

Arco Vara AS

Interim report I half-year 2008



ARCO VARA

KINNISVARAFIRMA • REAL ESTATE COMPANY

EESTI • LÄTI • LEEDU • UKRAINA • BULGAARIA • RUMEENIA

SECOND QUARTER AND SIX MONTHS 2008
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

Business name: Arco Vara AS

Registry number: 10261718

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Core activities: Real estate development and investment (EMTAK¹ 701)
Real estate services (EMTAK 702, 703)
Construction (EMTAK 45)

Financial year: 1 January 2008 – 31 December 2008

Reporting period: 1 January 2008 – 30 June 2008

Supervisory board: Hillar-Peeter Luitsalu, Richard Tomingas,
Kalev Tanner, Aare Tark, Ragnar Meitern

Management board: Lembit Tampere, Avo Rõõmussaar,
Veiko Taevere, Heigo Metsoja

Auditor: Ernst & Young Baltic AS

¹ EMTAK – Estonian Classification of Economic Activities

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Management report

for the second quarter and six months ended 30 June 2008

KEY FINANCIALS

- Revenue and other income for the first half-year totalled 344.8 million kroons (22.0 million euros), 29% down year-over-year.
- EBIT amounted to -49.2 million kroons (-3.1 million euros), a 137.3 million kroon (8.8 million euro) decrease compared with the EBIT earned in the first half of 2007.
- Net loss was 44.7 million kroons (2.9 million euros), 271.9 million kroons (17.4 million euros) down from the net profit generated a year ago.
- Equity ratio was 56.1% (6 months 2007: 57.6%), ROE -2.2% (6 months 2007: 40.0%) and ROIC 0.3% (6 months 2007: 21.9%).
- Group's order backlog in the construction business stood at 338 million kroons (21.6 million euros) against 358 million kroons (23.0 million euros) in first quarter.
- During 6 months 78 apartments and plots were sold or reserved compared with 67 last year.

	EEK				EUR			
	6 months 2008	6 months 2007	Q2 2008	Q2 2007	6 months 2008	6 months 2007	Q2 2008	Q2 2007
In millions								
Revenue and other income	344.8	487.6	232.9	147.1	22.0	31.2	14.9	9.4
Operating profit / loss	-49.2	88.1	-19.5	15.8	-3.1	5.6	-1.2	1.0
<i>Including net gain / loss on fair value adjustments to investment property</i>	-16.9	55.4	-4.4	6.7	-1.1	3.5	-0.3	0.4
Profit / loss before tax	-33.5	237.1	-17.2	167.7	-2.1	15.2	-1.1	10.7
<i>Including net gain / loss on the divestment of financial assets</i>	-19.5	123.0	-19.5	7.7	-1.2	7.9	-1.2	0.5
Net profit / loss	-44.7	227.2	-28.0	158.1	-2.9	14.5	-1.8	10.1
EPS 1 (in kroons and euros)	-0.54	3.27	-0.38	2.34	-0.03	0.21	-0.02	0.15
EPS 2 (in kroons and euros)	-0.54	3.27	-0.38	2.34	-0.03	0.21	-0.02	0.15
Total assets at period end	3,267.0	3,334.0			208.8	213.1		
Invested capital at period end	3,019.0	2,986.2			192.9	190.9		
Net loans at period end	815.4	-78.2			52.1	-5.0		
Equity at period end	1,832.7	1,921.3			117.1	122.8		
Average loan term (in years)	1.9	n/a			1.9	n/a		
Average interest rate of loans (per year)	7.2%	n/a			7.2%	n/a		
ROIC (rolling 4 quarters)	0.3%	21.9%			0.3%	21.9%		
ROE (rolling 4 quarters)	-2.2%	40.0%			-2.2%	40.0%		
Number of staff at period end	569	574			569	574		

Comments by the CEO

- Macroeconomic and refinancing risks characterize more and more also other markets than Baltics: Ukraine, Bulgaria and Romania. Under the circumstances, strong liquidity is the key for becoming a winner in this situation. The Baltic prices have not bottomed out – less attractively located and lower quality properties will see further price adjustment. Although according to Arco's long-term strategy we intend to increase our exposure in Ukraine and Balkan region, today the main goal is to increase group's liquidity by selling cost cutting sales of some major projects. 75% of Arco's real estate portfolio is based in Estonia.
- Development divisions' performance indicators (planning, construction, vacancies and apartment sales) for the first six months were positive, but the current stages of the projects allow recognising only liabilities for reservation fees received, not sales revenues. The results of the Development division are subject to significant fluctuations and the figures for the following quarters may prove radically different as the projects progress. Taken into account the development phase (Tivoli, Ahtri3, Laeva, BM-2 etc.) and less asset value growth, the results of the division were expected to be poor. Highlights of the period included adoption of detailed plans for Tivoli, Laeva 2 and MB-3 properties, investment in the Simferopol project and an apartment sales block deal in Sofia.
- The year has been most depressing for our service division and despite cost cutting and closure of some offices the division may end the year even with operating losses up to 30.00 mln kroons (1.6 million euros). However, the Group's market position is strong and the division's performance indicators (number of transactions and valuations) have deteriorated less than the market's average.
- The Construction division continues turning a profit and has been able to win environmental engineering tenders in both Estonia and Latvia. The winning of new construction contracts in Estonia and Latvia has increased the division's contribution to the Group's overall results. The decline in the civil engineering business and the number of internal contracts indicates that the shift in focus was justified.

REVENUE AND PROFIT

	EEK				EUR			
	6 months 2008	6 months 2007	Q2 2008	Q2 2007	6 months 2008	6 months 2007	Q2 2008	Q2 2007
In millions								
Revenue and other income								
Service	58.6	64.8	29.4	34.6	3.7	4.1	1.9	2.2
Development	139.9	382.5	110.2	87.7	8.9	24.4	7.0	5.6
Construction	206.1	157.4	116.6	100.2	13.2	10.1	7.5	6.4
Asset management	6.8	6.2	3.4	3.1	0.4	0.4	0.2	0.2
Eliminations	-66.7	-123.3	-26.8	-78.5	-4.3	-7.9	-1.7	-5.0
Total revenue and other income	344.8	487.6	232.8	147.1	22.0	31.2	14.9	9.4
Operating profit / loss								
Service	-20.4	-9.0	-10.9	-5.7	-1.3	-0.6	-0.7	-0.4
Development	-22.2	114.3	-6.1	28.2	-1.4	7.3	-0.4	1.8
Construction	4.0	-3.3	-0.2	3.0	0.3	-0.2	0.0	0.2
Asset management	2.4	2.4	1.1	0.7	0.2	0.2	0.1	0.0
Eliminations	-1.9	1.0	2.7	-4.6	-0.1	0.1	0.2	-0.3
Unallocated expenses	-11.0	-17.2	-5.9	-5.8	-0.7	-1.1	-0.4	-0.4
Total operating profit / loss	-49.2	88.1	-19.5	15.7	-3.1	5.6	-1.2	1.0

Interest income and expense	16.0	-15.1	11.0	-7.2	1.0	-1.0	0.7	-0.5
Other finance income and expense	-0.4	164.0	-8.7	159.1	0.0	10.5	-0.6	10.2
Income tax expense	-11.2	-9.9	-10.8	-9.6	-0.7	-0.6	-0.7	-0.6
Net profit / loss for the period	-44.7	227.2	-27.9	158.1	-2.8	14.5	-1.8	10.1

The bulk of the Group's revenue was generated by the Construction division which increased half-year sales by 31% to 206.1 million kroons (13.2 million euros). The plunge in sales may be attributed to the underperformance of the Development division. Although 78 apartments or plots were reserved (Kolde 27, Madrid 63, Manastirski 2, BM-1 -12 and MB-5 -2), most of related revenue and gross profit will realise at the end of 2009 when the Madrid project is completed.

Compared with the first half of 2007 when we earned an EBIT of 88.1 million kroons (5.6 million euros), the first six months of 2008 brought an operating loss of 49.2 million kroons (3.1 million euros). Consolidated operating loss includes 16.9 million kroons (1.1 million euros) representing net loss on fair value adjustments to investment property. Although in the reporting period detailed plans were adopted for the Tivoli, MB-3 and Laeva (a development which increases the value of the properties significantly), the assets cannot be revalued because they are carried at cost.

Finance income resulted mainly from interest income of 23.3 million kroons (1.5 million euros) and the reversal of an impairment loss of 25.2 million kroons (1.6 million euros) recognised for a receivable related to the Kipsala project. The main sources of finance expense were the disposal of shares in AVEC Asset Management which resulted in a loss of 17.9 million kroons (1.1 million euros), interest expense of 14.5 million kroons (0.9 million euros) and foreign exchange losses of 4.7 million kroons (0.3 million euros).

CASH FLOWS

	EEK				EUR			
	6 months 2008	6 months 2007	Q2 2008	Q2 2007	6 months 2008	6 months 2007	Q2 2008	Q2 2007
In millions								
Cash flows from operating activities	-107.0	23.0	-73.7	-8.5	-6.8	1.5	-4.7	-0.5
Cash flows from investing activities	-156.6	128.9	24.0	39.8	-10.0	8.2	1.5	2.5
Cash flows from financing activities	-267.9	888.6	-198.5	952.1	-17.1	56.8	-12.7	60.9
Net cash flow	-531.5	1,040.5	-248.2	983.4	-34.0	66.5	-15.9	62.9
Cash and cash equivalents at beginning of period	765.0	58.3	481.7	115.4	48.9	3.7	30.8	7.4
Effect of exchange rate fluctuations	-0.3	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents at end of period	233.2	1,098.7	233.2	1,098.8	14.9	70.2	14.9	70.3

The main component of negative operating cash flow was the increase in inventories where are recorded investments in residential projects: Kolde 10.0 million kroons (0.64 million euros), BM-1 13.8 million kroons (0.9 million euros), Madrid and Manastirski in total 43.2 million kroons (2.8 million euros).

The main components of negative investment cash flows were: major payables came due in amount of 44.0 million kroons (2.8 million euros), Ukraine investment 79.1 million kroons (5.1 million euros) and investments of liquid assets to Kesko's short-term bonds for 126.5 million kroons (8.1 million euros). In addition the Group granted debt to our Ukraine partner in amount of 26.0 million kroons (1.7 million euros) and to joint ventures 17.6 million kroons (1.1 million euros).

Until the Ukraine partner hasn't fulfilled conditions precedent according to Letter of Intent and Arco is not the legal owner of 50% of the shares in project company, the Group can call back the prepayment and subordinated loans in amount of 105.1 million kroons (6.9 million euros) and receive the money and corresponding interests in 12 months. If we add

Group's cash account, Kesko's short-term bonds and Ukraine receivable then cash and potential cash that can be released from financial assets amounts up to 468.1 million kroons (29.9 million euros). Ukraine receivable is guaranteed by one Estonian entity called AS Ühendatud Kapital.

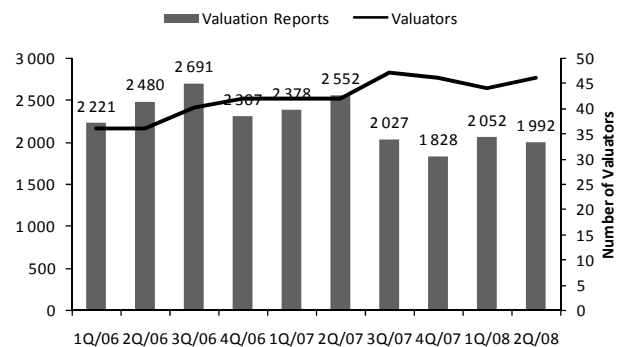
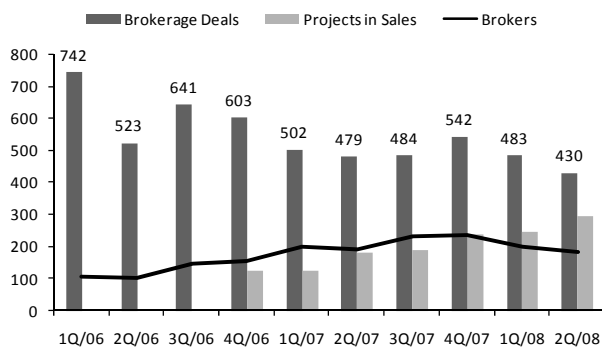
Arco management considers that our liquidity position is still good and it's our first priority to ensure that it stays like this, specially under the global capital market turbulence and much higher refinancing risks.

SERVICE DIVISION

The number of brokerage transactions has dropped in Estonia and Lithuania and risen in Latvia and Ukraine. The proportion of rental transactions in the overall transaction mix will increase, specifically in Estonia and Latvia. Considering the market situation we have closed 4 offices: Vilnius II, Ogre, Teika and Varna. The division operates in 26 offices. During the summer, particularly August, business will slump in all markets. It's probable that in the second half of the year we close at least 4 more offices.

The number of housing transactions is shrinking on the Bulgarian and Romanian market, but the price correction hasn't yet taken place. On the Balkans and in Ukraine, people with purchasing power are postponing their transactions due to rising borrowing costs and a fear of a decrease in liquidity.

	6 months 2008	6 months 2007	Change, %	Q2 2008	Q2 2007	Change, %
Number of properties brokered	913	981	-7	430	479	-10
Number of projects on sale	270	152	78	293	180	63
Number of valuation reports issued	4,044	4,930	-18	1,992	2,552	-22
Number of appraisers	46	42	10			
Number of real estate brokers	183	193	-5			
Average number of staff	315	340	-7			



DEVELOPMENT DIVISION

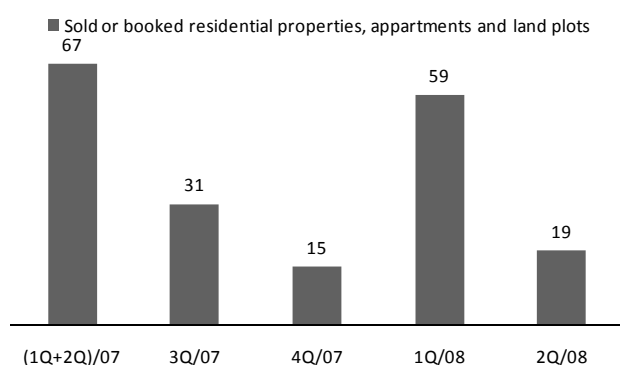
Decline in the number of property deals affected the most our Latvian business, where 14 of our clients considered to be better off by cancelling the pre-booking and losing their downpayment in BM-1 project. On other markets no pre-bookings have been cancelled. Decline in Latvia is right now compensated by increase in Tallinn and Sofia. In Kolde project in Tallinn were sold or booked 27 apartments, in Sofia 65, whereas 2 booking already in Manastirski project. In project "Madrid" in Sofia we have already 61% of residential spaces pre-sold and enabled us to refinance the existing loan facility on more favourable conditions so that some of the equity can be released right now. In the project "Manastirsiki" in Sofia we ended the replanning process and construction tender and started presale marketing.

The main concern of the division is still the refinancing risk of our land bank where there are no development activities. In order to minimise the risk the Group considers to sell on of its land market project and start sales campaign in Kolde, MB-1 and

Merivälja 2 projects. In six months we have sold one asset for its book value of 30.0 million kroons (1.9 million euros). We have also cancelled "Kippsala" project in Riga 'cause the seller was not able to produce zoning rights and according to initial sales agreement we had the right to cancel the deal and get back the total amount plus penalties and carrying interest. As of 30.06.2008 the seller has paid back from initial outstanding amount (58.9 million kroons (3.8 million euros)) 46.9 million kroons (3.0 million euros). The rest is paid back according to schedule.

The biggest new development is retail centre in Simferopol in Ukraine. We have made prepayment for the 50% stake in the project. Considering Group's liquidity position It's important to mention that until the transfer of the title of the share we have the right to call back the deal and get back the money in 12 months plus carrying interest from 6 to 12% per year. The payment has AS Ühendatud Kapital guarantee.

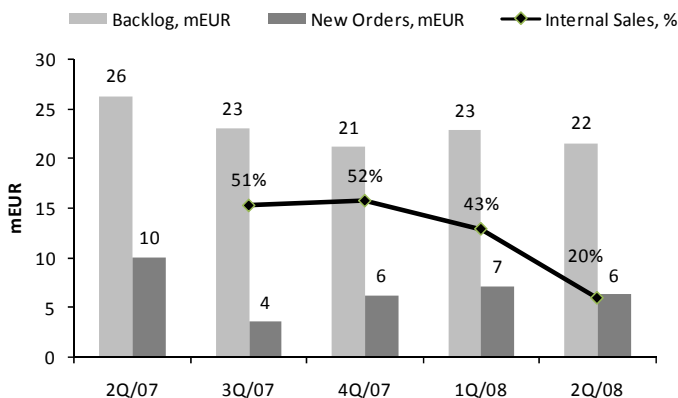
As of 30.06.2008 the division employs 49 people (30.06.2007: 61 people). Additional info on projects can be found on: www.arcorealestate.com/arendus



CONSTRUCTION DIVISION

According to management's estimates, the decrease in demand for residential construction services has lowered housing construction prices by around 15-20%. As a result, in the second quarter the Construction division won only environmental engineering contracts and no civil engineering ones. 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 gained a position that allows participating in public procurement tenders. In the first quarter the subsidiary won a public procurement tender for the design and construction of an iron removal plant at a water treatment facility in the village of Ogre. The size of the contract is 48.5 million kroons (3.1 million euros).

In the second quarter the division was awarded construction contracts of 98.0 million kroons (6.3 million euros), all in Estonia. At the end of the reporting period, the division's order backlog was 338 million kroons (21.6 million euros). Intra-group sales accounted for 20% of six-month revenue. During the reporting period, the division employed 181 people (6 months 2007: 150).



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 m ²	A prepayment has been made for a 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 which should be opened at the end of 2008 is under way.	Other non-current financial assets and prepayments
Commercial	Ahtri 3	Estonia, Tallinn	50%	45.310m ²	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 51,100 m ² . Design work is under way and we are looking for tenants.	Investment property
Commercial	Ilmarine	Estonia, Tallinn	50%	Ca 80,000 m ²	Adoption of the thematic plan "Location of high rise buildings in Tallinn" is under way.	Investment property
Commercial	Laeva 2	Estonia, Tallinn	100%	7.776 m ²	A detailed plan has been adopted. We have applied for a building permit and are looking for tenants.	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 m ²	No building rights. We have initiated adoption of a detailed plan.	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 m ²	Building rights. Generates cash flow.	Investment property
Cash flow	Kerberon	Estonia, Tallinn	83%	6,455 m ²	Building rights. The right to superficies. Generates cash flow. We completed an extension for a specific client.	Investment property
Cash flow	Melon	Estonia, Tallinn	50%	8,691 m ²	Building rights. Generates cash flow. We have applied for additional building rights to ca 12,000m ² (in the yard behind the building).	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	9,745 m ²	Building rights. Generates cash flow.	Investment property
Cash flow	Rüütli 16/18	Estonia, Tallinn	50%	980 m ²	Building rights. Generates cash flow.	Investment property
Cash flow	TOP Commercial premises	Estonia, Tallinn	50%	We are working on the adoption of a new plan for at least 74.675 m ²	Building rights correspond to currently built-up area. Generates cash flow. Current total area 17,000 m ² . 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	Bishmuizhas 1	Latvia, Riga	80%	Unsold building rights 19.470 m ²	Building rights. Construction and sale of apartments is under way.	Inventories
Apartments	Bishmuizhas 2	Latvia, Riga	40%	87.770 m ²	Intended purpose is provided in the general plan. Design work is under way.	Inventories
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m ²	Building rights. The project is on sale.	Inventories
Apartments	Kolde	Estonia, Tallinn	89%	Unsold building rights 19.712m ²	Right of superficies. Building rights, Apartments are on sale.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Unsold building rights 13.716 m ²	Building rights. Construction and sale of apartments are under way.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Unsold building rights 27.337 m ²	Building rights, Ready for construction. Sale is under way.	Inventories
Apartments	Plavnieku centrs	Latvia, Riga	40%	13,243 m ²	Building rights. We are preparing a joint business plan with the city.	Inventories
Apartments	Saulkrasti	Latvia, Riga	50%	14.310 m ²	Right of superficies. Adoption of a detailed plan initiated.	Investments in related parties

Apartments	Tivoli	Estonia, Tallinn	100%	58,470 m ²	No building rights. Planning is in the final stage	Inventories
Apartments	TOP Residential premises	Estonia, Tallinn	50%	33,770 m ²	No building rights. Planning is in the initial stage	Investment property
Plots	Baltezers-3	Latvia, Riga	80%	n/a, total land area 861,900 m ²	The right of superficies. Adoption of a detailed plan for the construction of ca 190 detached houses is in the final stage.	Inventories
Plots	Baltezers-5	Latvia, Riga	80%	47 unsold plots	Building rights. Construction has been completed. Sale is under way.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	ca 69.400 m ² , 57 plots	Contract on the exchange of land with the City of Tallinn has been signed. Preparations for construction and sale are under way.	Inventories
Plots	Pärtli	Estonia, Saue	50%	84 plots, average plot 1,500 m ²	No building rights. Adoption of a detailed plan initiated. Suspended until improvement in market situation.	Inventories
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1,802 m ²	No building rights. Adoption of a detailed plan initiated. Suspended until improvement in market situation.	Inventories
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3,363 m ²	We have 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, particularly 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, current state, project type and classification of the project in the balance sheet, has been recorded based on management's intentions and best 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 30 June 2008	Book values of projects presented in the summary table at 30 June 2008	Balance sheet item at 30 June 2008	Book values of projects presented in the summary table at 30 June 2008
In thousands				
Total assets	3,267,036	2,206,341	208,802	141,011
Long-term receivables	172,972	82,400	11,055	5,266
Inventories	1,237,238	1,127,088	79,074	72,034
Investment property	975,173	917,957	62,325	58,668
Property, plant and equipment	149,256	78,895	9,539	5,042

SIGNIFICANT CHANGES IN DETAILED PLANS IN Q2 2008

Tivoli: Tallinn City Council adopted a detailed plan for the property. The gross enclosed area of up to five-floor apartment blocks is 51,400 m² and the area for commercial premises is 7000 m². In addition, the plan foresees underground parking spaces on up to 21,150 m². An apartment owner in the neighbouring community has filed a challenge and initial court protection is applied on his behalf. The case continues.

Ahtri: The property has a detailed plan with building rights. 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 will apply. The new plan includes above-ground building rights to 51,110 m².

Laeva 2: The city government has adopted a detailed plan for the property which allows the construction of an up to six-floor commercial building with a gross enclosed area of up to 7,776 m² and the construction of 72 underground parking spaces.

PM80: The 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.

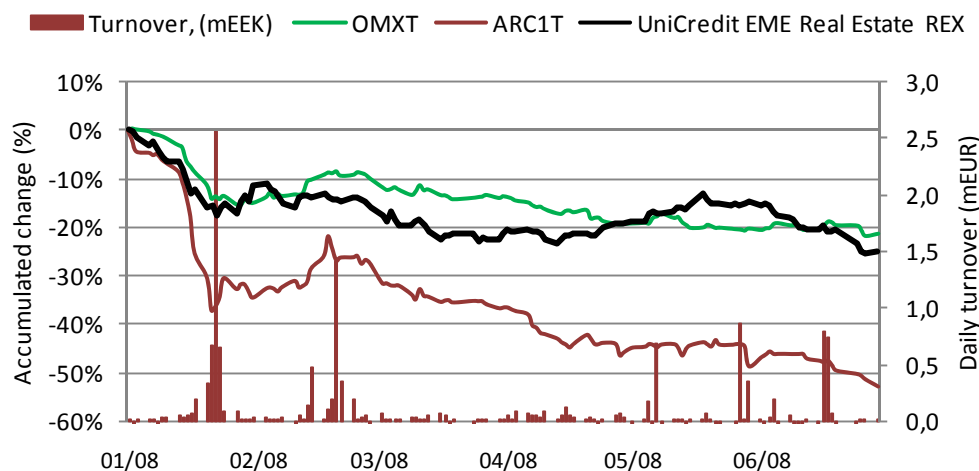
Baltezeres-3: Garkalne local government has adopted a detailed plan for the property. The size of the plot is 86 ha; 60 ha of this can be built up with an intensity of 30% so that maximum building rights extend to 181,392 m² of gross enclosed area.

CHANGES IN THE GROUP'S STRUCTURE

The most significant change in the Group's structure was the divestment of shares in AVEC Asset Management AS. The largest transaction involved exchange of interests in subsidiaries – the Group exchanged its entire holding in Tallinna Linnaehituse AS for full ownership in Kolde AS and Kerberon OÜ. The Construction division acquired a 55.0% stake in Tempera Ehitus. The impact of the transactions on the Group's performance is presented in note 3 and 4 to the consolidated financial statements.

SHARE AND SHAREHOLDERS

At the end of the second quarter Arco Vara AS had 1,518 shareholders, 77% of them holding less than 1,000 shares. The number of outstanding shares was 95,284,150. On 30 June 2008, the share price closed at 10.83 kroons (0.69 euros). After the reporting period Arco Vara AS purchased back 450 000 of own shares with average acquisition cost of 8.87 kroons (0.57 euros).



10 major shareholders at 30 June 2008	Number of shares	Ownership interest
TOLETUM OÜ	23,761,773	24.9%
HM INVESTEERINGUD OÜ	20,342,633	21.3%
OÜ GREATWAY	17,368,504	18.2%
JPMORGAN CHASE BANK, UK RESIDENTS	9,249,723	9.7%
Central Securities Depository of Lithuania	3,551,169	3.7%
DEUTSCHE BANK AG, LONDON	3,451,086	3.6%
Skandinaviska Enskilda Banken Ab Clients	3,426,350	3.6%
STATE STREET BANK AND TRUST CO	1,994,329	2.1%
J.P. MORGAN BANK LUXEMBOURG S.A.	1,227,500	1.3%
PICTET & CIE CLIENT ACCOUNT	879,465	0.9%

Interests of members of the management board at 30 June 2008	Position	Number of shares	Ownership interest
Aare Tammemäe	Chairman of the Management Board	77,500	0.08%
Veiko Taveere	Head of the Development Division	31,000	0.03%
Ahto Altjõe	Head of the Construction Division	77,500	0.08%
Avo Rõõmussaar	Head of the Service Division	23,840	0.02%
Total		209,840	0.22%

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

For the six months ended 30 June 2008	Note	6 months 2008	6 months 2007	Q2 2008	Q2 2007
In EEK, thousands					
Rendering of services		222,890	135,621	134,199	81,783
Sale of goods		90,589	277,137	71,759	39,794
Total revenue	5	313,479	412,758	205,958	121,577
Cost of sales		-262,733	-301,237	-176,406	-74,840
Gross profit		50,746	111,521	29,552	46,737
Other income	6	31,342	74,819	26,948	25,563
Selling and distribution costs		-9,238	-12,875	-4,566	-5,310
Administrative expenses	7	-72,913	-64,132	-38,840	-32,742
Other expenses	8	-49,105	-21,195	-32,592	-18,496
Operating profit / loss		-49,168	88,138	-19,498	15,752
Finance income	9	31,569	173,044	17,558	162,874
Finance expenses	10	-15,929	-24,115	-15,228	-10,947
Profit / loss before tax		-33,528	237,067	-17,168	167,679
Income tax expense		-11,155	-9,904	-10,788	-9,616
Profit / loss for the period		-44,683	227,163	-27,956	158,063
<i>Attributable to minority interests</i>		7,246	5,182	8,688	-419
<i>Attributable to equity holders of the parent</i>		-51,929	221,981	-36,644	158,482
Earnings per share (in kroons)	11				
- Basic		-0.54	3.27	-0.03	0.21
- Diluted		-0.54	3.27	-0.03	0.21

For the six months ended 30 June 2008	Note	6 months 2008	6 months 2007	Q2 2008	Q2 2007
In EUR, thousands					
Rendering of services		14,245	8,668	8,577	5,227
Sale of goods		5,790	17,712	4,586	2,543
Total revenue	5	20,035	26,381	13,163	7,770
Cost of sales		-16,792	-19,253	-11,274	-4,783
Gross profit		3,243	7,127	1,890	2,987
Other income	6	2,003	4,782	1,722	1,634
Selling and distribution costs		-590	-823	-292	-339
Administrative expenses	7	-4,660	-4,099	-2,482	-2,093
Other expenses	8	-3,138	-1,355	-2,083	-1,182
Operating profit / loss		-3,141	5,633	-1,245	1,007
Finance income	9	2,018	11,060	1,122	10,410
Finance expenses	10	-1,018	-1,541	-982	-700
Profit / loss before tax		-2,142	15,152	-1,096	10,717
Income tax expense		-713	-633	-689	-615
Profit / loss for the period		-2,854	14,519	-1,785	10,102
<i>Attributable to minority interests</i>		463	331	555	-27
<i>Attributable to equity holders of the parent</i>		-3,319	14,187	-2,342	10,129
Earnings per share (in euros)	11				
- Basic		-0.03	0.21	-0.02	0.15
- Diluted		-0.03	0.21	-0.02	0.15

Condensed consolidated interim balance sheet

As at 30 June 2008	Note	EEK		EUR	
		30 June 2008	31 December 2007	30 June 2008	31 December 2007
In thousands					
Cash and cash equivalents		233,158	765,008	14,902	48,893
Other financial assets		136,858	78,595	8,747	5,023
Receivables	12	315,169	297,189	20,143	18,994
Prepayments		13,502	10,450	863	668
Inventories	13	1,237,238	1,148,433	79,074	73,398
Biological assets		7,887	8,360	504	534
Total current assets		1,943,812	2,308,035	124,233	147,510
Other financial assets		235	48,515	15	3,101
Receivables	12	172,972	40,124	11,055	2,564
Investment property	14	975,173	999,999	62,325	63,912
Property, plant and equipment	15	149,256	141,863	9,539	9,067
Intangible assets	16	25,588	25,505	1,635	1,630
Total non-current assets		1,323,224	1,256,006	84,569	80,274
TOTAL ASSETS		3,267,036	3,564,041	208,802	227,784
Loans and borrowings	17	609,610	753,077	38,961	48,130
Payables	18	171,283	223,591	10,947	14,290
Deferred income	19	72,576	47,216	4,638	3,018
Provisions		5,031	3,468	322	222
Total current liabilities		858,500	1,027,352	54,868	65,660
Loans and borrowings	17	566,591	600,938	36,212	38,407
Other liabilities	18	9,186	4,607	587	294
Deferred income tax liability		68	1,321	4	84
Provisions		0	251	0	16
Total non-current liabilities		575,845	607,117	36,803	38,801
TOTAL LIABILITIES		1,434,345	1,634,469	91,671	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		31,463	20,084	2,011	1,284
Other reserves		101	37	6	2
Retained earnings		118,362	218,830	7,565	13,986
Total equity attributable to equity holders of the parent		1,815,282	1,904,307	116,018	121,708
Minority interests		17,409	25,265	1,113	1,615
Total equity		1,832,691	1,929,572	117,131	123,323
TOTAL LIABILITIES AND EQUITY		3,267,036	3,564,041	208,802	227,784

Condensed consolidated interim cash flow statement

For the six months ended 30 June 2008	EEK		EUR	
	6 months 2008	6 months 2007	6 months 2008	6 months 2007
In thousands				
Net profit / loss	-44,683	227,163	-2,854	14,519
Interest income and expense	-16,004	15,120	-1,023	966
Gains and losses on disposal of subsidiaries and interests in jointly controlled entities	19,476	-123,027	1,245	-7,863
Gains and losses on other financial assets	1,465	-41,284	94	-2,639
Impairment losses on financial assets	-25,248	0	-1,614	0
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3,700	2,319	236	147
Recognition of negative goodwill as income	0	-264	0	-17
Gain / loss on the sale of property, plant and equipment and intangible assets	-38	-31	-3	-1
Gain / loss on the sale of investment property	0	1,347	1	86
Change in the fair value of investment property and biological assets	16,855	-55,355	1,077	-3,538
Exchange gains and losses	4,671	262	299	17
Corporate income tax expense	11,731	9,904	750	633
Operating cash flow before working capital changes	-28,075	36,154	-1,792	2,310
Change in receivables and prepayments	-48,687	-20,072	-3,112	-1,282
Change in inventories	-47,214	21,223	-3,018	1,356
Change in biological assets	474	344	30	22
Change in payables and deferred income	16,454	-14,691	1,052	-939
NET CASH USED IN OPERATING ACTIVITIES	-107,048	22,958	-6,840	1,467
Acquisition of property, plant and equipment and intangible assets	-12,885	-17,403	-824	-1,112
Proceeds from sale of property, plant and equipment and intangible assets	313	8,330	20	532
Acquisition of investment property	-900	-8,796	-58	-562
Proceeds from sale of investment property	29,000	40,518	1,853	2,590
Acquisition of subsidiaries and interests in jointly controlled entities	-126,299	-8,560	-8,072	-547
Proceeds from disposal of subsidiaries and interests in jointly controlled entities	1,005	95,388	64	6,096
Acquisition of other financial assets	-126,500	0	-8,085	0
Proceeds from sale of other financial assets	107,502	0	6,871	0
Loans granted	-49,739	-10,128	-3,179	-647
Repayment of loans granted	3,426	27,353	219	1,748
Interest received	18,460	2,199	1,180	141
NET CASH USED IN / FROM INVESTING ACTIVITIES	-156,617	128,901	-10,011	8,239
Proceeds from loans received	41,754	306,159	2,669	19,567
Repayment of loans and payment of finance lease liabilities	-227,687	-369,446	-14,552	-23,612
Change in overdraft	-14	-18,529	-1	-1,184
Change in group account liability	-798	-367	-51	-23
Interest paid	-35,917	-21,173	-2,296	-1,353
Proceeds from issue of share capital	0	1,001,791	0	64,026
Dividends paid	-42,274	-8,336	-2,702	-533
Income tax paid on dividends	-2,916	-1,451	-186	-93
NET CASH USED IN / FROM FINANCING ACTIVITIES	-267,852	888,648	-17,119	56,795
NET CASH FLOW	-531,517	1,040,507	-33,970	66,501
Cash and cash equivalents at beginning of period	765,008	58,345	48,893	3,729
Decrease / increase in cash and cash equivalents	-531,517	1,040,507	-33,970	66,501
Effect of exchange rate fluctuations	-333	-106	-22	-7

Cash and cash equivalents at end of period

233,158

1,098,746

14,902

70,222

Condensed consolidated interim statement of changes in equity

For the six months ended 30 June 2008	Equity attributable to equity holders of the parent							Minority interests	Total equity
	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In EEK, thousands									
At 31 December 2006	304,530	0	123,083	5,486	-184	292,002	724,917	16,964	741,881
Foreign currency translation differences	0	0	0	0	-9	0	-9	0	-9
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	577	577
Bonus issue	373,312	0	-123,083	0	0	-250,229	0	0	0
Issue of share capital	0	275,000	712,857	0	0	0	987,857	0	987,857
Dividends declared	0	0	0	0	0	-25,430	-25,430	-200	-25,630
Initial recognition of the put options of minority shareholders	0	0	0	0	0	-10,502	-10,502	0	-10,502
Transfer to capital reserve	0	0	0	14,598	0	-14,598	0	0	0
Profit for the period	0	0	0	0	0	221,981	221,981	5,182	227,163
At 30 June 2007	677,842	275,000	712,857	20,084	-193	213,224	1,898,814	22,523	1,921,337
At 31 December 2007	952,842	0	712,514	20,084	37	218,830	1,904,307	25,265	1,929,572
Foreign currency translation differences	0	0	0	0	64	0	64	0	64
Dividends declared	0	0	0	0	0	-37,160	-37,160	-1,252	-38,412
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	-13,850	-13,850
Transfer to capital reserve	0	0	0	11,379	0	-11,379	0	0	0
Loss for the period	0	0	0	0	0	-51,929	-51,929	7,246	-44,683
At 30 June 2008	952,842	0	712,514	31,463	101	118,362	1,815,282	17,409	1,832,691

For the six months ended 30 June 2008	Equity attributable to equity holders of the parent							Minority interests	Total equity
	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In EUR, thousands									
At 31 December 2006	19,463	0	7,866	351	-12	18,662	46,330	1,084	47,414
Foreign currency translation differences	0	0	0	0	-1	0	-1	0	-1
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	37	37
Bonus issue	23,859	0	-7,866	0	0	-15,993	0	0	0
Issue of share capital	0	17,576	45,560	0	0	0	63,136	0	63,136
Dividends declared	0	0	0	0	0	-1,625	-1,625	-13	-1,638
Initial recognition of the put options of minority shareholders	0	0	0	0	0	-671	-671	0	-671
Transfer to capital reserve	0	0	0	933	0	-933	0	0	0
Profit for the period	0	0	0	0	0	14,187	14,187	331	14,518
At 30 June 2007	43,322	17,576	45,560	1,284	-13	13,627	121,356	1,439	122,795
At 31 December 2007	60,898	0	45,538	1,284	3	13,986	121,708	1,615	123,323
Foreign currency translation differences	0	0	0	0	3	0	3	0	3
Dividends declared	0	0	0	0	0	-2,376	-2,376	-80	-2,456
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	0	-885	-885
Transfer to capital reserve	0	0	0	727	0	-727	0	0	0
Loss for the period	0	0	0	0	0	-3,319	-3,319	463	-2,855
At 30 June 2008	60,898	0	45,538	2,011	6	7,565	116,018	1,113	117,131

Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the second quarter and six months ended 30 June 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	<i>Presentation of Financial Statements (revised)</i>
IAS 23	<i>Borrowing Costs (revised)</i>
IFRS 8	<i>Operating Segments</i>
IFRIC 13	<i>Customer Loyalty Programmes</i> 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

	Estonia	Latvia	Lithuania	Ukraine	Bulgaria	Romania	Total
Subsidiaries							
At 31 December 2007	16	8	3	2	3	2	34
Acquisitions	1	-	-	-	-	-	1
Disposals	-2	-	-	-	-	-	-2
At 30 June 2008	15	8	3	2	3	2	33
Interests in joint ventures							
At 31 December 2007	17	3	0	0	0	0	20
Acquisitions	-	-	-	-	-	-	-
Disposals	-2	-	-	-	-	-	-2
At 30 June 2008	15	3	0	0	0	0	18
Associates (not consolidated)							
At 31 December 2007	1	-	-	-	-	-	1

Acquisitions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
At 30 June 2008	1	-	-	-	-	-	1

In the first half of 2008, the Group acquired a subsidiary for the Construction division (note 3), sold a subsidiary in the Construction division (note 4), combined two subsidiaries in the Service division, and disposed of two interests in joint ventures (note 4).

3. Business combinations

Acquisition of an interest 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 liability does not bear any interest and has therefore been discounted to 5,778 thousand kroons (369 thousand euros). The cost of acquisition has been allocated to the net assets acquired and goodwill as follows:

	EEK	EUR
In thousands		
Cost of acquisition	5,778	369
Fair value of net assets acquired ¹	1,468	94
Goodwill (note 25)	4,310	275

¹ At the date of acquisition, the fair values of the assets, liabilities and net assets of Tempera Ehitus OÜ were equal to their carrying amounts.

The goodwill acquired in the business combination represents mainly the benefits arising from the customer base of Tempera Ehitus OÜ and the entity's relations with potential customers which allow the Group to enter into a larger number of profitable sales contracts than could have been achieved without the acquisition of Tempera Ehitus OÜ. The customer base and relations have not been recognised as separate intangible assets because at the date of acquisition the contracts had not yet been concluded and therefore their fair value could not be measured reliably.

The cost of acquisition has been allocated to the assets and liabilities of Tempera Ehitus OÜ as follows:

	EEK	EUR
In thousands		
Cash	326	21
Receivables and prepayments	5,031	322
Inventories	124	8
Property, plant and equipment (note 15)	1,440	92
Goodwill (note 16)	4,310	275
Liabilities	-5,453	-349
Cost	5,778	369

The Group's consolidated financial statements for the first six months of 2008 include Tempera Ehitus OÜ's revenue and expenses for the period March to June and assets and liabilities as at 30 June 2008. In the three months to 30 June 2008 Tempera Ehitus OÜ contributed sales revenue of 8,662 thousand kroons and its loss reduced net profit attributable to equity holders of the parent by 1,832 thousand kroons (117 thousand euros).

4. Disposals and acquisitions from minority shareholders

Exchange of interests in subsidiaries

In a share exchange transaction performed at the beginning of April 2008, the Group increased its shareholding in both Kerberon OÜ and Kolde AS to 100% and disposed of its shares in Tallinna Linnaehituse AS.

	Interest divested / acquired	EEK		EUR	
		Cost of transaction	Gain / loss on the transaction	Cost of transaction	Gain / loss on the transaction
In thousands					
Divestment of shares in Tallinna Linnaehituse AS	-80%	12,943	-1,094	827	-70
Acquisition of shares in Kerberon OÜ	16.63%	10,199	-657	652	-42
Acquisition of shares in Kolde AS	10.71%	3,101	218	198	14
Total gain / loss for the Group			-1,533		-98

The effect of the disposal of the shares in Tallinna Linnaehituse AS on the Group's assets and liabilities was as follows:

	EEK	EUR
In thousands		
Cash and cash equivalents	-8,105	-518
Other current assets	-9,402	-601
Property, plant and equipment (note 15)	-65	-4
Goodwill (note 16)	-4,014	-257
Payables	-5,064	-324
Other short-term liabilities	-909	-58

Disposal of an interest in a joint venture

On 1 April 2008 one of the Group's joint ventures sold its solely owned subsidiary Hopson Capital OÜ for 700 thousand kroons (45 thousand euros). The subsidiary was a project company holding an immovable property and was therefore carried in inventories. Accordingly, the effects of the transaction have been accounted for as sales in the income statement and as operating cash flow in the cash flow statement.

On 20 June 2008 the Group sold its interest in the joint venture AVEC Asset Management AS for consideration of 15,647 thousand kroons (1,000 thousand euros) which was immediately satisfied in cash and a deferred payment consisting of 25% of the amount that will be distributed by Explorer Property Fund AB on the dissolution of the fund. According to management's estimates, at 30 June 2008 the value of the receivable was 20,061 thousand kroons (1,282 thousand euros) (note 12). Under the sales contract, the Group retains control of the assets, liabilities and equity of the fund until the fund is disbursed.

The effect of the disposal of shares in AVEC Asset Management AS on the Group's assets and liabilities was as follows:

	EEK	EUR
In thousands		
Cash and cash equivalents	-6,558	-419
Other current assets	-4,353	-278
Long-term financial assets	-25,082	-1,603
Property, plant and equipment (note 15)	-274	-18
Intangible assets (note 16)	-195	-12

Payables	-2,981	-191
Short-term provisions	-518	-33

5. Segment reporting by business segments

Segment	Development		Service		Construction		Asset management		Eliminations		Consolidated	
	For six months ended 30 June		For six months ended 30 June		For six months ended 30 June		For six months ended 30 June		For six months ended 30 June		For six months ended 30 June	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2007	2008
In EEK, thousands												
External revenue	107,862	294,775	53,986	57,593	144,848	54,205	6,783	6,185	0	0	313,479	412,758
<i>Change</i>	-63%		-6%		167%		10%				-24%	
Other external income	30,516	74,146	521	660	305	13	0	0	0	0	31,342	74,819
Revenue and other income from other segments	1,569	13,570	4,116	6,532	60,985	103,200	0	0	-66,670	-123,302	0	0
Total revenue and other income	139,947	382,491	58,623	64,785	206,138	157,418	6,783	6,185	-66,670	-123,302	344,821	487,577
Segment result	-22,201	114,330	-20,416	-9,033	3,968	-3,260	2,412	2,360	-1,940	975	-38,177	105,372
Unallocated expenses	0	0	0	0	0	0	0	0	0	0	-10,991	-17,234
Operating profit / loss	0	0	0	0	0	0	0	0	0	0	-49,168	88,138
Revaluation of investment property	-16,855	55,355	0	0	0	0	0	0	0	0	-16,855	55,355
Depreciation, amortisation and impairment losses	-668	-137	-961	-670	-1,145	-785	-40	-5	0	0	-3,700	-2,055
Finance income	0	0	0	0	0	0	0	0	0	0	31,569	173,044
Finance expenses	0	0	0	0	0	0	0	0	0	0	-15,929	-24,115
Income tax expense	0	0	0	0	0	0	0	0	0	0	-11,155	-9,904
Net profit / loss	0	0	0	0	0	0	0	0	0	0	-44,683	227,163

Segment	Development		Service		Construction		Asset management		Eliminations		Consolidated	
	For six months ended 30 June		For six months ended 30 June		For six months ended 30 June		For six months ended 30 June		For six months ended 30 June		For six months ended 30 June	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2007	2008
In EUR, thousands												
External revenue	6,894	18,840	3,450	3,681	9,257	3,464	434	395	0	0	20,035	26,381
<i>Change</i>	-63%		-6%		167%		10%				-24%	
Other external income	1,950	4,739	33	42	19	1	0	0	0	0	2,003	4,782
Revenue and other income from other segments	100	867	263	417	3,898	6,596	0	0	-4,261	-7,880	0	0
Total revenue and other income	8,944	24,446	3,746	4,140	13,174	10,061	434	395	-4,261	-7,880	22,038	31,162
Segment result	-1,419	7,307	-1,305	-577	254	-208	154	151	-124	62	-2,440	6,734
Unallocated expenses	0	0	0	0	0	0	0	0	0	0	-701	-1,101
Operating profit / loss	0	0	0	0	0	0	0	0	0	0	-3,141	5,633
Revaluation of investment property	-1,077	3,538	0	0	0	0	0	0	0	0	-1,077	3,538
Depreciation, amortisation and impairment losses	-43	-9	-61	-43	-73	-50	-3	0	0	0	-236	-131
Finance income	0	0	0	0	0	0	0	0	0	0	2,018	11,060
Finance expenses	0	0	0	0	0	0	0	0	0	0	-1,018	-1,541
Income tax expense	0	0	0	0	0	0	0	0	0	0	-713	-633
Net profit / loss	0	0	0	0	0	0	0	0	0	0	-2,856	14,518

6. Other income

For six months ended 30 June	EEK		EUR	
	6 months 2008	6 months 2007	6 months 2008	6 months 2007
In thousands				
Gains on fair value adjustments to investment property (note 14)	29,916	72,872	1,912	4,657
Gains on sale of investment property	0	1,060	0	68
Gains on sale of property, plant and equipment	38	36	2	2
Miscellaneous income	1,388	851	89	55
Total other income	31,342	74,819	2,003	4,782

7. Administrative expenses

For six months ended 30 June	EEK		EUR	
	6 months 2008	6 months 2007	6 months 2008	6 months 2007
In thousands				
Personnel expenses	-34,833	-35,078	-2,226	-2,242
Office expenses	-15,802	-13,688	-1,010	-876
Legal and consulting fees	-12,336	-6,474	-788	-414
Depreciation, amortisation and impairment losses (notes 15, 16)	-2,140	-1,091	-137	-70
Allowance for doubtful receivables	-1,710	30	-109	2
Vehicle expenses	-4,634	-4,514	-296	-288
Other expenses	-1,458	-3,317	-94	-211
Total administrative expenses	-72,913	-64,132	-4,660	-4,099

8. Other expenses

For six months ended 30 June	EEK		EUR	
	6 months 2008	6 months 2007	6 months 2008	6 months 2007
In thousands				
Losses on fair value adjustments to investment property (note 14)	-46,775	-17,517	-2,989	-1,120
Losses on sale of investment property	0	-2,407	0	-153
Losses on disposal and impairment of property, plant and equipment	-17	-25	-1	-2
Interest on arrears and penalty charges	-1,851	-261	-118	-17
Miscellaneous expenses	-462	-985	-30	-63
Total other expenses	-49,105	-21,195	-3,138	-1,355

9. Finance income

For six months ended 30 June	EEK		EUR	
	6 months 2008	6 months 2007	6 months 2008	6 months 2007
In thousands				
Gains on sale of investments in subsidiaries	0	123,394	0	7,886
Gains on sale of interests in jointly controlled entities	0	2,271	0	145
Interest income	30,503	5,160	1,950	330
Foreign exchange gains	17	3	1	0
Income on other non-current financial assets	1,049	42,216	67	2,699
Total finance income	31,569	173,044	2,018	11,060

10. Finance expenses

For six months ended 30 June	EEK		EUR	
	6 months 2008	6 months 2007	6 months 2008	6 months 2007
In thousands				
Losses on sale of investments in subsidiaries (note 4)	-1,534	-2,638	-98	-169
Gains on sale of interests in jointly controlled entities (note 4)	-17,942	0	-1,146	0
Interest expense	-14,499	-20,280	-927	-1,295
Expenses on other non-current financial assets ¹	-2,514	-932	-161	-60
Foreign exchange losses	-4,688	-265	-300	-17
Impairment losses on financial assets ²	25,248	0	1,614	0
Total finance expenses	-15,929	-24,115	-1,018	-1,541

¹ Expenses on other non-current financial assets comprises the loss incurred on re-measuring the investment in Explorer Property Fund – Baltic States AB to fair value.

² Impairment losses on financial assets in the first half of 2008 comprises the reversal of an impairment loss of 25,248 thousand kroons (1,614 thousand) recognised for a receivable related to the Kippsala project.

11. Earnings per share

For six months ended 30 June	EEK		EUR	
	6 months 2008	6 months 2007	6 months 2008	6 months 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)	-51,077	221,981	-3,264	14,187
Earnings per share (in EEK and EUR per share)	-0.54	3.27	-0.03	0.21

12. Receivables

Current receivables

	EEK		EUR	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007
In thousands				
Trade receivables				
Receivables from customers	85,551	48,236	5,467	3,083
Allowance for doubtful receivables	-2,567	-70	-164	-4
Total trade receivables	82,984	48,166	5,303	3,079
Other receivables				
Receivables from jointly controlled entities (note 20)	64,573	53,719	4,127	3,433
Loans granted ¹	18,886	12,391	1,207	792
Miscellaneous receivables ²	35,583	47,449	2,274	3,033
Total other receivables	119,042	113,559	7,608	7,258
Accrued income				
Interest receivable	5,269	5,807	337	371
Due from customers under long-term construction contracts	17,943	21,635	1,147	1,383
Prepaid and recoverable VAT	83,349	107,406	5,327	6,864
Other accrued income	6,582	616	421	39
Total accrued income	113,143	135,464	7,232	8,657
Total current receivables	315,169	297,189	20,143	18,994

¹ At 30 June 2008 loans granted included loans to related parties of 17,686 thousand kroons (1,130 thousand euros). At 31 December 2007, the corresponding figure was 12,391 thousand kroons (792 thousand euros).

² At 30 June 2008 miscellaneous receivables comprised of:

- a receivable of 27,929 thousand kroons (1,785 thousand euros) related to the Kippsala project (at 31 December 2007 the corresponding figure was 33,675 thousand kroons (2,152 thousand euros));
- a receivable of 2,321 thousand kroons (148 thousand euros) for establishing the right of use of an immovable property (at 31 December 2007 the item was carried in the same amount);
- a receivable of 681 thousand kroons (44 thousand euros) arisen from an interest rate swap carried at fair value;
- receivables from related parties of 1,948 thousand kroons (124 thousand euros); and
- sundry items of 2,704 thousand kroons (173 thousand euros) (at 31 December 2007 the corresponding figure was 2,907 thousand kroons (185 thousand euros)).

Non-current receivables	EEK		EUR	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007
In thousands				
Receivables from jointly controlled entities (note 20)	51,553	38,538	3,295	2,463
Long-term loan receivables	19,984	907	1,277	58
Prepayments for long-term financial assets ¹	79,341	0	5,071	0
Other non-current receivables ²	22,094	679	1,412	43
Total non-current receivables	172,972	40,124	11,055	2,564

¹ Prepayments for long-term financial assets include a prepayment of 79,096 thousand kroons (5,055 thousand euros) made for a stake in a company participating in a shopping mall project in Simferopol, Ukraine.

² Other non-current receivables include a receivable of 20,061 thousand kroons (1,282 thousand euros) from the sale of the investment in AVEC Asset Management AS, which represents a claim for the disbursements of Explorer Property Fund AB.

13. Inventories

	EEK		EUR	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007
In thousands				
Properties purchased and developed for resale ¹	1,192,408	1,111,527	76,209	71,040
Other goods purchased for resale	4,580	4,498	293	287
Materials and finished goods	4,026	529	257	34
Prepayments to suppliers	36,224	31,879	2,315	2,037
Total inventories	1,237,238	1,148,433	79,074	73,398

¹ The increase in properties purchased and developed for resale results mainly from investments in the Bulgarian residential development projects of 47,332 thousand kroons (3,025 thousand euros) and the Tivoli project of 12,060 thousand kroons (771 thousand euros). Investments and sales (net) related to the Kolde project increased the inventory balance by 22,499 thousand kroons (1,438 thousand euros) net and the net impact of the Bishumizhas1 project in Latvia was 4,700 thousand kroons (300 thousand euros).

14. Investment property

	EEK		EUR	
In thousands				
At 31 December 2006		1,479,281		94,543
Acquisitions		997		64
Sales		-48,919		-3,126
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
Transfer from property, plant and equipment (note 15)		1,982		127
Gain or loss on change in fair value (notes 6, 8)		55,355		3,538
At 30 June 2007		996,196		63,670
At 31 December 2007		999,999		63,912
Acquisitions		1,004		64
Sales		-29,004		-1,854
Transfer from property, plant and equipment (note 15)		20,029		1,280
Gain or loss on change in fair value (notes 6, 8)		-16,855		-1,077
At 30 June 2008		975,173		62,325

15. Property, plant and equipment

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total
In EEK , thousands					
Carrying amount at 31 December 2006	21,329	2,261	4,324	53,799	81,713
Additions	4,373	1,573	2,107	12,248	20,301
Capitalised borrowings costs	0	0	0	3,216	3,216
Additions through business combinations	0	0	695	0	695
Disposals	0	-436	-48	-7,839	-8,323
Disposals through divestment of subsidiaries	-96	0	0	-6,802	-6,898
Transfers	0	300	-300	0	0
Transfer to investment property	0	0	0	-1,982	-1,982
Depreciation charge for the period	-706	-502	-910	0	-2,118
Carrying amount at 30 June 2007	24,900	3,196	5,868	52,640	86,604
<i>Cost at 30 June 2007</i>	<i>34,317</i>	<i>6,380</i>	<i>10,073</i>	<i>52,640</i>	<i>103,410</i>
<i>Accumulated depreciation at 30 June 2007</i>	<i>-9,417</i>	<i>-3,184</i>	<i>-4,205</i>	<i>0</i>	<i>-16,806</i>
Carrying amount at 31 December 2007	26,940	5,134	7,983	101,806	141,863
Additions	306	556	948	19,808	21,618
Capitalised borrowings costs	0	0	0	9,006	9,006
Disposals	0	-68	-295	0	-363
Additions through business combinations (note 3)	0	2,559	59	0	2,618
Disposals through divestment of subsidiaries (note 4)	0	-58	-281	0	-339
Transfer to non-current assets held for sale	-1,701	0	0	0	-1,701
Transfer to investment property (note 14)	0	0	0	-20,029	-20,029
Depreciation charge for the period	-1,080	-905	-1,432	0	-3,417
Carrying amount at 30 June 2008	24,465	7,218	6,982	110,591	149,256
<i>Cost at 30 June 2008</i>	<i>35,629</i>	<i>12,765</i>	<i>13,854</i>	<i>110,591</i>	<i>172,839</i>
<i>Accumulated depreciation at 30 June 2008</i>	<i>-11,164</i>	<i>-5,547</i>	<i>-6,872</i>	<i>0</i>	<i>-23,583</i>

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total
In EUR, thousands					
Carrying amount at 31 December 2006	1,363	145	276	3,438	5,222
Additions	279	101	135	783	1,298
Capitalised borrowings costs	0	0	0	206	206
Additions through business combinations	0	0	44	0	44
Disposals	0	-28	-3	-501	-532
Disposals through divestment of subsidiaries	-6	0	0	-435	-441
Transfers	0	19	-19	0	0
Transfer to investment property	0	0	0	-127	-127
Depreciation charge for the period	-45	-32	-58	0	-135
Carrying amount at 30 June 2007	1,591	204	375	3,364	5,535
<i>Cost at 30 June 2007</i>	<i>2,193</i>	<i>408</i>	<i>644</i>	<i>3,364</i>	<i>6,609</i>
<i>Accumulated depreciation at 30 June 2007</i>	<i>-602</i>	<i>-203</i>	<i>-269</i>	<i>0</i>	<i>-1,074</i>
Carrying amount at 31 December 2007	1,722	328	510	6,507	9,067
Additions	20	36	61	1,265	1,382
Capitalised borrowings costs	0	0	0	575	575
Disposals	0	-4	-19	0	-23
Additions through business combinations (note 3)	0	164	4	0	168
Disposals through divestment of subsidiaries (note 4)	0	-4	-18	0	-22
Transfer to non-current assets held for sale	-109	0	0	0	-109
Transfer to investment property (note 14)	0	0	0	-1,280	-1,280
Depreciation charge for the period	-69	-58	-92	0	-219
Carrying amount at 30 June 2008	1,564	461	446	7,068	9,539
<i>Cost at 30 June 2008</i>	<i>2,277</i>	<i>816</i>	<i>885</i>	<i>7,068</i>	<i>11,047</i>
<i>Accumulated depreciation at 30 June 2008</i>	<i>-713</i>	<i>-355</i>	<i>-439</i>	<i>0</i>	<i>-1,508</i>

16. Intangible assets

	Goodwill	Software	Total
In EEK, thousands			
Carrying amount at 31 December 2006	15,558	1,147	16,705
Additions	0	533	533
Additions through business combinations	5,941	11	5,952
Amortisation charge for the period	0	-201	-201
Carrying amount at 30 June 2007	21,499	1,490	22,989
Carrying amount at 31 December 2007	23,957	1,548	25,505
Additions	0	265	265
Additions through business combinations (note 3)	4,310	0	4,310
Disposals through divestment of subsidiaries and interests in jointly controlled entities (note 4)	-4,014	-195	-4,209
Amortisation charge for the period	0	-283	-283
Carrying amount at 30 June 2008	24,253	1,335	25,588
<i>Cost at 30 June 2008</i>	<i>24,253</i>	<i>2,717</i>	<i>26,970</i>
<i>Accumulated amortisation at 30 June 2008</i>	<i>0</i>	<i>-1,382</i>	<i>-1,382</i>
	Goodwill	Software	Total
In EUR, thousands			
Carrying amount at 31 December 2006	994	73	1,068
Additions	0	34	34
Additions through business combinations	380	1	381
Amortisation charge for the period	0	-13	380
Carrying amount at 30 June 2007	1,374	95	1,469
Carrying amount at 31 December 2007	1,531	99	1,630
Additions	0	17	17
Additions through business combinations (note 3)	275	0	275
Disposals through divestment of subsidiaries and interests in jointly controlled entities (note 4)	-257	-12	-269
Amortisation charge for the period	0	-18	-18
Carrying amount at 30 June 2008	1,550	85	1,635
<i>Cost at 30 June 2008</i>	<i>1,550</i>	<i>174</i>	<i>1,724</i>
<i>Accumulated amortisation at 30 June 2008</i>	<i>0</i>	<i>-88</i>	<i>-88</i>

17. Loans and borrowings

	30 June 2008		31 December 2007	
	Total	Including current portion	Total	Including current portion
In EEK, thousands				
Overdrafts	0	0	0	0
Debt securities	94,423	94,423	139,284	124,545
Bank loans	952,774	436,676	1,094,580	563,689
Finance lease liabilities	11,095	2,671	6,712	2,475
Other loans ¹	117,909	75,840	113,439	62,368
Total	1,176,201	609,610	1,354,015	753,077

	30 June 2008		31 December 2007	
	Total	Including current portion	Total	Including current portion
In EUR, thousands				
Overdrafts	0	0	0	0
Debt securities	6,035	6,035	8,902	7,960
Bank loans	60,893	27,909	69,956	36,026
Finance lease liabilities	709	171	429	158
Other loans ¹	7,536	4,846	7,250	3,986
Total	75,173	38,961	86,537	48,130

¹ Other loans include loan liabilities to related parties of 106,911 thousand kroons (6,833 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 20.

18. Payables and other liabilities

Payables, current items

	EEK		EUR	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007
In thousands				
Trade payables	64,509	60,612	4,124	3,874
Other payables				
Payables to jointly controlled entities (note 20)	5,580	6,386	357	408
Payables from securities transactions	7,187	48,616	459	3,107
Miscellaneous payables	35,241	29,496	2,252	1,885
Total other payables	48,008	84,498	3,068	5,400
Taxes payable				
Value added tax	4,504	1,761	288	113
Income tax on dividends	12,851	3,449	821	220
Personal income tax	2,996	2,535	191	162
Social tax	5,277	4,841	337	309
Other taxes	2,827	4,037	181	258
Total taxes payable	28,455	16,623	1,818	1,062

Accrued expenses				
Interest payable	5,247	7,164	335	458
Payables to employees	12,264	27,671	784	1,768
Dividends payable	1,252	8,743	80	559
Other accrued expenses	11,548	18,280	738	1,169
Total accrued expenses	30,311	61,858	1,937	3,954
Total payables	171,283	223,591	10,947	14,290

Other liabilities, non-current items

	EEK		EUR	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007
In thousands				
Liabilities from securities transactions	3,288	1,211	210	77
Deposits received	1,499	1,461	96	93
Miscellaneous long-term liabilities	4,399	1,935	281	124
Total other liabilities	9,186	4,607	587	294

19. Deferred income

	EEK		EUR	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007
In thousands				
Advances for sale of real estate	65,119	23,758	4,162	1,518
Deferred income from long-term service contracts	3,037	2,114	194	135
Other deferred income	4,420	21,344	282	1,365
Total deferred income	72,576	47,216	4,638	3,018

20. Transactions with related parties

	EEK		EUR	
	6 months 2008 or 30 June 2008	6 months 2007 or 31 December 2007	6 months 2008 or 30 June 2008	6 months 2007 or 31 December 2007
In thousands				
Transactions with jointly controlled entities				
Sales revenue	1,962	367	125	23
Services purchased	-19	-23	-1	-1
Short-term loan receivables	62,655	52,530	4,004	3,357
Long-term loan receivables	50,213	37,688	3,209	2,409
Trade receivables	458	963	29	62
Short-term interest receivables	1,460	226	93	14
Long-term interest receivables	1,340	850	86	54
Payables	5,566	6,386	356	408
Transactions with companies having joint control over Group companies				
Sales revenue	0	135	0	9
Services purchased	-334	-375	-21	-24
Other current receivables	14,163	3,490	905	223

Short-term loan liabilities	66,301	51,852	4,237	3,314
Dividends payable	0	8,743	0	559
Trade payables	184	24	12	2
Interest payable	2,048	2,101	131	134
Long-term loan liabilities	31,341	38,898	2,003	2,486
Long-term interest liabilities	1,336	815	85	52
Transactions with key staff of the Group and the Group's management				
Sales revenue	9,810	1,457	627	93
Trade receivables	262	1,377	17	88
Short-term loan liabilities	1,699	1,945	109	124
Interest payable	459	373	29	24
Transactions with other related parties				
Sales revenue	170	4,689	11	300
Services purchased	-2	-1,836	0	-117
Short-term loan receivables	3,175	12,391	203	792
Interest receivable	1,336	1,242	85	79
Other short-term receivables	2,296	2,825	147	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	34,789	28,406	2,223	1,815
Long-term interest liabilities	1,290	997	82	64
Long-term loan liabilities	7,272	7,491	465	479

The remuneration of the parent company's management board and division managers for the first six months of 2008, including associated taxes, totalled 4,298 thousand kroons (275 thousand euros). The corresponding figure for the first six months of 2007 was 5,469 thousand kroons (350 thousand euros).

22. Contingent liabilities

Litigation against the jointly controlled entity AS Tallinna Olümpiapurjespordikeskus (AS TOP)

On 31 March 2008, AS TOP filed an appeal in cassation against the ruling of Tallinn Circuit Court of 29 February 2008 by which the Circuit Court annulled the ruling of Harju County Court of 19 October 2006 regarding the action of Regati Valduste OÜ and Urmas Uustal against AS TOP and issued a new ruling on the annulled part.

On 21 May 2005 the Appeals Selection Committee of the Supreme Court decided not to accept the appeal filed by AS TOP and the ruling of Tallinn Circuit Court, which proclaimed the 15 November 2005 resolutions of the supervisory board of AS TOP void, took effect.

During a meeting of the supervisory board of AS TOP which convened on 16 June 2008 Regati Valduste OÜ (the other shareholder of AS TOP) declared that no steps would be taken to have the transaction declared void. Thus, at the date these financial statements are authorised for issue, the transaction may be regarded as a valid one.

The Group's management has no reason to doubt the statements made by the representatives of Regati Valduste OÜ.

To date, Regati Valduste OÜ has not filed any claim against AS TOP or the Group and judicial proceedings have ended.

Litigation against the subsidiary Arco Investeeringute ASAction brought by Profitor Group OÜ

The hearing scheduled to take place on 9 June 2008 was cancelled at the request of the plaintiff's (Profitor Group OÜ) counsel who notified the court that the client agreement between the plaintiff and the law office had expired and the law office could therefore not represent the plaintiff at the date of the hearing.

The Group's management is still of the opinion that Profitor Group OÜ did not deliver the agreed service and consequently their action is baseless.

At the date these consolidated financial statements are authorised for issue, the action is pending. The next hearing will take place in the autumn.

Adoption of a detailed plan for Narva mnt 67

On 19 May 2008 a resident of the Liivaoja residential area brought an action for annulment of Resolution 72 *Adoption of a Detailed Plan for Narva mnt 67 in the City Centre* passed by Tallinn City Council on 17 April 2008, filing also a request for the application of provisional legal protection. According to the complainant, the detailed plan adopted for the property known as the Tivoli plot is unlawful and damages the complainant's rights.

Since the property belongs to Arco Investeeringute AS, the Group is involved in the proceedings as a third party.

On 8 July 2008 Tallinn Administrative Court ruled that the request for provisional legal protection would be satisfied and execution of Tallinn City Council Resolution 72 of 17 April 2008 would be suspended until the completion of litigation and entry into force of a judicial decision.

On 18 July 2008 both the Tallinn City Council and Arco Investeeringute AS filed an appeal with Tallinn Circuit Court in which they requested annulment of the ruling on provisional legal protection.

On 11 August 2008 Tallinn Circuit Court issued a ruling which left the Administrative Court's ruling on provisional legal protection unchanged and dismissed the appeals filed by Tallinn City Council and Arco Investeeringute AS.

Despite the execution of provisional legal protection, the Group's management believes that in the long term the dispute will have an outcome which will allow implementing the detailed plan, particularly as the Group intends to develop the plot in the long term. Currently the litigation does not affect the development schedule of the Tivoli plot.

At the date these consolidated financial statements are authorised for issue, the litigation is pending.

Actions brought by the subsidiary Arco Ehitus OÜBankruptcy action against OÜ AquaMyk

On 26 June 2008 Arco Ehitus OÜ filed a motion with Pärnu County Court in which it requested that bankruptcy proceedings be initiated against OÜ AquaMyk and that OÜ AquaMyk be declared bankrupt. On 1 July 2008 Pärnu County Court accepted the motion and initiated preliminary proceedings. A preliminary hearing concerning the matter was held in Pärnu County Court's Kuressaare Courthouse on 15 August 2008. On 25 July 2008 the court ruled that the motion would be dismissed and no bankruptcy proceedings initiated. The court found that the dispute should be resolved out of court because the debtor has reasoned counterarguments.

The Group's management is of the opinion that there are grounds for bringing bankruptcy action against OÜ AquaMyk because on 20 June 2006 OÜ AquaMyk and Arco Ehitus OÜ entered into a construction services contract under which Arco Ehitus OÜ undertook to perform construction work at Urmeti Fishery. Arco Ehitus OÜ sent OÜ AquaMyk delivery documents and invoices for services rendered. OÜ AquaMyk did not dispute the documents but did not settle invoices of 1,200 thousand kroons (77 thousand euros) and interest on arrears even after repeated reminders and a bankruptcy caution submitted by Arco Ehitus OÜ on 11 July 2008.

In the consolidated financial statements for the period ended 30 June 2008, the receivable from OÜ AquaMyk is classified as fully impaired (irrecoverable).

Bankruptcy action against OÜ Kaanon Kinnistud

On 26 June 2008 Arco Ehitus OÜ filed a motion with Harju County Court in which it requested that bankruptcy proceedings be initiated against OÜ Kaanon Kinnistud and that OÜ Kaanon Kinnistud be declared bankrupt.

The Group's management is of the opinion that there are grounds for bringing bankruptcy action against OÜ Kaanon Kinnistud because on 1 April 2006 OÜ Kaanon Kinnistud and Arco Ehitus OÜ entered into a construction services contract under which Arco Ehitus OÜ undertook to design, build and prepare for use a water treatment plant and to build a pumping station. On 31 July 2007 Arco Ehitus OÜ submitted delivery documents concerning all works performed and OÜ Kaanon Kinnistud signed the documents. Arco Ehitus OÜ has invoiced OÜ Kaanon Kinnistud for services rendered and the customer has not disputed the amounts charged. At 30 May 2008 the Group's receivables from OÜ Kaanon Kinnistud totalled 1,887 thousand kroons including the principal liability of 516 thousand kroons and interest on arrears of 1,371 thousand kroons (121 thousand euros including the principal liability of 33 thousand and interest on arrears of 88 thousand euros). Although Arco Ehitus OÜ has cautioned OÜ Kaanon Kinnistud about the bankruptcy action, OÜ Kaanon Kinnistud has not responded to the caution or settled the debt.

To date, Harju County Court has not notified Arco Ehitus OÜ of whether the motion will be accepted or not.

In the consolidated financial statements for the period ended 30 June 2008, the receivable from Kaanon Kinnistud OÜ is classified as fully impaired (irrecoverable).

Action brought against the subsidiary Arco Vara Kinnistute AS

On 9 June 2008, OÜ Faalanks (bankrupt) and Arco Vara Kinnistute AS signed a compromise agreement and applied to the court for termination of proceedings and sanctioning the compromise on condition that Arco Vara Kinnistute AS will pay OÜ Faalanks 1,250 thousand kroons (80 thousand euros) within 10 days after the ruling of Tartu County Court which sanctions the compromise has entered into force. According to the compromise, legal costs will be borne by both parties.

Arco Vara Kinnistute AS decided to enter into a compromise agreement because although Arco Vara Kinnistute AS had claims against OÜ Faalanks and according to former member of the management board Hannes Kuhlback the claims had been offset against OÜ Faalanks' principal claim against Arco Vara Kinnistute AS, neither the offsetting proposal nor the offsetting transaction had been documented. During the hearing held on 24 April 2008, Arco Vara Kinnistute AS was unable to prove that any offsetting had occurred.

Accordingly, it became probable that the court would order settlement of OÜ Faalanks' principal claim of 1,087 thousand kroons (69 thousand euros) and payment of approximately 50% of the 1,000 thousand kroon (64 thousand euro) interest on arrears. In addition, the defendant would have had to indemnify the plaintiff's legal costs.

Since the action was complex, involving the submission of various construction documents, legal assistance costs at the next level would not have decreased and the litigation would have lasted for at least a year or two. Having considered all relevant circumstances, Arco Vara Kinnistute AS entered into negotiations with OÜ Faalanks and signed the compromise agreement. The Group has recognised the costs of the compromise in the consolidated financial statements for the six months ended 30 June 2008 under other expenses in an amount of 1,250 thousand kroons (80 thousand euros).

To date the litigation has ended.

23. Subsequent events

Issue of commercial paper

On 11 July 2008 Arco Vara AS issued commercial paper with a total nominal value of 66.5 million kroons (4.25 million euros); the paper bears interest at the rate of 12.0% per year. The funds raised were used to redeem previously issued bonds of 31.2 million kroons (2 million euros) and to finance investments in Ukraine.

Repurchase of own shares

On 9 July 2008 Arco Vara AS launched a share repurchase programme. Based on a resolution adopted by the management board, the company will spend up to 4.0 million kroons (0.26 million euros) on repurchasing up to 450,000 shares. The repurchase period commenced on 10 July 2008 and will expire on 5 September 2008.

The programme may be used to reduce share capital or launch employee share option programmes. According to management's estimates, the current share price and the Group's liquidity provide excellent opportunities for either course of action.

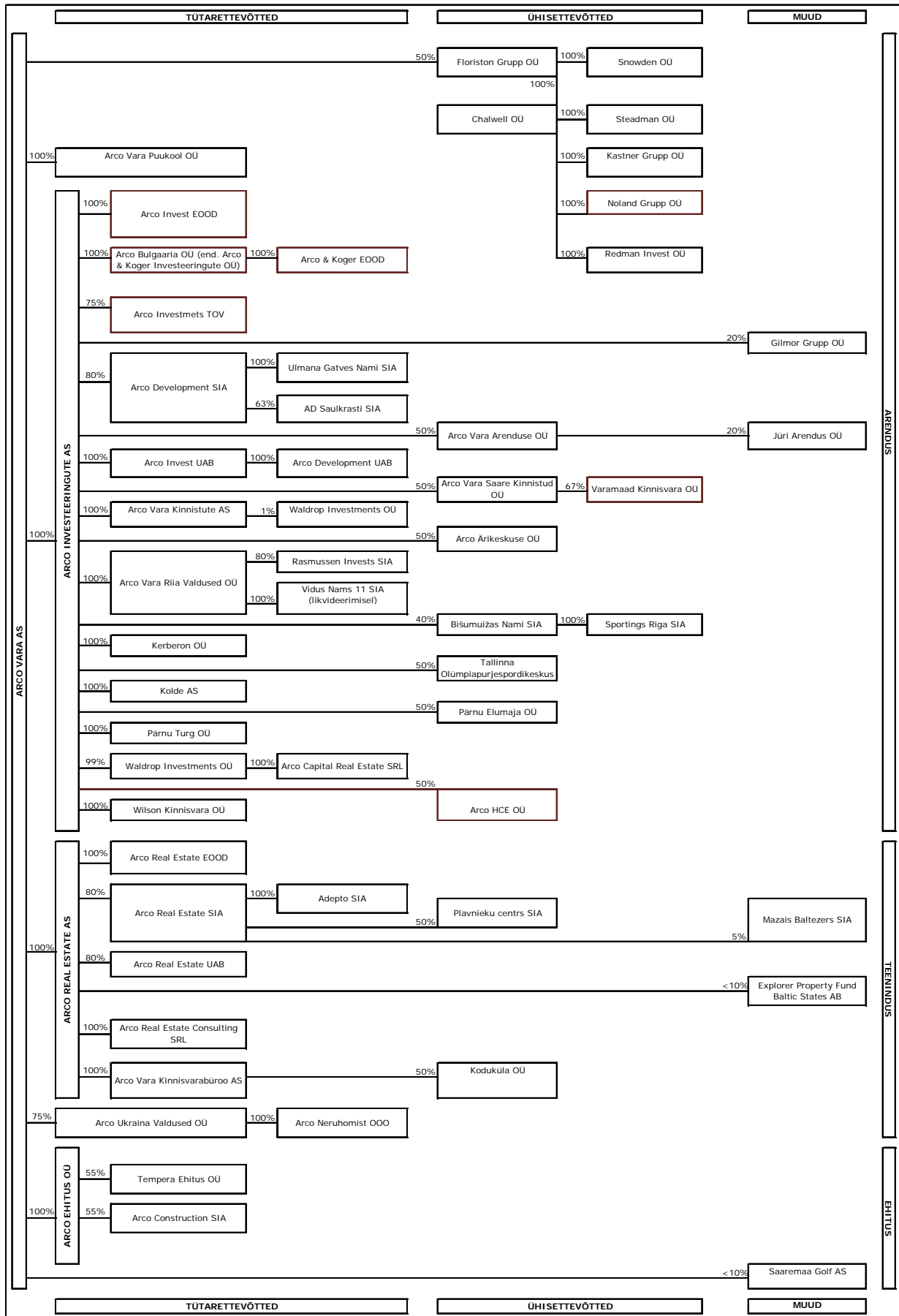
During the period 10 July 2008 to 29 August 2008 Arco Vara AS repurchased 450,000 shares for a total of 3,992 thousand kroons (255 thousand euros).

Exchange of properties in Merivälja II project

On 11 July 2008 the Group's subsidiary Arco Investeeringute AS and the City of Tallinn performed a property exchange transaction in the Merivälja development area. Arco Investeeringute AS transferred to the City of Tallinn public and residential land and the City of Tallinn transferred to Arco Investeeringute AS residential land. Arco Investeeringute AS paid the City of Tallinn 22.3 million kroons (1,4 million euros) as compensation for the difference in the value of the exchanged properties. After the transaction, Arco Investeeringute AS owns 56 residential plots in the area.

24. The Group's structure

At 30 June 2008



Statement by the management board

The management board of Arco Vara AS has prepared the condensed consolidated interim financial statements for the first six months and second quarter ended 30 June 2008 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, financial performance and cash flows of Arco Vara AS. Arco Vara AS is a going concern.

Lembit Tampere
Chairman of the Management Board

Avo Rõõmussaar
Member of the Management Board

Veiko Taevere
Member of the Management Board

Heigo Metsoja
Member of the Management Board