437	-1,117	-2,147	0	-4,701
<b>Carrying amount at 31 December 2007</b>	<b>26,940</b>	<b>5,134</b>	<b>7,983</b>	<b>101,806</b>	<b>141,863</b>
<i>Cost at 31 December 2007</i>	<i>37,083</i>	<i>9,108</i>	<i>13,637</i>	<i>101,806</i>	<i>161,634</i>
<i>Accumulated depreciation at 31 December 2007</i>	<i>-10,143</i>	<i>-3,974</i>	<i>-5,654</i>	<i>0</i>	<i>-19,771</i>
in thousands of euros					
<b>Carrying amount at 31 December 2005</b>	<b>1,084</b>	<b>94</b>	<b>188</b>	<b>9,781</b>	<b>11,146</b>
Additions	362	101	207	18,928	19,598
Capitalised borrowing costs	0	0	0	1,037	1,037
Government grants	-46	-15	-20	-7	-88
Impairment	0	-1	-1	-4,653	-4,654
Disposals	-2	0	-6	-350	-358
Transfers	19	0	-1	-21,299	-21,281
Depreciation charge for the period	-53	-34	-91	0	-178
<b>Carrying amount at 31 December 2006</b>	<b>1,363</b>	<b>145</b>	<b>276</b>	<b>3,438</b>	<b>5,222</b>
<i>Cost at 31 December 2006</i>	<i>1,921</i>	<i>355</i>	<i>528</i>	<i>3,438</i>	<i>6,242</i>
<i>Accumulated depreciation at 31 December 2006</i>	<i>-558</i>	<i>-210</i>	<i>-251</i>	<i>0</i>	<i>-1,019</i>

Continued..

	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction and prepayments	Total property, plant and equipment
Additions	461	199	345	2,387	3,391
Capitalized borrowing costs	0	42	0	929	971
Acquisitions through business combinations (note 4)	0	31	50	0	81
Impairment	0	0	0	1,200	1,200
Disposals	0	-36	-5	-573	-614
Disposals through divestments of subsidiaries (note 3)	-6	0	0	-435	-441
Transfers	0	19	-19	0	0
Transfers to inventories (note 9)	-4	0	0	0	-4
Transfers to investment property (note 11)	0	0	0	-439	-439
Depreciation charge for the period	-92	-71	-137	0	-300
<b>Carrying amount at 31 December 2007</b>	<b>1,722</b>	<b>328</b>	<b>510</b>	<b>6,507</b>	<b>9,067</b>
<i>Cost at December 2006</i>	<i>2,370</i>	<i>582</i>	<i>872</i>	<i>6,507</i>	<i>10,330</i>
<i>Accumulated depreciation at 31 December 2007</i>	<i>-648</i>	<i>-254</i>	<i>-361</i>	<i>0</i>	<i>-1,264</i>

### 13. Intangible assets

	Goodwill	Negative goodwill	Software	Total intangible assets
In thousands of kroons				
<b>Carrying amount at 31 December 2005</b>	<b>13,071</b>	<b>0</b>	<b>513</b>	<b>13,584</b>
Additions	0	0	935	935
Acquisitions through acquisition of minority interests	3,768	-14,748	0	-10,980
Acquisitions through business combinations	11,318		0	11,318
Disposals	0		-15	-15
Impairment	-12,599	14,748	0	2,149
Transfer of goodwill to income	0		0	
Amortisation charge for the period	0	0	-286	-286
<b>Carrying amount at 31 December 2006</b>	<b>15,558</b>	<b>0</b>	<b>1,147</b>	<b>16,705</b>
<i>Cost at 31 December 2006</i>	<i>15,558</i>	<i>0</i>	<i>1,840</i>	<i>17,398</i>
<i>Accumulated amortisation at 31 December 2006</i>	<i>0</i>	<i>0</i>	<i>-693</i>	<i>-693</i>
Additions	0	0	825	825
Acquisitions through acquisition of minority interests (note 4)	8,399	-283	11	8,127
Disposals			-3	-3
Transfer of negative goodwill to income	0	283	0	283
Amortisation charge for the period	0	0	-432	-432
<b>Carrying amount at 31 December 2007</b>	<b>23,957</b>	<b>0</b>	<b>1,548</b>	<b>25,505</b>
<i>Cost at 31 December 2007</i>	<i>23,957</i>	<i>0</i>	<i>2,665</i>	<i>26,622</i>
<i>Accumulated amortisation at 31 December 2007</i>	<i>0</i>	<i>0</i>	<i>-1,117</i>	<i>-1,117</i>

	Goodwill	Negative goodwill	Software	Total intangible assets
In thousands of euros				
<b>Carrying amount at 31 December 2005</b>	<b>835</b>	<b>0</b>	<b>33</b>	<b>868</b>
Additions	0	0	60	60
Acquisitions through acquisition of minority interests	241	-943	0	-702
Acquisitions through business combinations	723	0	0	723
Disposals	0	0	-1	-1
Impairment	-805	943	0	137
Transfer of goodwill to income	0	0	0	0
Amortisation charge for the period	0	0	-18	-18
<b>Carrying amount at 31 December 2006</b>	<b>994</b>	<b>0</b>	<b>73</b>	<b>1,068</b>
<i>Cost at 31 December 2006</i>	<i>994</i>	<i>0</i>	<i>118</i>	<i>1,112</i>
<i>Accumulated amortisation at 31 December 2006</i>	<i>0</i>	<i>0</i>	<i>-44</i>	<i>-44</i>
Additions	0	0	53	53
Acquisitions through acquisition of minority interests (note 4)	537	-18	1	519
Disposals	0	0	0	0
Transfer of negative goodwill to income	0	18	0	18
Amortisation charge for the period	0	0	-28	-28
<b>Carrying amount at 31 December 2007</b>	<b>1,531</b>	<b>0</b>	<b>99</b>	<b>1,630</b>
<i>Cost at 31 December 2007</i>	<i>1,531</i>	<i>0</i>	<i>170</i>	<i>1,701</i>
<i>Accumulated amortisation at 31 December 2007</i>	<i>0</i>	<i>0</i>	<i>-71</i>	<i>-71</i>

In 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 5,038 thousand kroons (322 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. Interest-bearing loans and borrowings

### Short-term loans and borrowings

	EEK		EUR	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
In thousands				
Overdraft	14	18,530	1	1,184
Current portion of long-term loans and borrowings	69,086	18,822	4,415	1,203
Including bank loans	65,538	17,751	4,189	1,134
Including other loans	1,073	67	69	4
Including finance lease liabilities	2,475	1,004	158	64
Short-term bank loans and bonds	622,696	640,457	39,798	40,933
Other short-term loans	61,281	21,759	3,917	1,391
<b>Total short-term loans and borrowings</b>	<b>753,077</b>	<b>699,568</b>	<b>52,546</b>	<b>45,913</b>

## Long-term loans and borrowings

	EEK		EUR	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
In thousands				
<b>Total long-term loans and borrowings</b>	<b>670,024</b>	<b>476,080</b>	<b>42,822</b>	<b>30,427</b>
Including current portion	69,086	18,822	4,415	1,203
Including non-current portion	600,938	457,258	38,407	29,224
<i>Including bank loans</i>	<i>545,630</i>	<i>412,180</i>	<i>34,872</i>	<i>26,343</i>
<i>Including other loans</i>	<i>51,071</i>	<i>42,107</i>	<i>3,264</i>	<i>2,691</i>
<i>Including finance lease liabilities</i>	<i>4,237</i>	<i>2,971</i>	<i>123,781</i>	<i>89,888</i>

## 15. Payables

## Short-term payables

	EEK		EUR	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
In thousands				
<b>Trade payables</b>	<b>60,612</b>	<b>68,021</b>	<b>3,874</b>	<b>4,347</b>
<b>Other payables</b>				
Payables to joint ventures	6,386	1	408	0
Payables related to securities transactions	48,616	9,540	3,107	610
Payables related to transactions with non-current assets	2,107	5,000	135	320
Miscellaneous payables	27,389	114,768	1,750	7,335
<b>Total other payables</b>	<b>84,498</b>	<b>129,309</b>	<b>5,400</b>	<b>8,264</b>
<b>Taxes payable</b>				
Value added tax	1,761	9,459	113	605
Income tax on dividends	3,449	1,785	220	114
Personal income tax	2,535	2,054	162	131
Social tax	4,841	3,936	309	252
Other taxes payable	4,037	5,175	258	331
<b>Total taxes payable</b>	<b>16,623</b>	<b>22,409</b>	<b>1,062</b>	<b>1,432</b>
<b>Accrued expenses</b>				
Interest payable	7,164	4,223	458	270
Payables to employees	27,671	10,440	1,768	667
Dividends payable	8,743	3,897	559	249
Other accrued expenses	18,280	10,976	1,168	701
<b>Total accrued expenses</b>	<b>61,858</b>	<b>29,536</b>	<b>3,953</b>	<b>1,888</b>
<b>Total short-term payables</b>	<b>223,591</b>	<b>249,275</b>	<b>14,290</b>	<b>15,932</b>



**Long-term payables**

	EEK		EUR	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
In thousands				
Payables related to securities transactions	1,211	39,562	77	2,528
Other long-term payables	3,396	1,999	217	128
<b>Total long-term payables</b>	<b>4,607</b>	<b>41,561</b>	<b>294</b>	<b>2,656</b>

**16. 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 June 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 57,486 thousand kroons (3,674 thousand euros) have been recognised as a reduction of share premium.

**17. Transactions with related parties**

	EEK		EUR	
	For 2007 or as at 31 December 2007	For 2006 or as at 31 December 2006	For 2007 or as at 31 December 2007	For 2006 or as at 31 December 2006
In thousands				
<b>Transactions with joint ventures</b>				
Revenue	5,017	9,937	321	635
Services purchased	-46	-72	-3	-5
Short-term loan receivables <sup>1</sup>	52,530	4,075	3,357	260
Long-term loan receivables <sup>2</sup>	37,688	2,215	2,409	142
Accounts receivable	963	4,846	62	310
Other receivables	142	4,967	9	317
Other long-term receivables	850	0	54	0
Payables	5,566	1	356	0
<b>Transactions with companies having joint control over Group companies</b>				
Revenue	135	0	9	0
Services purchased	-555	-103	-35	-7
Other short-term receivables <sup>3</sup>	4,907	0	314	0
Short-term loan receivables	868	113	55	7
Current portion of interest-bearing loans and borrowings <sup>4</sup>	51,852	3,240	3,314	207
Other payables <sup>5</sup>	10,960	0	700	0
Non-current portion of interest-bearing loans and borrowings	38,898	12,438	2,486	795
Other long-term payables	815	0	52	0

Continued

	EEK		EUR	
	For 2007 or as at 31 December 2007	For 2006 or as at 31 December 2006	For 2007 or as at 31 December 2007	For 2006 or as at 31 December 2006
<b>Transactions with key staff of the Group or the Group's management</b>				
Revenue	5,093	0	326	0
Short-term loan receivables	0	5,017	0	321
Accounts receivable	1,377	104	88	7
Current portion of interest-bearing loans and borrowings	1,945	268	124	17
Other payables	373	0	24	0
<b>Transactions with other related parties</b>				
Revenue	14,395	249	920	16
Services purchased	10,582	-27,756	676	-1,774
Short-term loan receivables <sup>6</sup>	13,212	8,196	844	524
Other receivables	2,458	5,089	157	325
Long-term loan receivables	0	5,197	0	332
Current portion of interest-bearing loans and borrowings	298	552	19	35
Other payables	28,623	39,616	1,829	2,532
Other long-term payables	997	0	64	0
Non-current portion of interest-bearing loans and borrowings	7,491	2,960	479	189

<sup>1</sup> 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 31 December 2007, short-term loan receivables from joint venture Arco HCE OÜ totalled 46,975 thousand kroons (3,002 thousand euros). The annual interest rate of the loan is 10%.

<sup>2</sup> Long-term loan receivables from joint ventures as at 31 December 2007 include, among other items, a loan of 37,552 thousand kroons (2,400 thousand euros) granted to Bishumizhas Nami SIA. The annual interest rate of the loan is 7% and the settlement term is 31 December 2014.

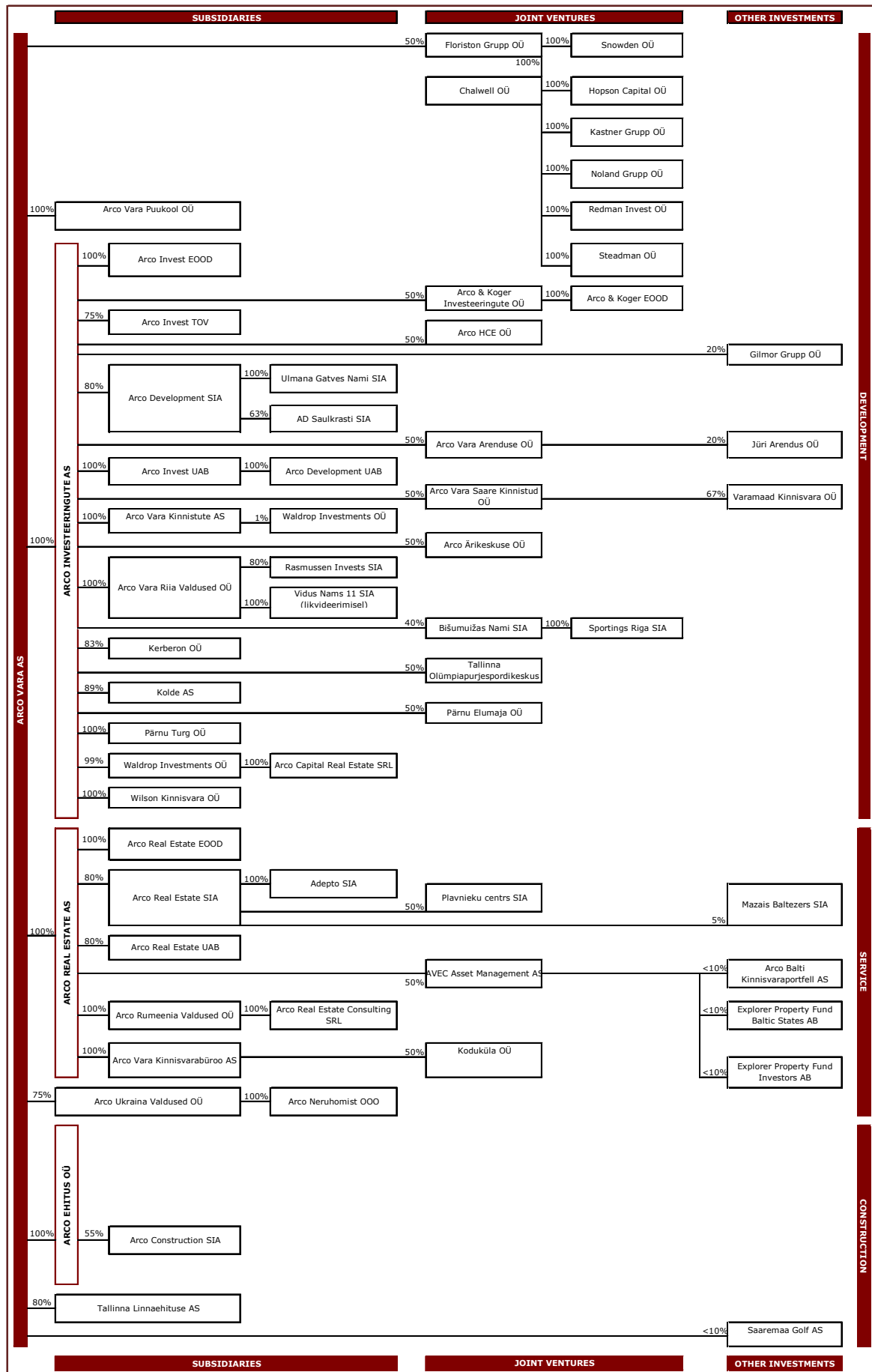
<sup>3</sup> At 31 December 2007, other receivables from companies with joint control over Group companies included receivables from the Group's related parties which in the second quarter were taken over by companies holding shares in Arco Vara AS. At the date of transfer, the receivables totalled 8,532 thousand kroons (545 thousand euros). On the distribution of dividends the receivables will be offset against the Group's dividend liabilities. At 31 December 2007, the receivables totalled 3,487 thousand kroons (223 thousand euros).

<sup>4</sup> Current portion of interest-bearing loans and borrowings includes 46,034 thousand kroons (2,942 thousand euros) due to the other venturer of Arco HCE OÜ. The annual interest rate of the loan is 10%.

<sup>5</sup> At 31 December 2007, other payables to companies having joint control over Group companies included dividends payable of 8,477 thousand kroons (542 thousand euros).

<sup>6</sup> At 31 December 2006, other receivables included items due from Arco Kinnisvaraholduse AS which had 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 31 December 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%.

18. The Group's structure (as at 31 December 2007)



## Management's statement

The management board of Arco Vara AS has prepared the condensed consolidated interim financial statements for the fourth quarter and twelve months of 2007 presented on pages 2 to 37.

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.

Aare Tammemäe  
Chairman of the Management Board

Veiko Taevere  
Member of the Management Board

Avo Rõõmussaar  
Member of the Management Board

Ahto Altjõe  
Member of the Management Board